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**CODEN: IJRSFP (USA)** 

International Journal of Recent Scientific Research Vol. 8, Issue, 8, pp. 19534-19539, August, 2017

International Journal of **Recent Scientific Re**rearch

DOI: 10.24327/IJRSR

# **Research Article**

# MODEL IMPROVEMENT OF BARGAINING POWER SMES PATCHOULI OIL THROUGH QUALITY MANAGEMENT TRAINING

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DOI: http://dx.doi.org/10.24327/ijrsr.2017.0808.0713

ARTICLE INFO	ABSTRACT
<i>Article History:</i> Received 25 <sup>th</sup> Jun, 2017 Received in revised form 15 <sup>th</sup> July, 2017 Accepted 23 <sup>rd</sup> August, 2017 Published online 28 <sup>th</sup> August, 2017	In conducting business activities, the company must optimize all potential resources to obtain the best position in the competition. There are 5 competitive forces, namely the entry of new competitors, the threat of substitution products, the bargaining power of buyers, the bargaining power of suppliers, and competition among similar industries. UKM patchouli oil is a supplier in the essential oil industry in Indonesia and the world. So far, the bargaining power of patchouli suppliers is quite low because it has many weaknesses in its internal factors. Once identified and modeled with Vensim PLE x 32, it was found that there were weaknesses in various aspects, namely aspects
Kev Words:	of quality, technological aspects, management aspects, human resource management aspects,

SMEs, competitive power, supplier bargaining power, Quality Management Training

marketing aspects, environmental aspects and capital aspects. In an effort to improve the bargaining power of SMEs patchouli field conducted Quality Management Training for the managers involved. With this training, higher efficiency and productivity are obtained which will increase the bargaining power of SME patchouli oil.

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Walker, 2003).

# **INTRODUCTION**

In order to win the competition, every company must have a competitive strategy. Competition is the essence of success (Porter, 1998). Each company, in conducting business activities requires a strategy that is able to put the company in the best position, able to compete and continue to grow by optimizing all potential resources owned (Sitepu, 2005). The resource dependence theory of (Pfeffer & Salancik, 1978) describes the quality of resources capable of providing some bargaining power. Four factors that become the requirement of sustainable competitive advantage (SCA), the basis of competition, the competing arena, the competitor (whom compete against), and how to complete (Aaker, Kumar, & Day, 1998).

There are 5 competitive competition powers comprising the entry of new competitors, threats from substitution, buyer bargaining power, supplier bidding power, and competition among competitors (Porter, Burgelam, Christensen, & Wheelwright, 1996). This condition is further translated by (Crook & Combs, 2007) by (1) predicting when stronger firms use their power and (2) to explain the performance implications of using bargaining power for strong and weak members. Companies in an industry have bargaining power because of

One key to success in business is the ability to obtain the lowest cost and higher input supply quality compared to

their large volumes and a small number of alternatives (Benton

& Maloni, 2005). In the matter of bargaining, there are three

important questions to be considered: First, who in the supply

chain has bargaining power? Second, when and how many

members use their bargaining power? Thirdly, are there

advantages to members when stronger companies take all the

advantages in their supply chains? (Hoopes, Madsen, &

In today's business environment, competition is no longer

between companies, but business competition has taken place

in the supply chains. Business competition shifts from the

firm's paradigm to the company into the supply chain of the

supply chain (Qrunfleh & Tarafdar, 2013). The supply chain no

longer relies on a single company, but rather on a business

network(Zhao, Huo, Flynn, & Yeung, 2008). The supply chain

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should take into account the perspectives of effective and sustainable trustworthiness (Found, organizations must compete as part of a supply chain in understanding market changes (Cigolini, Cozzi, & Perona, 2004).

competitors (Cox, 2001). Lower price gains and better quality occur due to the economies of scale of the offer. Buyers can get the best value if one or a few suppliers are able to address market needs (Sutarmin & Dadang, 2016). Instead, the buyer will be in a weak position because the supplier has little interest in providing supplies to one buyer. Still according to Cox (2001) that the supply chain can only be applied correctly when the focus organization is in one of two power positions. The first is when the focus organization is in a position of structural dominance through an expanded supplier network. The second is when there is interdependence with the supplier network that generates the voluntary power shared by both parties in the exchange relationship.

