

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

Since the establishment of trading, most businesses are in fact founded and operated by family members that last through several generations. Family businesses now play an integral part in creating millions of jobs in Indonesia, as well as increasing the country's economy and prosperity. With tight competition arising due to globalization and rapid technological advancement, any company in general should capitalize on any resources and opportunities occur to better adapt to the 21<sup>st</sup> century era.

According to Deloitte Indonesia Country Leader, Claudia Lauw stated that more than 95 percent of all businesses in Indonesia, ranging from small to medium enterprises (SME) can be categorized as family businesses. However, family businesses now faced with more challenges, as only 30 percent of family businesses last until the second generation, while 13 percent survive until the third generation and 3 percent beyond three generations. This shows that the survival of family businesses is not sustainable and several factors could be attributed to this, such as agency conflict, unplanned succession and lack of competence (The Jakarta Post, 2019).

With family members mostly holding the power of decision making through their large portion of shares in the company, families usually steer the business in ways they seem fit to their vision, occasionally ignoring the

involvement of the employees. As a result, it would lead to a unilateral decision, which would at times leave out other stakeholders, primarily employee's inputs or feedback towards a certain matter. The repercussions could be severe, as nepotism could arise causing non-family employees to lose motivation.

Conversely, family members would be complacent and lack the competency to tackle a problem. This could then cause a stagnant growth of the family firms that are unwilling to adapt to the rapid demanding market. Hence, it is crucial for family businesses to recognize opportunities and seek out external professionals to create a diverse work environment for the enrichment of innovation in hopes to develop the business.

While it is true that external human resources could help the business, agency conflict could occur. Agency conflict refers to a conflict of interest that occurs when the agent, which can be the manager who is not acting in the best interest for the shareholders, which are the principal party (Chen, 2020). According to Suyono (2018), such problems are less likely to occur in family firms, since the managers generally come from the family members themselves, which would prioritize the business longevity, as they are part shareholders as well.

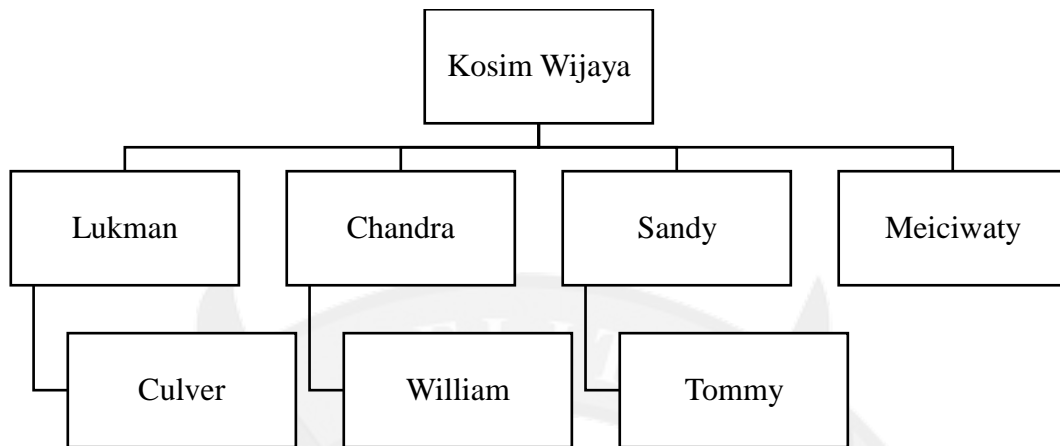
Through the result of business performance, family businesses in Indonesia have seen an exponential increase in their sales with 30% experiencing single digit growth and 35 % experiencing double digit growth within a 2-year period from 2016-2018 (PWC, 2018).

There are also various literature reviews that show mixed results, suggesting that family involvement did have positive and negative effects on firm performance, where its effects vary from accounting performance, firm's operational performance and firm valuation. Hence, with these inconsistencies, the writer is interested in finding out whether family involvement does have an effect on firm performance.

