

PROPOSAL FOR SUPPLIER RELATIONSHIP MANAGEMENT AT PT XL AXIATA TBK

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Abstract — The telecommunication industry in Indonesia is growing rapidly in the last fifteen years. The habit slowly changed from voice and short messaging service into data. Nowadays, the challenge for the telecommunication company is to provide good quality of network. To fulfill the challenge, XL has been developing a partnerships scheme with suppliers and has been creating a performance measurement to keep partnerships work in the right path. The last supplier performance measurement report shows that the result is not meet the target. The unsatisfying result show that something wrong in the partnership with supplier. To find the core problem, this paper uses a Current Reality Tree (CRT) method. Based on CRT analysis, the core problem that arises is poor coordination. To eliminate core problem, a strategy is created. Strategic Supply Management is used as a framework to create strategy in eliminating core problem. Four critical enablers in the strategic supply management are analyzed to find solution for the problem. Those four critical enablers are organizational design, supply measurements, information systems, and human resources. The suggested and recommended solution based on analysis are improvement in business process, developing responsibility assignment matrix (RAM), create web-based application, and developing skill and knowledge people in supply organization.

Keywords: telecommunication industry, supplier relationships, current reality tree, supply management

1. Introduction

XL was established on October 6, 1989 under the name of PT Grahametropolitan Lestari as a trading and general services company. In 1996, XL entered the telecommunication field and becoming the first private telecommunication company in Indonesia. In September 2005, XL launched Initial Public Offering (IPO) and listed its shares on the Jakarta Stock Exchange (currently known as Indonesia Stock Exchange – IDX). In 2009, PT Excelcomindo Pratama Tbk. changed its name to PT XL Axiata Tbk. for synergy purpose, prior to TMI changed its name to Axiata Group Berhad (“Axiata”). Axiata Investments (Indonesia) Sdn. Bhd. owns majority of XL’s shares (66.6 percent). Emirates Telecommunications Corporation or Etisalat International Indonesia Ltd. owns 13.3 percent shares, and the remaining is held by the public.

Since established XL has invested more than Rp 50 trillion. Most of the investments earmarked for the network infrastructure development across the country. Currently, XL has backbone fiber optic network more than 17 thousand kilometer that connected Java – Sumatera – Bali – Lombok – Sulawesi – Kalimantan, and even connected to the international network. Until mid 2012, total BTS XL reached more than thirty-three thousand BTS with eight thousand of them are BTS with 3G network. XL has more than 45 million customers in 33 provinces, 498 kabupaten, and 3,785 kecamatan. XL network coverage has reached more than 90 percent national population, including covering the border area such as Sabang, Natuna, Simeulue, Entikong, Nunukan, Sebatik, Biak, and Merauke.

In running its business, XL managed by seven Directors. The Directors are selected in the General Meeting of Shareholders. The Directors are Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Finance Officer (CFO), Chief Technology Content and New Business Officer (CTO), Chief Commercial Officer (CCO), Chief Marketing Officer (CMO), and Chief Service Management Officer (CSMO). The Directorates in XL consist of CEO's Office, COO's Office, CFO's Office, CMO's Office, CTO's Office, CCO's Office, and CSMO's Office. General Vendor Management Department is under COO's Office Directorate. General Vendor Management Department has a mission to deliver service excellence and highly added value to the stakeholders supported by competence resources, responsive, and cooperative to increase partner's performance.

Strategic partnership with supplier has been applied by XL in the last couple years. This partnership is needed considering XL will continue to build BTS to maintaining its network quality. With good partnership, XL will get benefit to maintain good performance of network quality and broaden network coverage in blank spot area which will lead to increase revenue. XL has developed partner KPIs outlined in a performance measurements report and handled by General Vendor Management Department (GVM). The purpose is to monitor partner's performance based on agreement as said on contract. To measure the performance are based on type of project partners. For partners that have agreement on supply and install material, the performances are divided into three category; which are Supply Material Performance, Delivery Material Performance, and Installation Material Performance. XL has defined baseline for partner's performance. As agreed with partners, baseline for the performance is set to be 90 percent achieved.

