

## CHAPTER I

### INTRODUCTION

#### 1.1. Background of the Study

Every organization or company must be able to compete cooperatively in the era of globalization, technological advancements, and the changing nature of workers today in order to survive and continue to grow. Especially nowadays, the COVID-19 pandemic that resulted in the world health crisis forced the government set some policies for restrict people's movement. It makes some companies require employees to work from home. This kind of requirement indirectly disrupted company activities (Nurmasari, 2020). The disruption of operational activities can affect the company performance. The existence of appropriate and competitive human resources is not independent of the organization's or company's success. As a result, every firm is required to be able to effectively increase the capabilities of its human resources in order to meet the company's objectives. Human resources refer to the employees in an organization who collaborate to build the organization (Nurmasari, 2020).

Company is a system made up of circuits and relationships between component elements that function together as a whole, and each of these components is a sub-system that contributes to company's success. Individual performance and performance organization are linked in a complex way. As a result, it is critical to consider human resource

management. Employee performance is the level of success of employees in finishing the job. Performance is not an individual characteristic, such as talent, or ability, but is the embodiment of talent or ability itself. Performance is the result of work and work behavior that has been achieved in completing the tasks and responsibilities given in a certain period (Susella, 2017). And employees are a resource important for the company because it has talent, energy and creativity required by the company to achieve its goals. Knowing about employee performance is something very beneficial for Management Company, because it can get used to evaluate the work of the company, determine the direction of the policy to be taken, and made development HR optimally to achieve Goals Company. Changes in leadership style and giving rewards to employees can have a positive impact on employee performance. Because without firm leadership, and the lack of rewards will have an impact on employee performance that is not optimal (Susella, 2017).

PT Greenex Sumatra Mandiri that located at Medan will be used as the research object. PT Greenex Sumatera Mandiri was a family business that established in 2010 as one of the companies that engaged in the Natural Rubber trader with products includes Latex, RSS, and SIR in Indonesia (Lokershareinone Official, 2019).



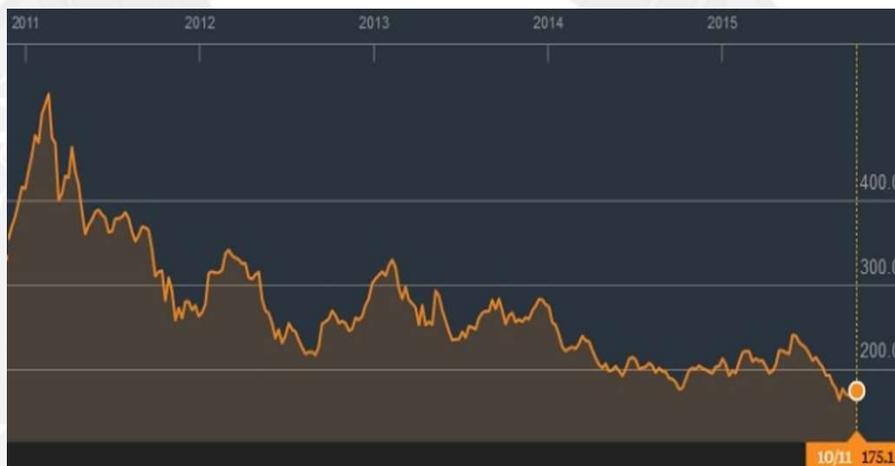
**Figure 1.1 Rubber**

Source: <https://www.facebook.com/corncobmeal/>

Rubber is a hydrocarbon polymer formed from an emulsion of milk (latex) which is obtained from the sap of several types of rubber tree plants but can also be produced synthetically. The main source of merchandise from latex used to create rubber is the rubber tree *Hevea brasiliensis* (Euphorbiaceae). This is done by injuring the bark of the tree so that the tree will provide a response that produces even more latex (Pusat data & Informasi, 2017). According to Pusat data & Informasi (2017), More than half of the rubber used today is synthetic. But several million tons of natural rubber are still produced annually, and still is an important material for several industries including automotive and military. Rubber hypoallergenic can be made from Guayule. Early experiments of rubber development synthetics led to the invention of Silly Putty.

According to kemenperin.go.id (2020), the national rubber processing industry sector contributed significantly to foreign exchange earnings, reaching USD 3.422 billion in 2019. Currently, there are 163 natural rubber industries with direct labor absorption of 60,000 people. Natural rubber production in 2019 reached 3.3 million tons, which includes SIR (crumb rubber), concentrated latex, and RSS (ribbed smoked sheet). Of

this amount, 20% is processed domestically by the downstream industry into tires, retreads, footwear, rubber articles, and other manufactured rubber goods (MRG), while 80% of natural rubber is exported. Besides being the second largest agricultural export commodity after palm oil, rubber is the source of livelihood for more than 2.5 million smallholder farming families. It is this community group that manages more than 85% of natural rubber production sources in Indonesia (Musdhlifah, 2021).



