

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

In rapid changing business condition today, all organizations require an effective leadership to keep their reality. This is on the ground that employees today come and go easily from one company to another company without making any long-term commitment. One of the reasons that cause the sprouting work opportunity today is because the organization is lack in keeping their internal forces. The primary issue in maintaining internal forces is the circumstances inside the company, which refer to the leadership style executed by the leaders to run the company's operation. The style of leaders and their actions may determine the achievement or failure of every business. Their foreknowledge, wisdom, qualities, and capabilities are important for the basic tasks of every business, such as creating the right direction, strengthen culture of the company and intelligibility, proficient work process, effective networks of relationships, satisfied employees, customers and also suppliers(Aronoff & Baskin, 2016).

Leadership is one fundamental part in a company, particularly in a family business. The manner in which a leader leads their teams will determine how the company will perform. A few headsmight impact the employee's performance yet some may not affect any of their performance. There are some types of leadership from the way how leaders perform and play their roles. According to Pushpanathan (2017), family firms appear to perform better than their non-family equivalents. Meanwhile, as many of them originating in tensions within the family or due to divergence between family and company, they are equally effective in breaking up. At this critical point, leadership continues and what leaders do have the main distinction to maintain the family business sustainability. The role of leader in family firms has a level of complexity that is one of a kind and minimal comprehended since nobody before has any attempt to give contribution to their wisdom for wider dissemination.

There are several well-known leadership styles and it is believed that democratic leadership style is the most standout amongst the best styles of leadership. Democratic leadership is kind of leadership style where members of the team have a progressively participative role in the business process including decision making. This leadership style esteems collaboration and support of followers. Besides that, this type of leadership also encourages adaptability and open discussion to accomplish the best outcomes from everyone's perspective. However, when they do so, there is a possibility that disputes could happen. As a final decision maker, a leader should consider from each side of employees and take the best decision for the improvement of the organization (Chua, Basit, & Hassan, 2018). The environment of democratic leadership may create high ethics of employees and produce the creative answers for organization issues. The impact of democratic leadership style on task performance and self-efficacy bolster the thoughts that is at least partly because of their effect on individual's beliefs in their capacity to perform a task that can impact individual performance. Appropriately overseeing employees' performance would assist any companies to increase profits and reliably meet business objectives. Bhatti (2015) believed that effective leadership is the degree to which a leader continually and dynamically leads and directs his/her followers to the concurred key which is characterized by the entire group.

PT IntiSehatMaju Jaya is one of the distribution companies based in Medan. The company is located at Jl. Abdullah Lubis 11/23 Medan. PT. Inti Sehat Maju Jaya was known as Jamu Air Mancur distributor and located in Solo. Jamu Air Mancur distributor was established by Mr. Sindoro Hindrotanojo's older brother in 1973 and continued by Mr. Sindoro after his brother's death. Mr. Sindoro Hindrotanojo bears the position of Commissioner in this company right now. Since 2000, his company has decided to become an incorporated company (Inc.) or PT in accordance with the needs and development of the company to have legal power. From 1973 to 2015, they only distributed Jamu Air Mancur as their main product. Since 2015, his wife, Ellyana Sulistio as President Director has wanted to expand

their business and not only Jamu (Herbal) products, but also cosmetics, herbal drinks, honey, battery, soaps, antiseptic, etc. By having nearly 40 employees, this company always aims to improve employees' welfare.

Based on the preliminary interview with the director, Mr. Tan In San, it has been discovered that the company has been receiving frequent complaints regarding the employees' tasks. Some cases are regarding late delivery, defect product and bad customer service.

Table 1.1 Customers' Complaint of PT Inti Sehat Maju Jaya

Case	2017	2018
Late Delivery	2	5
Defected Product	4	6
Bad Customer Service	2	4

Source: Prepared by writer (2019)

Based on the table above, it can be seen that customers complaints were increasing from 2017 to 2018. The factors that may be the cause of the employees' performance problem may include lacking in leadership, ineffective motivations, and some employees may feel being left out in making decision together. Therefore, the company needs to take action to improve employees' performance that can be done by improving the democratic leadership style that has been implemented by the directors.

