

# CHAPTER I

## INTRODUCTION

### 1.1 Background of the Study

The global pandemic of Covid-19 is significantly creating social and economic crisis, which has particularly affected many business sectors. Besides health concern, Covid-19 has disrupted the markets, business ecosystem, and the way businesses operate globally. The massive outbreak and the uncertainty of when the pandemic will end have made it difficult for leaders to cope with organizational crises. Hence, PT Bahruny Group feel the same way in dealing with this circumstance. In a crisis situation like today, the most important thing is how the leader is agile and ethical in leading so that the company does not get caught in another fatal crisis (D'Auria & Smet, 2020).

Ethical leadership is the core value of organizations in normal time and crisis. Ahern & Loh (2020) stated that ethical leaders are the effective leadership throughout Covid-19 pandemic. Leaders in this pandemic are needed to make immediate decisions, direct employees effectively by building a good sense of communication, and adapt to swift changes of situations (Caligiuri, et al., 2020). Moreover, ethical leaders reduce unethical behaviors for the followers during the pandemic crisis as the leaders become the role model and are transparent about their sense of purpose (Ahern & Loh, 2020).

In this case, the organization needs to pay attention to both employees' competencies and well-being. Human resources have to play an important role to ensure business continuity, as employees are the company's greatest assets (Caligiuri et al., 2020). The core of leading a business is about harnessing the power of people in the organization. Thus, successfully managing potential employees will result in high employees' performance, which undoubtedly improve organizational outcomes. It follows that the role of a leader is crucial to face these matters. Leaders need to be ethical and actively participate to stabilize the crisis situation.

Ethical Leadership means doing the right thing according to moral principles, treating people equally, and being compassionate to achieve organizational values while giving no tolerance for ethical violations (Lemoine et al., 2019). Employee performances are reaching high outcomes when leaders are ethical. In other words, the contribution of leaders and employees are important to reach company's goals and values. More specifically, ethical leadership has a positive impact on employees' performance based on the findings according to Khuong & Quoc (2016).

PT Bahruny Group is a company which concentrated in palm oil plantation and a producer of palm oil in Indonesia. The main office is located in Putri Hijau Dalam Street no. 4C-G, Medan, North Sumatera. One of the PT Bahruny Group's land is based in Sisirau with a production capacity of 30 tons per hour.

The phenomenon in PT Bahruny Group that the writer wants to investigate is about performance management, in which labor turnover is affecting the work-place effectiveness. Labor turnover shows the rate of employees leaving the organization. The table is presented below for the year of 2018-2020, as follows:

**Table 1.1 Labor Turnover of PT Bahruny Group Main Office Sector 2018-2020**

Year	Total Employees				Turn Over Intention (TOI)	
	Beginning of the year	In	Out	End of the year	In	Out
2018	55	0	2	53	0%	4%
2019	53	8	6	57	15%	11%
2020	57	13	9	60	23%	15%

Source: PT Bahruny Group (2020)

From the table above, the employees' turnover rate in 2018 is 4% but in 2019 shows the percentage increased to 11%. However, the percentage is relatively increased to 15% in 2020, which shows that the turnover rate is 4% higher than in 2019.

At this point, an increase in labor turnover rate can directly and indirectly have an impact on organizational outcomes. The high turnover of employees occurs because of the problem in work environment, work stress, job fulfilment, organizational commitment, salary and leadership, in which the employees felt unsatisfied with. On top of that, turnover rate determines the effectiveness of leadership and performance within the organization.

A recent study claims that ethical leadership is reasonably forming a productive and ethical work environment which results in reducing turnover (Theriou et al., 2020).

**Table 1.2 Data of Employee's Out at PT Bahruny Group Main Office Sector 2018-2020**

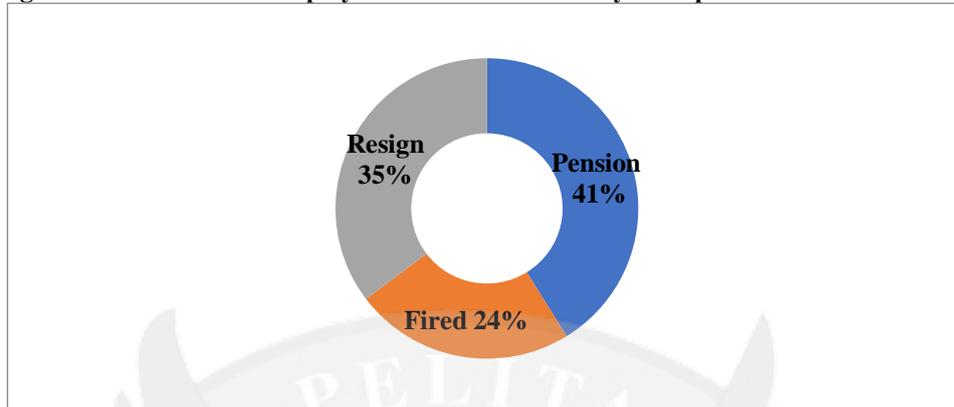
Year	Total Employees			Total Employee's Out
	Pension	Fired	Resign	
2018	0	1	1	2
2019	3	2	1	6
2020	4	1	4	9
<b>Total</b>	<b>7</b>	<b>4</b>	<b>6</b>	<b>17</b>
<b>Total (%)</b>	<b>41%</b>	<b>24%</b>	<b>35%</b>	<b>100%</b>

Source: PT Bahruny Group (2020)

Table 1.2 displays the numbers of employee's leaving the company.