With that said, the writer aims to conduct a research in PT Sari Tani Jaya Sumatera, Medan (PT STJS), in which the corporate office is located at Jalan Sutomo no. 204 – 580, Medan. PT STJS is a manufacturing-based family business that produces tapioca flour by processing raw cassava through machinery. There are two factories, which are in the Galang and Kisaran District. The first factory is located in JL. Prof. Dr. Moh. Yamin, SH, No. 56, Asahan, Sidodadi, Tanjung Balai, Kota Medan, Sumatera Utara, while the second factory is located in Jalan Raya Dolok Masihul, Dolok Manampang, Dolok Masihul, Baru Titi Besi, Serdang Bedagai, Kabupaten Deli Serdang, Sumatera Utara.

PT Sari Tani Jaya Sumatera was founded in 1980 by Mr. Kosim Wijaya and is currently entering the third generation, previously passing it down to Mr. Lukman Wijaya, his first son (second generation) and eventually to his grandsons, which are Culver Wijaya, William Wijaya and Tommy Wijaya. Furthermore, family members that are involved in running the operation of the business consist solely of the family lineage from Mr. Kosim, which means that relatives and in-laws are not involved in the family business.

Below is the diagram for the Wijaya Family's involvement in the company:



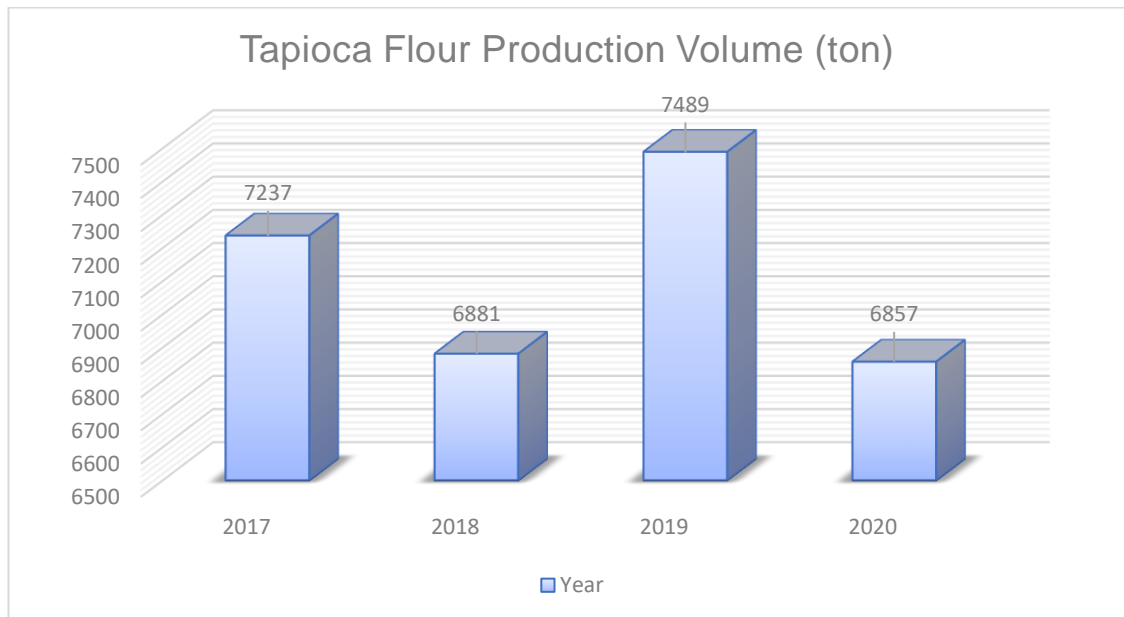
**Figure 1.1 Family Members Participation in PT Sari Tani Jaya Sumatera, Medan**

Source: PT Sari Tani Jaya Sumatera, Medan (2021)

As of today, PT STJS has become one of the well-known local brands, selling upstream to distributors and manufacturing brands around the city of Medan, Pematang Siantar, Tanjung Balai and Pekanbaru with the most prominent one supplying to several consumer brands, including one of the largest food-consumer brand products in Indonesia, which is Indofood. Beginning from manual production, the production factory has upgraded into a machinery-process factory to increase production capacity and efficiency.

