

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Family businesses play a major role in the economy of both emerging markets and most developed countries. In fact, family firms constitute an essential part of capital markets as most of the large listed companies have the characteristic of ownership concentration which is mostly linked to family owned companies. Such family-owned firms continue to dominate most of the world's economies and remain as a major source of entrepreneurship. In Indonesia, especially in Medan, family business dominates the business and spread in various fields of industry and organization. Some factors that can distinguish different kinds of family businesses are level of family ownership, family leadership, the broader involvement of family members, and the planned or actual participation of later generations (Ghee, Ibrahim, & Halim, 2015).

As family businesses expand from their entrepreneurial beginnings, they face unique performance and governance challenges. Many family businesses often face same problems with others but the way each family business solves the problems might be different. Some of them might fail in running their businesses because of the challenges faced. Those challenges are lack understanding of the family business, failed in succession planning, poor management, family conflict and more. According to the latest McKinsey research, not more than 30 percent of family businesses survive into the third generation of family ownership. To be successful in the company and the family growth, a family business must meet two intertwined challenges: achieving strong business performance and keeping the family committed to and capable of carrying

owner (Caspar, Dias, & Elstrodt, 2017). Every company knows the real secret to success is hiring highly productive staff and depends on employees' performance. In family business, the employees can be family members and non- family members.

PT. Industri Plywood Tjipta Rimba Djaja was established in 1970 by Ripin Tjitra. PT. Industri Plywood Tjipta Rimba Djaja is a wood manufacturing company under Tjipta Group. Tjipta Group plays a major role in the wood manufacturing field in Indonesia since 1970. The group has offered a range of wood products with high quality and superior services to satisfy customers in construction, furniture industries and other wood related products. Besides of PT. Industri Plywood Tjipta Rimba Djaja, subsidiaries of Tjipta group are Cipta Prima, Canang Indah and Belawan Deli. PT. Industri Plywood Tjipta Rimba Djaja is in wood manufacturing industry, in which the main product is plywood. Besides plywood, the company also produces sawn timber for sills and others. The factory site is established in \pm 4 hectare land area located at Jl. K.L. Yos Sudarso KM 7,5 Medan and the office is located at Jl. Prof. H. M. Yamin S.H, No. 46 Medan.

PT. Industri Plywood Tjipta Rimba Djaja is a family-based business which is managed by the founder along with the family members. PT. Industri Plywood Tjipta Rimba Djaja is in the third generation, with 596 of total employees. There are 8 family members involved directly in the business. After several years, Ripin Tjitra inherited his business to his children, and with the involvement of his family in the company makes the company grows even success. PT. Industri Plywood Tjipta Rimba Djaja produces thousands of plywood each month, the products are mostly exported to countries such as Singapore, United Kingdom, Europe, China, Japan, United States, Middle-East countries, Egypt, and Korea. The remaining products for plywood and sawn timber are sold to local (Tjipta group, 2007). Therefore, acknowledging the fact that the world is filled with family businesses which most of them are

successful because of the family members' participation, it is important to conduct research about the involvement of family members towards company's success in a family business in a form of research paper. Moreover, another purpose of doing this research is that the writer's father has his own business in which the writer's father encourages the writer as the next generation to have deeper understanding for family business which is about family members' involvement and its success. Based on the above description, the writer is interested to conduct a research entitled **“The Involvement of Family Members towards Company's Success at PT. Industri Plywood Tjipta Rimba Djaja”**.

1.2 PROBLEM LIMITATION

In this research paper, the writer will conduct a research regarding the involvement of family members towards company's success at PT. Industri Plywood Tjipta Rimba Djaja. PT. Industri Plywood Tjipta Rimba Djaja is one of the subsidiaries of Tjipta Group. Besides PT. Industri Plywood Tjipta Rimba Djaja, Tjipta Group has Canang Indah and Cipta Prima. The writer will only focus on the involvement of family members and company's success at PT. Industri Plywood Tjipta Rimba Djaja. Another limitation is this research only focuses on employees at office department, in total of 30 employees. The writer only focuses on employees at office department, because it does represent the characteristics of all employees. The reason why the writer choose PT. Industri Plywood Tjipta Rimba Djaja as the research object in this research paper is because the company is a third generation family-owned company and most of the family members, which include founder, siblings, and cousins are involved in the business.

1.3 PROBLEM FORMULATION

Based on the background of study which is mentioned above, the problems that can be identified are:

1. Does the involvement of family members have the relationship towards the company's success at PT. Industri Plywood Tjipta Rimba Djaja?
2. How do the family members in PT. Industri Plywood Tjipta Rimba Djaja get involved in the business?

1.4 OBJECTIVE OF THE RESEARCH

The objectives of the research are as follows:

1. To identify whether there is a relationship between the involvement of family members and the company's success at PT. Industri Plywood Tjipta Rimba Djaja.
2. To investigate the way of the family members get involved in PT. Industri Plywood Tjipta Rimba Djaja.

1.5 BENEFIT OF RESEARCH

According to the objectives and problems found during the research, the benefits of the research can be separated into two kinds of benefit, which are:

1.5.1 THEORETICAL BENEFIT

The results of the research should provide benefit to the writer itself, in order to have deeper understanding in family business, especially about the family members' participation towards the company's success.

1.5.2 PRACTICAL BENEFIT

In the practical benefits, the results of the research should provide benefits to the related company which is PT. Industri Plywood Tjipta Rimba Djaja, as it will give advice and additional information for the company's management or further improvement about the family members' participation towards the company's success. Besides, it also provides benefits to public/external environment, such as outside

investors. By providing the result of the research, it will attract potential investors to encourage them to invest in the business, in which according to this research, this family-based business will lead to company's success.

1.6 SYSTEMS OF WRITING

The entire research paper contains five chapters and the systems of writing in this research are:

Chapter I Introduction, the first chapter provides the overall study about the description of the issues which raises the interest of the writer to do the research. This chapter includes background of the study, problem limitation, problem formulation, research objectives, benefits of the research and systems of writing.

Chapter II Literature Review and Hypothesis Development, this chapter contains the theory that can support the discussion of the issues raised in the research and hypothesis development. The sources of theory used are related with the topic of the research. In chapter II, it has theoretical background, previous research, hypothesis development, research model and framework of thinking.

Chapter III Research Methodology, this chapter outlines the stages needed to obtain data and information to conduct research, such as research design, population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

Chapter IV Data Analysis and Discussion, this chapter discusses about the general review of PT. Industri Plywood Tjipta Rimba Djaja, data analysis (descriptive statistic, result of data quality testing, and result of hypothesis testing) and discussion.

Chapter V Conclusion, this chapter gives conclusion about the issues discussed, implication and recommendation to the company for further improvements.