In 2018, the total of employee's out is two (2) consist of one (1) person got fired and one (1) person resigned. In 2019, the total of employee's out increased to six (6) consist of three (3) person pensioned, two (2) person got fired, and one (1) person resigned. In 2020, the total of employees' out is nine (9) consist of four (4) person pensioned, one (1) person got fired, and six (6) person resigned. As the result, the overall total of employee's out from the company within three years is 17 persons, which consist of seven (7) person pensioned, four (4) person got fired, and six (6) person resigned.

**Figure 1.1 Pie Chart of Employee's Out at PT Bahruny Group main office 2018-2020**



Source: Prepared by the writer (2020)

Graphic 1.1 displays the overall percentage of the employees who left the company within 3 years. It shows that the higher percentage is 41% from pension, and the second-high percentage is 35% from resign, and the last is 24% from fired. It can be classified that the percentage of resign and getting fired in total is 59% consider as high in this company. On that account, companies are responsible to calculate and observe the turnover rate in case the result is high, so the company can immediately find solution. A further reason, retaining employees is cheaper rather than recruiting and training a new applicant. Besides, it is important to maintain low turnover rate as it represents a healthy work environment.

On the other hand, high turnover rate indicates lack of employee satisfaction and engagement which effecting employees' performance. In addition, preliminary survey results from plantation HRD showed that, some of the workers are facing boredom towards their daily work routine as it is a repetitive process.

Lack of motivation and employee recognition are another issues that employees encounter, when it is important for employee development especially during pandemic because employees get more pressures and challenges in fulfilling their job tasks. Hence, Ethical Leadership will be the way to tackle the problems in order to boost up employee's performance.

Therefore, the writer decides to do a research with the title "**The Influence of Ethical Leadership towards Employees' Performance at PT Bahruny Group Medan**".

## **1.2 Problem Limitation**

Due to the limitation of time, ability, knowledge and company's lockdown policy during covid-19 outbreak, the researcher only focuses on Ethical Leadership as independent variable and Employees' Performance as dependent variable at PT Bahruny Group. The data and questionnaire will be collected from the main office located in Putri Hijau Street, Medan and the branch office in Langkat and Lhokseumawe, specifically to the office workers by investigating Ethical Leadership in the organization and to discover the influence of Ethical Leadership towards Employee's Performance and the solution to improve Employee's Performance in the company.

### **1.3 Problem Formulation**

Based on the background of the study above, the author formulates the problem to be examined is “The Influence of Ethical Leadership towards Employees’ Performance at PT Bahruny Group.” the problem is further elaborated in several research questions as follows:

1. How is ethical leadership applied in PT. Bahruny Group?
2. How is the employees’ performance in PT. Bahruny Group?
3. Does ethical leadership influence employees’ performance at PT. Bahruny Group?

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

Therefore, the objective of the research is formulated as follows:

1. To observe the ethical leadership applied in PT. Bahruny Group.
2. To find out the employees’ performance in PT. Bahruny Group.
3. To determine the influence of ethical leadership towards employees’ performance at PT. Bahruny Group.

## **1.5 Benefit of the Research**

The writer hopes that this research can provide benefits as follows:

### **1.5.1 Theoretical Benefit**

This research is to identify the influence between Customer Ethical Leadership towards Employee's Performance, and to gain knowledge by examining how the Ethical Leadership contribute in Employees' Performance, and to find out the linked of Ethical Leadership to improve Employees' Performance at PT Bahruny Group.

### **1.5.2 Practical Benefit**

#### **a. For the writer**

The benefits of this research are that the writer can apply and implement the information and knowledge gained during the research of *skripsi*, in the field of Organizational Behavior, especially Ethical Leadership and Employees' Performance. Hence, the writer also has a better understanding about how to be an ethical leader, which might be useful in managing a business and doing day-to-day activity.

#### **b. For the company**

Through this research, it is expected to be able to contribute and provide useful information for the company in implementing an effective Ethical Leadership to improve Employees' Performance.

Furthermore, it might provide the company the solution for ethical failures within the organization based on the result of the research.

c. For the researcher

Through this research, the writer aims to provide a better insight and knowledge about the influence of Ethical Leadership towards Employees' Performance at PT Bahruny Group. Hence, it is expected to encourage other researcher to conduct a research based on the information provided.