Performance measurement report result of mid-year review shown that majority partners' performance are below baseline. For single supplier in supply and install material; such as generator set, rectifier, and battery, success rate performance is around 80 - 85 percent. For multi supplier, the success rate performance is varying between 65 – 96 percent. This fact reveals that there must be something improved in partnerships between XL and partners.

2. Business Issue Exploration

To find the root causes of the problem, analysis is started with the conceptual framework that will be used. After conceptual framework has describe, then analysis of data collected and analysis of business situation is conducted.

A. Conceptual Framework

The conceptual framework that will be used to exploring the business issue is illustrated in Figure 1. The first step is to define the Root Cause(s). After root cause(s) has been defined, then choose strategy to implement. The purpose of chosen strategy is to eliminate root cause(s). There are two options in choosing strategy to implement; operational or strategic. To choose one of those strategies is based on root cause effect. Thereafter, benefit-cost of the solution is analyzed and then create implementation plan and timeline. Benefit cost analysis is needed to define solution that has been created is applicable or not. In the end, the expected condition is the root causes that arise can be solved.

To define root cause(s), we get the information from interview with related divisions and partners, so we could get list of the problem we faced both from internal and external factors. List of problems that arise then analyzed using Root Cause Analysis Tools; that could be Current Reality Tree (CRT) or Fishbone. This paper using Current Reality Tree as a tool to find the root cause(s). That Root Cause(s) then we tried to eliminate so it did not appears in the future. This research is limited only to Supply and Install partners' type. Therefore, interview was done only to divisions and partners that related with Supply and Install type. The internal divisions that related with Supply and Install are Material Management and Logistic, Project Management Office, Engineering, and General Vendor Management. The Partners that related with Supply and Install are partner that has agreement to

supply and install material battery, rectifier, generator set, shelter and its accessories, RBS, and other telecommunication equipment.

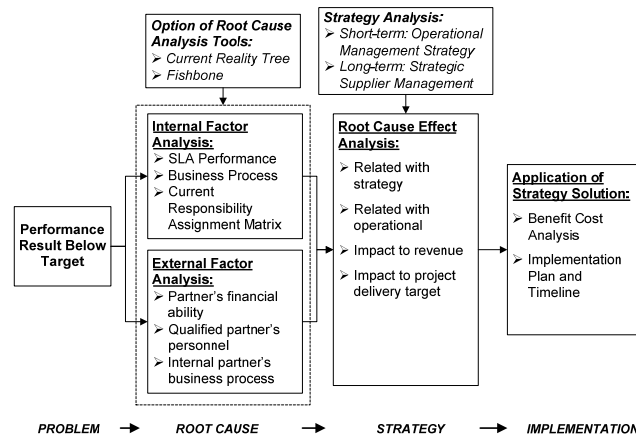


Figure 1 Conceptual Framework

B. Method of Data Collection and Analysis

To define root cause, information gathered from interview with related divisions and partners, so list of the problem faced could be define. This research is limited only to Supply and Install partners' type. Therefore, interview was done only to divisions and partners that related with Supply and Install type. In analyzing the Root Cause use Current Reality Tree methods. A Current Reality Tree (CRT) is a statement of an underlying core problem and the symptoms that arise from it. CRT represents the most probable chain of cause and effect, given a specific, fixed set of circumstances. CRT has five key elements, which are *undesirable effects (UDEs)*, *root causes*, *core problems*, *causality arrows*, and *assumptions*. Undesirable effects (UDEs) are list of several surface problems. The UDE is a reality that negatively impacts reaching an objective or goal. Root cause is the beginning of the cause-effect relationship. Prime indication that a statement in a tree is a root cause is finding yourself at the boundary if your sphere of influence. Dettmer (1997:73) define that root cause can be:

- The lowest cause in the chain before passing outside your sphere of influence - the most basic thing you can do something about
- The first cause *beyond* your sphere of influence - something you can't do anything about.