Such a risky global condition makes many supply chains have a very high degree of vulnerability (Ghadge, Dani, & Kalawsky, 2012). In the context of disruption, the supply chain has a synergistic effect on the development of firm firmness (Ambulkar, Blackhurst, & Grawe, 2015). Risks in the supply chain not only occur in large companies but also occur against Small and Medium EnteIDRrises (SMEs) with a developing country background (Kamalahmadi & Parast, 2016). Complexity and uncertainty not only increase risk but also reduce visibility which, in turn, makes supply chain operations more vulnerable to unexpected disturbances (Park, Min, & Min, 2016). While the most preferred toughness strategies for reducing vulnerability are: (1) back-up capacity, (2) building relationships with buyers and suppliers, (3) quality control, (4) skills and development efficiency, (5) adoption of Information and Communication Technologies (ICTs), (6) demand forecasting, (7) responsiveness to customers, and (8) improvement of security systems (Chowdhury & Quaddus, 2015).

Companies have the resource-dependent strength (Crook & Combs, 2007). Resources will create dependence (1) when concentrated (2) when important, or (3) when important and concentrated (Pfeffer & Salancik, 1978). Resources become important when companies lack access to these resources. Although resources have high strengths, they are often criticized because of their buying or selling factors (Combs & Ketchen Jr, 1999). Resources need to be tightly controlled in creating bargaining power so that it becomes something of value. Creation of value and bargaining power are two things closely related (Gomes-Casseres, 2005). Bargaining power is a source of profit. Some effort is needed to provide different bargaining power (Cox, 2001).

To understand how to improve bargaining power needs to be developed deductive thinking (Kurniawan & Sutarmin, 2015). The development of deductive thinking through training is identified as an essential component of human resource management when implementing significant changes in the organization (Bellary Burnham, 1989). Technical training for labor is needed to improve ongoing processes. The training program will help employees find innovative ways to improve the organization (Choi, 1995) and more bear responsibility for influencing improvements (Adebanjo and Kehoe, 1999). Easton and Jarrell, (1998) argue that a number of skills employees need to become productive workers is positively correlated with the degree of employee engagement with their work. It makes sense that increased training will result in increased knowledge and employee engagement in improving the quality of their work (Kaynak 2003). With high knowledge and involvement of employees, it is expected to increase the company's bargaining power to its buyers (Sutarmin, 2014). Through training is expected to increase the competence of business actors, then will be achieved efficiency and high productivity (Hariyadi, Rahmatika, Sutarmin, & Dadang, 2016). With high efficiency and productivity, the bargaining power of SMEs essential oils in Indonesia becomes stronger for buyers.

# METHOD

This research is a descriptive qualitative research conducted in the region of Brebes and Banyumas Regency, Indonesia. The data used in the form of primary data and secondary data. This research consists of 3 stages, that first steps to identify problems in essential oil industry experienced by SMEs practitioners, stage 2 to conduct training on SMEs in the essential oil industry and stage 3 is to evaluate the training result.

Primary data of phase 1 is obtained through in-depth interviews with respondents and observation of the object under study. Respondents were taken puIDRosively, namely the owners of SMEs essential oil distillation. While the secondary data in this research is done by taking and processing from the village data and the Central Bureau of Statistics. Phase 2 is conducted in both classroom and practice training, how to control a good production process and quality testing process. In the training, training on various aspects of the problems and solutions is also addressed, such as environmental issues, technological issues, human resource issues, supply chain issues and financial problems. After the training was conducted an evaluation of whether the training provided additional knowledge for the SME industry players of the essential oil industry. The data collected then performed the analysis using Vensim PLE x 32 software assistance for modeling. Then the modeling results are described meaningfully in a descriptive way.

