

CHAPTER I

INTRODUCTION

This chapter presents the background of the study, identifies the problem, states the objectives and benefits of the study, describes the institution of the case study, explains the method of study, and sets the limitation of the study. This chapter also gives details of the organization of the term paper.

A. Background of the Study

Trust is the foundation of all business relationships, especially international business relationships. In an international business relationship, business partners are separated by distance, they usually speak different language, and there is rarely any face-to-face communication. Trust makes business partners feel secure and encourages them to give their best business performance and also to develop business relationships into long term ones. Glenn Ebersole

asserts, “Trust is right at the foundation of the survival and success of any business. Without trust there can be no sustainable business” (par.1).

However, when trust problems occur in business relationships, business relationships will be damaged and long-term business relationships are in jeopardy. Business partners will always feel suspicious and cannot work together in harmony.

In this discussion of trust, the term paper presents a case study between PT Huge, an exporter of wooden frames in Bandung, Indonesia, and a company in the United States, called X Company hereafter. X Company imported wooden frames from PT Huge. For its first order, X Company had paid using Letter of Credit (LC). For its second order, the company requested to pay half of the payment in advance and pay the rest after the goods arrived in the United States. PT Huge agreed to the request. However when the goods arrived in the United States, X Company refused to pay the rest of the payment. It claimed that the wooden frames’ quality was not as good as those from the first delivery. Meanwhile, PT Huge claimed that the wooden frames’ quality was the same as the previous shipment.

B. Identification of the Problem

This part states three questions on the problem analysed in the term paper:

1. Why do trust problems occur an international business relationships?

2. How should business partners deal with a trust problem?
3. How should business partners in an international business relationship prevent a trust problem occurring in the future?

C. Objectives and Benefits of the Study

The objectives of the term paper are analysing the causes of the trust problem, finding the best solutions for the trust problem, and presenting preventive actions for a trust problem in an international business relationship.

The term paper benefits PT Huge, the readers, and the writer of the term paper. The benefit for PT Huge is having an in-depth academic analysis on the problem it faces. From this analysis, several solutions to the problem are offered for PT Huge to apply. The benefit for the readers is they learn more about international business, especially the significance of trust in international business. The benefit for the writer is developing critical thinking, learning the process of academic research and English academic writing skills, as well as broadening knowledge in international business.

D. Description of the Institution

PT Huge Trading Industry was built in 1989 by Mr. Jonny Lauw. The main factory, also its head office, is located at Jl. Soekarno Hatta 710-712, Bandung. The main factory has 60 employees and manages export, import, and product sales throughout Indonesia. PT Huge has a branch

office in Bekasi that runs product sales for Jabotabek area. PT Huge's business involves export, import, and production. It exports wooden frames and wooden profiles to China, Japan, and the United States. It imports door hinges, door pulls, door locks, softboards, and castors from Spain, United States, Sweden, and China. It produces aluminum ladders, wooden frames, and wooden profiles.

E. Method of the Study

The first step in the term paper writing process is doing a one-month internship, from January 5th 2009 until February 5th 2009, at PT Huge, Bandung. During the internship period, I wrote a daily internship journal to record my work, my work progress, and any problem I faced. Most of my work involved the import process, in which I learnt about payment terms in international business, Letter of Credit (LC), export import documents, shipping documents, and insurance.

Since there was no problem in the import process, I decided to inquire if there was any problem in the export process. From my inquiry, I found the case study I use in this term paper.

During the writing of the term paper, I carry out library and Internet research to find theories supporting my analysis.

F. Limitation of the Study

The term paper discusses a trust problem in an international business relationship. The case study analyses the trust problem between PT Huge, Indonesia and X Company, USA.

In the export import process there are several payment terms: Letter of Credit (LC), Cash in Advance, Open Account, Consignment, and Documentary Drafts (Ball et al. 567). The term paper focuses on Letter of Credit (LC). LC is “a paying mechanism whereby a payment obligation is assured by substituting a stable credit source, usually a bank, for the potential financial instability of the promisor” (Rattner qtd. in Ginting 16).

G. Organization of the Term Paper

The term paper starts with an Introduction, which states Background of the Study, Identification of the Problem, Objectives and Benefits of the Study, Description of the Institution, Method of Study, Limitation of the Study, and Organization of the Term Paper. The following chapter is Problem Analysis, discussing the causes and effects of the problem. The third chapter is Potential Solutions, which gives several solutions to the problem, with each of their own positive and negative effects. The last chapter concludes the problem analysis and summarizes the reason for the best solution chosen.