Core problem is a root cause that accounts for 70 percent or more of the UDEs in a CRT. Besides that, the core problem should match intuition about the condition of the system. To make sure that a root cause we have chosen is really is a core problem, we can do a validity test as state by Dettmer (1997:77) below:

- Can you trace a chain of cause and effects *upward* through the CRT to 70 percent or more of the UDEs?
- Does the proposed core problem match your intuition about the source of the difficulties?
- Is it really a big problem? Does it really "burn you up"?
- Will the correction of this difficulty assure that the problem will not occur again – now or in the future?

If the answer "yes" to these four questions, we have found the core problem.

Based on Dettmer (1997:89), there are ten steps in building a Current Reality Tree. The steps are:

1. Identify Your Span of Control and Sphere of Influence
2. Create a List of Undesirable Effects
3. Begin the Current Reality Tree
4. Connect the First Two UDEs
5. Connect other UDEs
6. Build the Cause-and-Effect Chain Downward
7. Re-designate UDEs
8. Identify Root Causes and the Core Problem
9. Look for V-Shaped or Missing Connections

10. Decide Which Root Cause(s) to Attack

C. Analysis of Business Situation

The information that digs from interview are about problems arise in the project and the expected condition. The list of problems then divided into group based on type of activity and supporting activity. Those groups of problems are Supply Material problems, Delivery Material problems, Installation Material problems, and Data & Overall Project problems. The lists of problems from interview are:

Supply Materials

Internal XL:

- Two type of reservation, PO Direct and PO Stock. PO Direct is harder to control.
- PO Stock material requested using PO Direct.

Partners:

- Payment issue. Inventory cost for material that has been finish fabrication or ready to deliver cannot charge to XL. Material has finished fabrication or ready to deliver but request to deliver material still not created yet, so material still cannot be paid because wait for installation finish.

Delivery Materials

Internal XL:

- Late material arrived on site.
- Change on design while material on the way to site, so need to re-call and re-deliver materials.
- Material cannot applied and install on site because of gap between design and actual requirements, so material must be relocated or recall to warehouse. Wasting time and cost delivery.
- Uncompleted material after arrived on site. Need time to redeliver remaining materials.

Partners:

- Site not ready while material has been delivered to site.
- Permit to access site is not get yet from land owner.
- Relocation material to other site causing higher cost delivery.
- Validity of material on site document. It takes one or two days later to sign arrival material documents by PIC because while material arrived on site, the PIC was not there.
- Switching transportation mode from land to sea, boat schedule, queuing in port.
- Site location is hard to reach, so need extra cost to deliver.

Installation Material

Internal XL:

- Installation team is not coming along with materials.
- Incompetent installation team.
- Standard installation sometimes ignored by installation team.
- Predecessor material is not arrived yet, so installation cannot be started
- Delayed target site in-service.

Partners:

- Predecessor material is not arrived yet, so material cannot be installed and causing higher cost for installation team.

Data & Overall Project

Internal XL:

- Discrepancy data between system and actual.
- False report material on site.
- Different database interface between XL and partner in each system.
- Data is not centralized.
- Partner did not have dedicated PIC to maintain database.
- Late project progress due to material problems.
- Loss potential site revenue due to late material.

Partners:

- Different format report that should be creates for every department that needs a report.
- Still use manual record of data.