The reason for the writer to conduct research in PT Sari Tani Jaya Sumatera, Medan is due to unstable performance/unsteady growth that the firm faced over the past few years. Additionally, the writer intends to analyze the family intentions and the approaches to survive throughout the third generation.

Below is the production data of PT STJS for the past 4 years:



**Figure 1.2 Production Volume of PT Sari Tani Jaya Sumatera, Medan**

Source: PT Sari Tani Jaya Sumatera, Medan (2021)

From the chart above, we can identify that the production volume has experienced fluctuations with a decrease in production volume by -5% in 2018, an increase of 8.8% in 2019 and it decrease again by -8.45%. The reason for this trend is due to the company implementing make to order business strategy, hence adjusting to the market demand. Other reasons are being the lack of good quality raw materials, resulting in the lower yield of production and also occasionally broken-down machineries that halt the production.

By the end of this research, the writer aims to better understand the extent that the role of Family Involvement has over the Firm Performance at PT Sari Tani Jaya Sumatera. Therefore, the writer decides to come up with the title **“The Effect of Family Involvement towards Firm Performance at PT Sari Tani Jaya Sumatera, Medan”**

## 1.2 Problem Limitation

Since the alarming COVID-19 situation and the enforcement of social distancing, the research will be conducted in only one factory and the corporate office, including other several limitations need to be set up to ensure the accuracy of the findings:

- a. The data of this research will be collected from the corporate office and factory of PT Sari Tani Jaya Sumatera in Medan virtually, including the interview session due to safety precautions for COVID-19.
- b. For geographical and safety precautions, the respondents are only chosen from the employees of PT Sari Tani Jaya Sumatera located in Medan.
- c. There are only two (2) variables that are used in this research: Family Involvement as X-variable (independent variable) and Firm Performance as the Y-variable (dependent variable).

## 1.3 Problem Formulation

Discovering how the role of Family Involvement in a business affects the Firm Performance overall at PT Sari Tani Jaya Sumatera is the goal of this research. Hence, this research aims to solve the questions below:

- a. How much involvement are the family members at PT Sari Tani Jaya Sumatera, Medan?
- b. How does PT Sari Tani Jaya Sumatera, Medan performances vary throughout the years?
- c. Does the role of Family Involvement have an effect on the Firm Performance at PT Sari Tani Jaya Sumatera, Medan?

#### **1.4 Objective of the Research**

By the end of this research, the writer aims to better understand the extent that the role of Family Involvement has over the Firm Performance at PT Sari Tani Jaya Sumatera, Medan. Aside from that, it is important to examine the influence of Family Involvement to understand whether it improves or decreases firm performance. For this research, the following questions will be addressed:

- a. To find out the level of involvement that the family has at PT Sari Tani Jaya Sumatera, Medan.
- b. To find out how PT Sari Tani Jaya Sumatera, Medan has performed.
- c. To determine how Family Involvement has affected on the Firm Performance at PT Sari Tani Jaya Sumatera, Medan.

#### **1.5 Benefit of the Research**

From this research, theoretical benefit and practical benefit are the two main forms of benefit in this research:

##### **1.5.1 Theoretical Benefit**

The result of the research will prove to be of use in terms of learning how Family Involvement works in a firm. The writer will also be able to understand more about family business in general and improve on future paper if need be.

### 1.5.2 Practical Benefit

a. Writer

The research would give the writer more knowledge and experience when conducting similar-related topics, while in terms of business, it would help the writer when considering starting a business.

b. Company

The result of the research can be a considered as an evaluation opportunity and to reflect for better strategies in the future.

c. Other Researcher

This research hopefully is useful for other researchers who are looking to discuss similar-related topics in the future.

