

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

The Republic of Indonesia, which consist approximately 17,500 islands, is an archipelago country in Southeast Asia. According to BPS Statistic Indonesia (2015), Indonesia is divided into 34 administrative provinces over five main islands and four archipelagos. The country shares land borders with Malaysia, East Timor and Papua New Guinea and marine boundaries with Singapore, Philippines and Australia. As the world's largest archipelago country, marine shipping is a major transportation mode for Indonesia. However, poor connectivity infrastructure drives Indonesia's logistics costs upward, making them more expensive than the average for ASEAN countries.

Indonesia's national logistics costs constitute 24 percent of its gross domestic product (GDP), while the average for ASEAN countries is 18 percent. Fortunately, President Joko Widodo has declared his vision to transform Indonesia into a strong maritime nation, confirming the nation's policy priority of developing the maritime sector (Sea Toll Program). Therefore Maersk Line, the world's largest container shipping company, expected around 6% increase in demand for 2017 and 2018.



Figure 1.1 Global Container Growth

Source: Maersk Group (2015)

Furthermore, Indonesia's sector of economy is not only reliant on the maritime field, but also in the mainland. By having the integrated and continuous improvement in infrastructure development, both of these sectors are expected to facilitate the distribution flows of products and services, which in turn could reduce the logistics cost, decrease price disparity between the center and the regions of Indonesia as well as quicker transit time of delivery. Thus, it is crucial to support the Government's Sea Toll Program in order to foster Indonesia's economic growth and development.

Although some world's giant shipping companies suffered losses or even bankruptcy, other shipping companies such as *PT. Pelayaran Tempuran Emas (Temas Line)*, *PT. Samudera Indonesia* and *PT. Meratus Line* provides integrated freight services in various types, volumes and modes of transportation in order to support and sustain the business. In addition, there is an opportunity for increased demand towards daily consumption needs, which requires thorough distribution lines, since Indonesia is an archipelago country connected by the sea with most population is within the category of young ages. Therefore, there are many new breed shipping service companies that could recognize the potential development in the industry such as *CV. Permata Agung Mandiri* that has been established since 2009.

For 9 years, *CV. Permata Agung Mandiri* has witnessed the ups and downs of business and economy in Indonesia. In addition, the company also kept on developing and innovating to the latest trends until it was able to offer efficient and most feasible solutions to its clients' and associates by having multimodal transport such as ocean freight management and land transportation management. However, hiring and retaining the right employee has been one of the major challenges in the organization.

Located in *Jl. Williem Iskandar Komp. Medan Metropolitan Trade Centre (MMTC) blok G17*, there are more than ten employees

who work under the company. Therefore, *CV. Permata Agung Mandiri* could be classified as part of the SMEs (Small and Medium Enterprises). SMEs in Indonesia which govern in Indonesia SMEs Law give huge contribution to Indonesia's economy especially during the financial crisis in 2008-2009. In fact, SMEs are growing every year and the most astonishing thing is the number of SMEs is approximately seven times larger than big enterprises. Therefore, SMEs create job opportunities to reduce poverty by contributing 70% of Gross Domestic Product (GDP) in middle-income countries such as Indonesia.

In general, corporate sustainability determines any organization providing goods and services in which dependent on the economic and social conditions in the communities. On the other hand, managerial capacity has become an important part in most organizations, as it has significant impact on the growth of an organization through recognizing opportunities and implementing the new product and service ideas.

Therefore, *CV. Permata Agung Mandiri* as one of the new breed shipping service companies needs to retain the employees and improve their welfare in order to be a leading and reliable shipping services company. Moreover, writer presumes that there is a tendency of managerial capacity could bring impact to the corporate sustainability at *CV. Permata Agung Mandiri* in Medan.

From the statement above, the writer decide to write this paper based on research made in *CV. Permata Agung Mandiri* and selects the title of "A Study on How Managerial Capacity Could Bring Impact to Corporate Sustainability: The Case of *CV. Permata Agung Mandiri*".