# **RESULTS AND DISCUSSION**

Indonesia is an archipelagic country that has an enormous amount of natural wealth, both types, and quantities. The natural wealth includes the natural wealth of minerals, minerals, flora, and fauna. The wealth of Indonesian flora is very diverse, one of which is the spices and plants that produce essential oils. Currently, there are 3 essential oil commodities of Indonesia which become the world's best choice which is included in the top 10, namely clove oil, patchouli oil and nutmeg oil. In 2009 the total value of the world's essential oil trade> USD 4,000,000,000 and the total export volume of Indonesia's essential oil of> USD 120,000,000.

Several decades earlier there are actually 4 essential oils from Indonesia that enter the world's top 10 essential oils in addition to clove oil, patchouli oil and nutmeg oil above, namely citronella oil (java citronella oil). Lemongrass oil originating from Java previously had a competitive advantage and high comparative to pinned the word "JAVA" on the oil. Due to the consistency of neglected supply and quality, the feast of citronella oil from Java has been fading away. The word "JAVA" in Java Citronella Oil is lost in Citronella Oildan is taken over by China. So also with the fate of eucalyptus oil (Cajuput Oil) which eventually and substituted its function by Eucalyptus Oil from China and India. The same fate is also experienced by vetiver oil (Java Vetiver Oil) whose quality is often ugly (smelly burnt and charred), eventually, the market is filled with vetiver oil from Haiti.

Based on observations and in-depth interviews it was identified that in the essential oil business, in particular, patchouli oil experienced various aspects of defense. Problems that were found than made a qualitative model with software Vensim PLE x 32 as follows:

to the process of completion, PA levels are also affected during the separation process in the oil separator (oil separator). The presence of contaminants/counterfeiters. Due to the high price of this patchouli oil, the attempts to cheat are done by unscrupulous business players by adding counterfeit ingredients. Counterfeit ingredients often used are cooking oil, goose fat, Gurjun Oil (crude oil), Castor Oil (castor oil). In addition to natural oils, individuals sometimes also add DOP (Deoxy ortho phthalate), MPG (mono propylene glycol), DEG (Diethylene glycol), DEET (N, N Diethylmeta toluamide), and HG (Hexylene glycol).



Figure 1 The model of causal loop diagram of patchouli oil business

#### **Problems on Quality Aspects**

In national standardization of Indonesia, the quality of patchouli oil is determined by SNI no 06-2385-2006 which includes the following quality parameters; Color, type weight, refractive index, solubility in ethanol 90%, max acid number 5.0,0, max ester number 10.0 and foreign substance. The problems faced by SMEs in this aspect are as follows:

Low patchouli alcohol (PA) levels. In the world of trade, buyers, especially exporters often add additional terms that really determine, especially the content of patchouli alcohol (PA), generally above 30% (examination with GC = Gas Chromatography). If the patchouli alcohol content is low, then the sale value in patchouli oil will very fall. If the patchouli alcohol level is below 29%, there is usually no buyer bargaining even if the price is very cheap. The low level of patchouli alcohol is strongly influenced by 2 things, namely raw materials and processes. Raw materials from certain areas mainly from Sulawesi have a low average PA content. The low levels of PA in the feedstock are also affected by the age of the harvest, if the harvest age is too young, it provides low levels of low PA as well. From the side of the process if the distillation is not complete, then PA also becomes low because PA is a compound (heavy fraction) in patchouli oil. In addition

Some of these counterfeiters are carcinogenic (especially DOP), so even though the numbers are very small (below 20 ppm = part per millions), the quality is still rejected by the exporter. In addition to being deliberately added to enlarge the quantity, contaminants also arise due to process error while using auxiliary materials. A common and used to trap patchouli oil is a sponge, but due to excessive use and overuse, some compounds in the foam decompose and disintegrate polluting the patchouli oil. Requires a role in counseling and process training as well as a quality control so that the product is safe.

Other quality parameters. Other parameters that also determine the important decision of the buyer are an acid number, odor (organoleptic), color and appearance. The third process is influenced by the raw materials are also strongly influenced by the production process, so in this case, needs to be transferred process technology and quality control. Transfer technology is an attempt to avoid damage to the product and how to handle products that already damaged affected quality problems.