The top five problems define through scoring from list of problem from each respondent. The first rank in the list will get 10 point, the second rank is 9 point, the third rank is 8 point, the fourth rank is 7 point, the fifth rank is 6 point, the sixth rank is 5 point, the seventh rank is 4 point, the eighth rank is 3 point, the ninth rank is 2 point, and the tenth rank is 1 point. The biggest point is the problem that has worst effect. The top five undesirable effects (UDEs) that have the worst effect are:

1. Late material arrival on site
2. Discrepancy data between system and actual
3. Delayed target site in-service
4. Loss potential site revenue
5. Payment issue on PO Direct

Based on those five UDEs, the Current Reality Tree was begun to construct. First step on creating CRT is trying to find relation between those five UDEs. Entity 1, "Late material arrival on site", has relation with entity 3, "Delay target site in-service", and entity 5, "Payment issue on PO Direct". Entity 2, "Discrepancy data between system and actual", has relation with entity 1, "Late material arrival on site". And entity 3, "Delayed target site in-service", has relation with entity 4, "Loss potential site revenue". Using causality reservation, the relation CAUSE and EFFECT between those entities can be structured. Then, with the cause-and-effect chains we could start to construct to create a tree.

From the CRT that has been build, we can identify root causes and core problem. The root causes that we can identify from the tree are:

1. Poor coordination between internal XL.
2. Poor coordination between internal Partner
3. Poor coordination between XL and Partner
4. No centralized data in XL
5. Different skill of worker

Poor coordination, either between internal XL, internal Partner, or XL and Partner, has dominated the cause of problem. Poor coordination is root cause that accounts more than 70 percent of UDEs. Therefore, we can get conclusion that the core problem is about Poor Coordination. The poor coordination is related with the strategic management because the coordination will be applied and have effect in long term

3. Business Solution

The strategy that will be used is based on Trent (2007:15) about strategic supply management as illustrated below in the Figure 2. The roadmap is highlights the needs to achieve competitive advantage from strategic supply management. In the first layer, as the beginning, the effective leadership is needed to drive the development of supply management strategies and practices and to keep the process in the right track. To support development of supply management strategies and practices, there are four critical supply management enablers that supply leader cannot ignore. Those four critical enablers are organizational design, supply measurement, information systems, and human resources. This framework of strategic supply management that consists of effective leadership and its four critical enablers will be used in analyzing solution to solve the core problem that arises in XL and Supplier relationship.

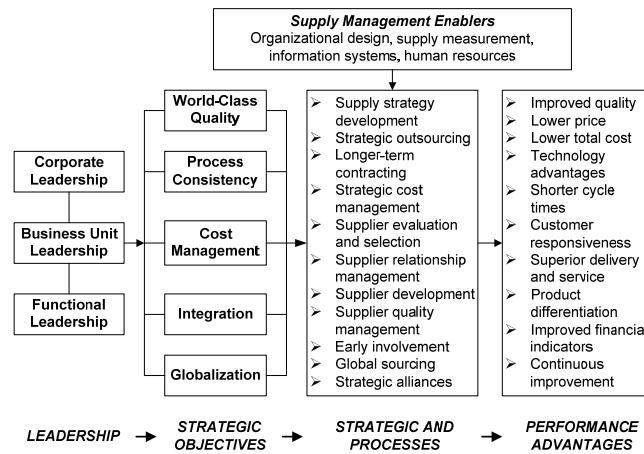


Figure 2 Strategic Supply Management Frameworks

D. Alternative of Business Solution

The four enabler of strategic supply management are used as an alternative to resolve the issue. Those alternative strategies are:

Organizational Design

Trent (2007) has defined the profile of what a leading supply management organization should look like. The feature that missing and must be improved in XL and supplier relationships are in formal strategy coordination and review sessions between functional groups, a shared services model that coordinated common activities or process across locations, and new product development teams that formally include procurement and supply representatives.

The clear Responsibility Assignment Matrix between each party in the supply management is also a possible way to implement. RAM used to clarifying global roles between XL and suppliers and its divisions. With developing RAM, each division has clear roles and responsibility and minimizes overlapping activity.

Supply Measurement

In relationship with partners, XL has done measurements in all of those four areas. XL also has developed a scorecard to measure performance of each supplier. Especially in supplier performance area, the scorecard is based on characteristic of supply material. Different characteristic of supply material will set different scorecard. XL has two types of reservation materials, direct to site and stock in vendor warehouse. That type of reservation is a basis for determining scorecard. The scorecard that XL developed has a flexibility in adjust the weights used to evaluate suppliers. This is because of different characteristic of material, reservation, and project type that suppliers have. The actions to be improved in the current supplier measurement are the ability to evaluate supplier performance through web-based input and the ability to view and compare scorecard performance via online by suppliers.