**Figure 1.2 Rubber price (2011-2015)**

Source: <https://www.indonesia-investments.com/id/bisnis/komoditas/karet/item185>

Figure 1.2 showed a sharp decline in natural rubber prices starting from early 2011 due to the abundant supply of rubber, sluggish economic growth and intense competition from synthetic rubber (indonesia-investment.com, 2018).



**Figure 1.3 Rubber price (2014-2018)**

Source: <https://www.indonesia-investments.com/id/bisnis/komoditas/karet/item185>

The sharp recovery of natural rubber prices in the last quarter of 2017 and early 2018 is shown in figure 1.3. The reason behind this price increase is supply disruption in Thailand. Massive and widespread flooding in the southern part of Thailand, where most of the national rubber planting occurs, has had a major impact on the supply of natural rubber (both in terms of production and distribution). Severe drought was also cited as the reason for the weak rubber production in Thailand at that time (Indonesia-investment.com, 2018).

The Indonesian Rubber Council (Dekarindo) stated that the condition of the rubber industry in early 2021 was blessed with economic recovery from the Covid-19 pandemic. According to the article bisnis.com written by Andi (2021), the impact of rubber leaf fall disease (GDK) and the recovery of the manufacturing sector in China are considered to be the

driving force. Chairman of Dekarindo Azis Pane, stated that demand in January 2021 had increased by around 5-6 percent from normal conditions. Azis suspects that this is caused by an increase in tire demand from Panda Country by around 5-10 percent at the beginning of the year. Moreover, Thailand's natural rubber production volume fell 2.98 percent to 1.23 million tons.

Besides as a Natural Rubber trader, PT Greenex also producing fresh and dried corn grains and corncob meal (Figure 1.4) for animal feed and mushroom cultivation beside for animal bedding as well (Lokershareinone Official,2019).



**Figure 1.4 dried corn grains and corncob meal**

Source: <https://www.facebook.com/corncobmeal/>

Animal feed has strong links with the agricultural sector as the main supplier of corn, although it also uses imported raw materials. This industry is also a supplier of raw materials for the livestock industry that produces animal food in the form of meat, eggs and milk (troboslivestock.com, 2020).

Livestock has an important role in the development at least in 4 strategic ways (Subekti, 2020), namely:

1. Livestock to provide food, especially to meet people's needs of animal protein,
2. Livestock for sources of income and job opportunities,
3. Livestock for sustainable agriculture and environmental improvement, and
4. Livestock for the alleviation of people from poverty.

Indonesia can actually produce a healthy, safe and sustainable animal feed industry. However, the raw material for animal feed, namely livestock corn, is not sufficient for industry (FER, 2018). So far, the raw material for animal feed, namely livestock corn, is only found in several regions in Indonesia and is sufficient for these areas. Self-sufficiency in livestock maize is only found in South Sulawesi (South Sulawesi), North Sulawesi (North Sulawesi) and West Nusa Tenggara (NTB). Meanwhile, the center for animal feed production is in North Sumatra (SUMUT). And the cost of transporting livestock corn raw materials from these areas to production centers in North Sumatra is relatively very expensive when compared to the cost of importing raw materials from abroad. Usually, 20 percent of the total cost is passed on to the consumer. According to [hargapangan.sumut.go.id](http://hargapangan.sumut.go.id) (2017) North Sumatra (Sumut) continues to supply imported corn. The corn is supplied by a number of animal feed producers in this area. Pelindo 1 Public Relations Staff Belawan Branch

Jefri Untung said the Panamanian-flagged MV Ding Xiang Hai docked at Belawan Port, carrying a cargo of 31,500 tons of corn from Argentina.

According to the article medianeliti.com written by Subekti (2018), the field of animal husbandry is not yet able to optimally carry out strategic roles as has been described above. This is because most livestock businesses are still traditionally managed so that it has not been able to provide welfare adequate and also not able to meet the needs of animal protein affordable by the community, because most of the sources of animal protein especially meat and milk are still imported so the price is relatively high. For this reason, an integrated effort is needed so that the livestock sector this is really able to play a role in the welfare of the people through providing job opportunities and providing animal protein that meet the needs of the community at an affordable price.

