

## CHAPTER I

### INTRODUCTION

#### A. Research Background

This paper investigates how family ownership and management shapes the relations between performance of firms. Family business is a business that is owned, controlled, and obtained by a family or a several families. Nevertheless, not all of the employees in the company are the family member. Many family firms, especially small firms hired people to fill the lower position, while the higher position (top manager) occupied by the family member of the company's owner.

Family's participation in the company can strengthen the company itself because usually family members are loyal and have a high dedication to their family's company. Although there are many problems in manage the family's firm. Clashes also emerged between the family's needs and the company's objectives. For example, company tends to keep a family member to work there although he or she is less competent in their work, so that it will endanger the company's life.

The phenomenon of the family firms is the founder focus on the effort to make the company can grow and survive. On the development, when the company grows bigger and stronger, the second generation and the extended

family, including nieces, nephews, and grandchild started to come in, it will become the dynasty of family. Generally, family firm has a solid long-term vision because there is an ownership and the clear long-term commitments. Family firms usually more flexible and quicker to make a decision, because company managed by the managers and the owner at once.

A remarkable number of studies have attempted to compare the performance of family and non-family firms in order to understand if and how family involvement in ownership (FIO) and family involvement in management (FIM) affect performance. However, there is still a need to investigate these relationships because there are no unanimous findings in the literature: Positive, negative, and null associations have been found between the two concepts and different measures of performance. Moreover, most of previous research focused on large listed firms, although the vast majority of companies are small and non-listed in each economy.

The conflicting result of previous research mirror the existence of opposite effects of both FIO and FIM on company performance: The presence of the family in the ownership and management of the firm can be a benefit or a disadvantage for company competitiveness, thus creating unique paradoxical conditions to cope with (Moore and Barrett, 2003).

PT. Gudang Garam Tbk. (GGRM) is the companies which are listing in the IDX that is owned and managed by the family. From such condition, the researcher interest to make a research about the effect of family ownership and

management toward company's performance. The indicator whether the company is owned and managed by the family, the researcher sees it in the proportion of the shareholders and the management's member of the companies. Researcher sees it in Indonesia Capital Market Directory (ICMD) that the family ownership proportion of PT. Gudang Garam Tbk. Is 0.80%, which owned by Juni Setiawan Wonowidjojo (0.52%) and Susilo Wonowidjojo (0.28). PT. Gudang Garam also managed by the family, which is Wonowidjojo's family. It shows from the management's member that consists of two family members. They are Susilo Wonowidjojo as the president director; he is the third son of Surya Wonowidjojo which is the founder of PT. Gudang Garam Tbk. (Surya Wonowidjojo). Then, Juni Setiawati Wonowidjojo as the president commissioner; she is Susilo's sister. PT. Bentoel International is not a family owned firm because there are just only 2 shareholders who are not a family member's; British American Tobacco (PCA 2009) Ltd. (99.14%), and public (0.86). Philip Morris is no longer its shareholder since 2005, Philip Morris now acquiring Sampoerna's by holding 97% of the stocks.

In business terminology, there are two types of family business (Susanto, 2000). Firstly is Family Owned Enterprise (FOE). The FOE is the enterprise belongs to one family but managed by external professional. In this type, the role of family member is as an owner and controller and usually this type is extended from the enterprise which is in the beginning managed by the member of family. The second one is the enterprise which managed by the

owner or the member of family called Family Business Enterprise (FBE). This type has characteristics; the important role (key position) in the company is posted by family member. In Indonesia most of family business is categorized in this type. Here, PT. Gudang Garam Tbk. categorized in Family Business Enterprise (FBE) because this firm is owned and managed by the family also.

PT. Gudang Garam Tbk. (GGRM) as the sample of the family firms, and PT. Bentoel Indonesia (RMBA) as the sample of non-family firm. Here, the researcher wants to compare the performance of each company, whether there is a significant difference between these two companies. Based on the literature reviews that researcher already read, family firm perform better than the non-family firm, that's why researcher wants to see how the family firm's performance compare to the non-family firm.

### **1. Problem Statement**

From research background above, question can be derive to make problem statement which discuss about the effect of family involvement in ownership and management toward company's performance by studying the annual report of the companies listed in IDX:

Does family involvement in ownership and management of PT. Gudang Garam Tbk. have a positive effect to the company's performance rather than PT. Bentoel Internasional as the non-family business?

## 2. Limitation of Research

The study is limited to strictly analyze the effect of family involvement in ownership and management to the company's performance within Indonesian company that listed in IDX. The research will focus on the financial ratios in the annual report, because Ratio Analysis enables the business owner/manager to spot trends in a business and to compare its performance and condition with the average performance of similar businesses in the same industry. Ratio analysis may provide the all-important early warning indications that allow to solve your business problems before your business is destroyed by them. So this indicator can measure company performance with comparing the profit with total fund or equity that had been used to generate the profit. From all ratios, researcher only uses twelve ratios because researcher takes the data from Indonesia Capital Market Directory which only provides twelve ratios in each annual report.

## **B. Purpose and Benefit of the Research**

### **1. Purpose of the Research**

The purpose of this research is to analyze the effect of family involvement in ownership and management to the company's performance.

### **2. Benefits of Research**

This research hopefully can provide benefits for many parties, those are:

#### **a. Researcher**

To apply the theories which had been got a long period of study in university, the topic is financial management, especially discussed about the relationship between family involvement in ownership and management to the company's performance.

#### **b. Companies**

It is useful for companies, checking whether there is positive or negative relationship between family involvement in ownership and management to the company's performance. It can help the companies' management in decision making for organizational structure in ownership and management.

c. Other parties

The research can provide the information and knowledge about the relation between family involvement in ownership and management to the company's performance.

**C. Research Report Outline**

Chapter I : This chapter content with background of the problem, problem statement, limitation of research, benefits, and systematic of the writing.

Chapter II : Describes theoretical concepts that are fundamental to this study in order to create an insight for the reader in the respected area. It also contains of hypothesis development as the estimated answer to the problem statement.

Chapter III : This chapter describes the course of action taken in order to gather fundamental information such as data, data sources, gathering method, the instrument to examine the method, and data analysis method in this research.

Chapter IV : Data analysis describe about how to apply the data gathered to prove the hypothesis.

Chapter V : It is the chapter which content the conclusion and discussion from chapters before, it also include suggestion of the research based on the research result.