Information Systems

Related to the problem that faced in XL and partner relationship, the role of IT support is critically needed. Until now, the absence of IT in supply management has caused many problems. False reporting, wrong design, site not ready while material has been delivered, uncompleted material on site, and other problem were occurs because of manual system still used. The web-based application will be perfect to eliminate those kinds of problems. With web-based application, supplier could update data anytime and anywhere. Monitoring and measuring performance supplier also easier with web-based application. XL will get on time report on monitor material delivery, stock material quantity on warehouse, and faster decision on problems that occur. Supplier will get benefit from updated report status site, plan for material, and also view performance report. With IT support, XL and supplier coordination will much easier.

Human Resources

Javad and Cordon (2010) state that to develop the strategy the firms must identify, develop, protect, deploy and leverage the strategic resources capabilities. This means that human resources in supply management should be treating correctly to produce a good quality of supply management. Jurcevic et al. (n.d) defines the key elements that human resource management in supply chain must have are technology, skill and education, demand of a supply chain talent, and training and career development. Related with problem that faced in XL and partners relationships, human resource management, as one of the critical enablers in supply management, could make a significant effect. Supply leader in all related division, not only in internal XL but also in partner, is a key to implement human resource management strategy. Poor coordination, as a core problem, arises as a result of missing human resource management. Supply leader that only care about his or her part, team member that did not understand standard of procedure, different skill among installation team, and missed coordination among internal division are some examples of missing human resource management in existing supply management. Those problem related with human resources management could be eliminate by choosing the right man in the right place, increasing skill and knowledge team member through training and technology update, and keep high motivate among team members through career development. Therefore, the most important thing to do at the first is developing supply leaders skill, ability, and knowledge in human resources management.

E. Analysis of Business Solution

Based on strategic supply management, there are four critical enablers that we cannot ignore in order to achieve competitive advantages. Those critical enablers are basic to solve the problem that XL faced in relationships with partners. Organizational design is the first and very important enabler in strategic supply management. The thing that can be done in organizational design to eliminate core problem arise is to improved existing business process and define a responsibility assignment matrix.

Web-based partner relationships application should be developed immediately. The web-based application used to support supply activity in all aspects. Web-based application is also possible to eliminate missed coordination between related divisions. With the existence of web-based application, XL could centralize database, therefore minimizing confusing data while analyzing activity due to different data source. For partners, web-based data could make them faster update status material and get update site readiness. The performance measurement report also could get in the application. Thus, partners could set a new strategy directly in order to achieve target performance before monthly evaluation performance been conducted. Development of skill and knowledge among people in supply chain is another way to eliminate the problem. With developing skill and knowledge, everyone in supply chain has awareness in achieving objectives. Developing skill and knowledge will minimize gap between people in the same area of activity.

4. Conclusion and Implementation Plan

With a new business process, a clear Responsibility Assignment Matrix, a web-based partner relationship application, and a training to develop skill and knowledge in supply organization will eliminate the core problems occur. Applying those solutions will make coordination between related parties in XL and partner relationships getting better. The implementation plan roadmap of the solution above will be conduct in three phases. First phase is activity in organizational design improvement, which are consist of business process improvement and developing responsibility assignment matrix. Second phase is activity in human resources improvement, which is consisting of developing skill and knowledge of people in the organization. And the third phase is activity in supply measurements and IT systems improvement, which is consist of developing web-based application.

The first phase could be done in four weeks. The second phase is a continuous activity, so it's not limited with time. Developing skill and knowledge should be done repeatedly to keep it updated. The third phase is the very long phase because related with developing an application. It could be done in sixteen weeks long. Therefore, overall process is done in twenty weeks long.

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