Needs of organic patchouli. In the future, exporters also want organic patchouli oil products. The players of patchouli oil SMEs currently do not understand how to cultivate and produce organic patchouli oil, whereas with certified organic patchouli oil with an average selling price of 30 percent above the normal price. So at the time of patchouli price IDR. 600.000 / kg, then organic patchouli oil can reach IDR 780.000 / kg

### **Problems of Technology Aspects**

Aspects of technology is a very basic aspect why the development of essential oils in Indonesia is very slow. Although the process of making essential oils has been started since the Dutch colonial era, from the side of the process there are no significant technological developments. Universities as agents of change in the processing of essential oils are not able to do much because the volatile industry is considered a small quantity industry and costly, more rarely the academics who master the complexity of the problems that exist in this industry. The government as a facilitator still focuses on the staple and energy industries.

In the world of essential oil exporter and manufacturing company is the most advanced technology supply chain and has many experts, both technologists of process technology and quality control field. But be aware that the company's technological capabilities are only used for its own business interests. The advanced and sophisticated essential oil company that positions itself as a manufacturing company and exporter will not transfer technology to SME's essential oils. They feel threatened position if they have to do technology transfer to the patchouli oil SME's. By transferring technology, patchouli oil refiners will potentially develop and will be a threat to export their own products and potentially make vertical integration. The position of the supply chain that was once a supplier/vendor, then the next will be a competitor in terms of product exports.

Although simple, a lot of problems on patchouli distillation technology that can be addressed. These problems in addition to high quality and controlled, also in order to increase capacity, increase efficiency, sustainability and development of SME business essential oil patchouli in the future.

- Problems with oil separation. Currently, patchouli oil SMEs in separating the oil is still using a drum that is cut two and given a hole overflow or a large pot that is given a hole. Yet in this way, there is still a lot of oil is wasted. If wasted 0.1 percent of the yield is for 1 month under optimum conditions (3,200 kg of raw material) there will be product losses of 3.2 kgs/day or 96 kgs/month. If the price of oil is IDR 590,000, then in 1 month there is a potential profit reduction of IDR 56,640,000. In addition to the inefficiency of the oil wastage, the environment will also be heavier due to ex-distillate condensate water being dumped into the river. Generally, the distillation process is done in a higher place, then the wasted water used by the people below will use polluted water. In addition to the amount of oil lost is usually missing is a good quality oil so that the oil produced (collected) is actually low quality.
- Less efficient boiler design. The existence of a traditional and faulty design of the boiler. This is especially the case when creating flame-paths (fire alleys). Often the fire alley is made without design and calculation is ripe, they only rely on 3 small fire aisle, so the burning is not perfect and the process becomes old. SMEs should be provided with the latest technology on efficient distillation design.

- Cooling water is underutilized. Rare distillation SMEs utilize cooling water that gets hot for boiler feed, so the initial heating time becomes very long and wasteful of fuel.
- Low quality of raw material preparation. Generally, SME distilled raw materials are still intact and uncontrolled moisture/drought. In this way, in addition to inefficient because bulk ingredients also produce a low yield. If the raw material is first treated 1 batch (1-time process) can 400 kg of raw materials, then without processed only about 300 kg of raw materials. Obviously, this becomes less efficient because with the same labor, time and fuel, the amount processed down 25%.
- Material from mild steel (MS). There are still many technologies that can be upgraded from existing ones, including the use of distillation using Stainless Steel (SS) materials replacing mild steel (MS) distillation for the resulting oil to be clear.
- Products with an organoleptic character of burnt. Touch technology to produce oil is not burnt by adding some tools in the form of the pressure gauge.

#### **Problem of Marketing Aspect**

Basically, the marketing of products produced by patchouli oil SMEs does not experience significant constraints. But at the time of overflow, the price of the product will experience great pressure. Products will still be purchased, but by agents or exporters purchased at very low prices. It is certainly different if the refining SME has an alternative buyer, not just a single buyer.

Instructors, in addition to mastering the technical aspects also open the marketing information aspect. With the opening of information and access to a wider exporter, the prices obtained by patchouli oil SMEs become more competitive over time. With the competitiveness of prices over time, in addition to obtaining a larger margin, SMEs will also be easier to develop business units and network partners.