Based on the writer's self-experience from working in the company since September 2017 and results of preliminary interview, the writer has noticed that the leadership style being implemented by Mrs. Ellyana Sulistio as the president director is democratic leadership style. This style of leadership is believed to be the most effective choice to be implemented in order to improve employee performance in every company. Based on the explanation above, the writer decides to conduct a research entitled "**The Impact of Democratic Leadership towards Employees' Performance at PT Inti Sehat Maju Jaya Medan**".

1.2 PROBLEM LIMITATION

This study aims to investigate the effectiveness of democratic leadership style towards employees' performance. This research is going to be conducted at PT. Inti Sehat Maju Jaya from the period of February 2019

to May 2019. Employees of this company will be the object of the research. The democratic leadership of the director, Mrs. Ellyana Sulistio is the independent variable, whose indicators include communication, leading, risk taking, and employee involvement (Kurniawan, 2018). While employee performance is the dependent variable, whose indicators include number of jobs, quality of work, timeliness in doing it, attendance, and ability to work with others at PT IntiSehatMaju Jaya (Koopmans, et. al, 2014).

1.3 PROBLEM FORMULATION

PT IntiSehatMaju Jaya is a company that rarely has a serious problem, however, in relation to the previously mentioned background study in this *skripsi*, the writer would like to bring out a topic that concerns on both parties which are the leader and the employees. Here are some research questions formulated in this study:

- a. How does the company apply democratic leadership style in the workplace?
- b. How well the employees have been performing at PT IntiSehatMaju Jaya?
- c. How does democratic leadership have impact towards employees' performance at PT IntiSehatMaju Jaya?

1.4 OBJECTIVE OF THE RESEARCH

The main purpose of this study is to assess the effectiveness of democratic leadership and its impact towards sales at PT IntiSehatMaju Jaya.

The following are the research objectives of this study:

- a. To explain about the application of democratic leadership style at PT IntiSehatMaju Jaya.
- b. To assess employees' performance at PT. IntiSehatMaju Jaya.
- c. To analyze the impact of democratic leadership towards employees' performance at PT IntiSehatMaju Jaya.

1.5 BENEFIT OF THE RESEARCH

Benefit of the research according the objective and problems found during the research are shown below:

1.5.1 Theoretical Benefit

By doing the research, it gives the chance to implement the concept that the writer has learned by using the right terminology and styles to make information understood by the readers. Besides that, it will also assist the writer to learn evaluating theories from various points of view and create statements based on what the writer has learned. The writer therefore has a better knowledge about the concept of democratic leadership style and employees' performance as well as the capacity to look objectively at things that will be useful in the future. The results of this research are also expected to contribute to the development of relevant theories.

1.5.2 Practical Benefit

The practical benefits of this research are as follows:

- a. For the writer, this research allows the writer as the researcher to gain more experience in doing research.
- b. For the company, to provide useful suggestion for the company in increasing employees' performance especially by implementing effective leadership style.
- c. For other researchers, this research will give additional knowledge about the topic discussed that can be used as references for various purposes.

1.6 SYSTEMS OF WRITING

The systems of this final paper writing consist of:

- Chapter I : Introduction
In this chapter, the writer describes about background of the study, problem limitation, problem formulation, objective of the research, benefit of the research, and systems of writing.
- Chapter II : Literature Review and Hypothesis Development
In this chapter, the writer describes about theoretical background details related to family business and democratic leadership, previous research of skripsi topic, hypothesis development, research model, and framework of thinking.
- Chapter III : Research Methodology
In this chapter, the writer describes about research design, population and sample, data collection method, operational variable definition and variable measurement, and data analysis method.
- Chapter IV : Data Analysis and Discussion
In this chapter, the writer describes about general view of PT Inti Sehat Maju Jaya, data analysis, descriptive statistic, result of data quality testing, result of hypothesis testing, and discussion.
- Chapter V : Conclusion and Recommendation
This chapter contains conclusions from a series of *skripsi* discussions based on the analysis that has been carried out as well as suggestions to be submitted to the research object or for further research.