1.2 PROBLEM FORMULATION

Based on the observation, the writer finds several problems faced in, which are:

1. Are there any formal managerial training or institutional support that minimize the managerial capacity problems emerged within CV. *Permata Agung Mandiri*?
2. Are there any limited “managerial capacity” hindering the corporate growth at CV. *Permata Agung Mandiri*?
3. How managerial capacity affects the corporate sustainability at CV. *Permata Agung Mandiri*?

1.3 RESEARCH FOCUS

The company under investigation is an Indonesian shipping service company named CV. *Permata Agung Mandiri* situated in Medan. The company leads by a director that supervises three sub-managers such as marketing manager, operational manager and financial manager. Below the marketing manager, there are marketing officers. Below the operational manager, there are operation officers. Moreover, there are finance & treasury officer, budget and cost controller, and accounting officer supervise by the financial manager.

Within the shipping industry, the company could be classified as a newcomer on the market (less than ten years old). Thus, there are no defined cultural or historical values inherited within the organization. However, any problem on the managerial capacity could have significant impact for this small size enterprise and its society.

Although hiring may be easier for sustainable company especially in Indonesia, however it is hard to find employees who can commit to the company. Therefore, this could limit the company growth as well as influence the company sustainability.

1.4 RESEARCH OBJECTIVE

The objectives of this study that the writer can get are as follows:

1. To investigate on how *CV. Permata Agung Mandiri* overcome the managerial capacity problems within the company
2. To ascertain if limited “managerial capacity” lead to lower corporate sustainability
3. To examine on how “managerial capacity” could bring impact towards corporate sustainability at *CV. Permata Agung Mandiri*

1.5 BENEFIT OF THE RESEARCH

Benefit of the research divisible into two subchapters as follows:

1.5.1 THEORETICAL BENEFIT

Theoretically, the result of this research is expected to become a reference or recommendation for the development of the management theories on how corporate sustainability could be affected by managerial capacity.

1.5.2 PRACTICAL BENEFIT

Practically, the result of this research is expected to become the recommendation for *CV. Permata Agung Mandiri* to determine the company actions in order to minimize the managerial capacity problem as well as to maintain the corporate sustainability.

1.6 SYSTEMS OF WRITING

The content of this *skripsi* will be split up into five chapters. Each chapter will be divided into several sub-chapters according to the requirement as follows:

Chapter I. Introduction

In this chapter, there are background of study that explain the industry background in general, company background and phenomena

that persuade writer to choose the topic of “ How Managerial Capacity Could Bring Impact to Corporate Sustainability: The Case of CV. *Permata Agung Mandiri*”. Moreover, there are problem formulation, research focus, research objective, benefit of the research which in theoretical benefit and practical benefit and systems of writing.

Chapter II. Literature Review

This chapter contains a general theoretical review in accordance with the background of the study, such as definition of management, manager and managerial skills, managerial levels, managerial roles, managerial functions, managerial principles, managerial capacity and corporate sustainability, with relevant previous research and framework of thinking.

Chapter III. Research Methodology

This chapter contains the qualitative method as the research design and research object will be CV. *Permata Agung Mandiri*. The data collection method will be divided into primary data and secondary data with four steps of data analysis method.

Chapter IV. Data Analysis and Discussion

This chapter contains the general description of CV. *Permata Agung Mandiri*, such as the history and organization structure of the organization. Moreover, the data analysis will be divided into 15 themes such as managerial roles, managerial functions, training, division of work, command, rules, norms and regulations, managerial capacity problems, bad employees, warning, punishment and dismissal, rewards, vision and mission, initiate ideas, retain employees, barriers to achieve growth, and contribution to the community. Furthermore, there will be an explanation of the result related to the theory and previous research.

Chapter V. Conclusion

In this chapter, there are brief explanations about the result of the research, the impact towards basic formulation/ recommendation or the future action plan and the suggestions to the external parties.