#### Problems on Raw Material Aspect

The main problem in the supply chain of patchouli oil is the unstable availability of raw materials. Farmers will generally dispose of patchouli plants and replace them with other crops because of the low price (down), whereas the decision is not very appropriate because after the price fell, it can be sure the price will skyrocket. The wrong decision when the price is high, farmers will usually race to plant and eventually will harvest together until the raw materials will be abundant and prices will fall again.

The fluctuation of raw material supply is also due to the constraints of the disease that makes patchouli plants easy to die, wilted and curly due to disease of plant disease (called Budoq). The occurrence of disease and pest attack of this plant in addition to natural factors, also because of the low knowledge of farmers in patchouli cultivation. Therefore it is necessary to do counseling and training on how to plant and how to harvest the good and how to win and reduce the risk of death. In addition to counseling, of course, the farmers should be accompanied and given seed and stimulus.

From the side of the land is basically planting patchouli will not be lacking because there are still lots of unemployed lands, or can be done intercropping cropping pattern hard plants. Moreover, this area of SMEs is very close to the forestry land and within the Forest Village Society.

#### **Problems on Management Aspects**

One of the classic problems faced by many SMEs in Indonesia is business management. The same is true for SME partners. Despite large sales volume, business management and business accounting/bookkeeping are still done very simply. Precisely this is very dangerous for SMEs business continuity due to large financial turnover, but its management is low, It has a very big risk.

In the conduct of its business, the owner is responsible for almost all aspects of management, or can still be said to still use kinship management. The energy that the family members devote to running a business is often not taken into account. Management is also not equipped with adequate measuring tools so that what they do only base on estimates and intuition. They also lacked search capabilities in the past so that the same problems could happen again. In addition to not having adequate measuring tools, they also do not have adequate equipment for the process of recording and management of data, such as computers.

#### **Problems on Financial and Capital Aspects**

In addition to business management issues, capital (finance) is also one of the problems faced by most of the essential oil SMEs. Partners often experience limited working capital resources for their business operations, particularly to anticipate the increasing volume of production that often occurs incidentally or when suppliers need funds by selling raw materials. Partners have received capital assistance from the banks, but the amount and frequency of the capitalization cannot be ascertained according to the needs of the partners.

#### **Problems of Human Resources**

The quality of human resources in SMEs is very low in education. The low quality of education makes any decision what it is and where it can work. The quality of raw materials and process control is very low. The capability for continuous improvement is also very low, this also causes the industry to be only a place to go, although capacity and demand are increasing because there is no significant touch of science and technology (Ipteks). Similarly, the administrative management aspects are practically unmanaged. With the existence of Instructor team, it is expected that the transfer of science and technology can go well. Instructor team also must realize and adjust the method and level of technology to be diverted.

#### **Problems on Environmental Aspects**

As mentioned above, with improper technology, in addition to inefficiency, the waste disposal will pollute the environment because it contains many volatile organic oil compounds. Too much liquid waste will kill fish in the water (river). Similarly, the flowing water will disrupt the community under it.

### CONCLUSION

There are 5 competitive forces, namely the entry of new competitors, the threat of substitution products, the bargaining

power of buyers, the bargaining power of suppliers, and competition among similar industries. Supplier bargaining power is one of the strengths in business competition. In the world of patchouli oil industry, refining SMEs is a supplier in the essential oil industry in Indonesia and the world. The result of identification and modeling with Vensim PLE x 32, found that there is the weakness in various aspect, that is a quality aspect, technological aspect, management aspect, human resource management aspect, marketing aspect, environmental aspect and capital aspect. Quality Management Training is believed to increase the competence of the managers involved. With this training obtained efficiency and higher productivity in the management that finally able to improve the bargaining power of SMEs patchouli oil

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### How to cite this article:

Sutarmin., Kurniawan and Sukirno.2017, Model Improvement of Bargaining Power Smes Patchouli oil Through Quality Management Training. *Int J Recent Sci Res.* 8(8), pp. 19534-19539. DOI: http://dx.doi.org/10.24327/ijrsr.2017.0808.0713

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