In addition to the Ministry of Agriculture as the direct supervisor of the animal feed industry, the Ministry of Industry and the Ministry of Finance have understood animal feed as a strategic industrial item. Feed has strong links with the agricultural sector as the main supplier of corn, although it also uses imported raw materials. This industry is also a supplier of raw materials for the livestock industry that produces animal food in the form of meat, eggs and milk (troboslivestock.com, 2020). Chairman of the Association of Animal Feed Entrepreneurs (GPMT) Desianto Budi Utomo also stated that the positive projection would be driven by the potential for increasing consumption of animal protein. He said about 65 percent of

animal protein needs are met from chicken meat and eggs and he thinks this figure will continue to improve. And The Directorate General of Livestock and Animal Health (Ditjen PKH) of the Ministry of Agriculture estimates that per capita chicken meat consumption in 2020 will reach 12.79 kilograms per year. An increase of about 5.4 percent compared to the consumption figure in 2019 which was at 12.13 kilograms per capita per year (Timorria, 2020).

With a large number of customers, this requires the employees to work optimally to improve company performance. This company tends to have a leadership style that is less assertive because it has too many hierarchies and layers of authority governed by formal rules (Internal source, 2021). Which means that the policy decisions of leaders are still influenced by various bureaucracies. And most employees in this company have poor performance due to indiscipline in their respective jobs (Internal sources, 2021). So that the performance of employees is affected and the lack of socialization of the application of clear rewards so that misunderstandings often occur between employees and superiors, so that there is a lack of appreciation for employees who have good performance (Lara, 2017).

The leader is a person carry out duties and responsibilities to lead and be able to influence people he leads. This figure has a duty and obligation to provide protection and assistance personal and manage activities in order to be reach the goal already programmed. Every leader has its own style in leading the group or subordinates (Graybill, 2018). The

leadership style of a person is very determining the work success rate of the employees he leads, the better leadership style of a leader, the higher the success rate work employees. Here a figure is needed leaders who can do justice, no distinguish ethnicity, race, and also not prioritize personal interests. According to Truptimayee (2021) “Leadership is essentially a continuous process of influencing behavior. It may be considered in context of mutual relations between a leader and his followers. It’s a dynamic process, which deserves study. It is a relational process involving interactions among leaders, members and sometimes outside constituencies. Good leaders are made not born. If you have the desire and willpower, you can become an effective leader”.

Reward is a form of acknowledgment to a certain achievement given in the form of material and non-material given by the organization or institution to individuals or groups of employees so that they can work with high motivation and achievement in achieving organizational goals (MBA Skool Team, 2020). There are two types of rewards, which is extrinsic rewards and intrinsic rewards. Extrinsic reward is an award that comes from outside the person. This extrinsic reward consists of financial rewards. Extrinsic rewards are in the form of allowances, incentive bonuses, salaries, allowances, and non-financial rewards such as promotions and interpersonal rewards (Hasna, 2021). Intrinsic reward is a reward or award that is regulated by oneself consisting of completion, autonomy and achievement. How and when to distribute the award is an important issue because if the

award is given incorrectly then the results will be unsatisfactory for the organization. Someone will be motivated by the reward obtained if the reward is satisfactory. Rewards that will satisfy employees will be related to intrinsic rewards. The relationship between reward and satisfaction is not fully understood because it is also not static (Hasna, 2021).

As we can see from the data that collected, the rubber and animal feed industry is quite good for collecting a lot of profit. The thing that made me interested in researching this company is that the development is quite slow even though in Indonesia there are many opportunities that should be taken for the development of the company. Added with when interviewing with the HR Manager of PT Greenex, there are some problems that affect the company. First, is leadership problem which is called a top-bottom. Top-bottom in here means the leader only give instruction without hearing subordinate feedback. Second is reward problem where the problem is in salary and giving award. Giving award in here is about the unclear award system in the company. The implementation of leadership and reward systems (extrinsic and intrinsic) is the concern of the leader, to meet the strict operational standards of PT Greenex Sumatra Mandiri and improve employee and company performance (Internal source,2021).

Starting from the description above, on this occasion the writer intends to examine the extent to which the effects of implementing a leadership and reward system (extrinsic and intrinsic) on the performance of PT Greenex Sumatera Mandiri employees. This study will then be

realized in the form of research with the title **“The Influence of Leadership and Reward (Extrinsic & Intrinsic) on Employee Performance at PT Greenex Sumatera Mandiri Medan”**.

### **1.2. Problem Limitation**

Due to limitation of time and budget, the writer would like to set some limitations as follows:

1. This research is conducted at PT Greenex Sumatera Mandiri which is located at Jalan Merbau Komplek Merbau Mas ruko No. 123, Medan, Sumatera Utara, Indonesia.
2. The respondent's data of this research is using only from the Sales & Marketing Department.
3. The research is using only four (4) variables, which is: Leadership (L), Extrinsic Reward (ER), and Intrinsic Reward (IR) as variables X (independent variable) and Employee Performance (EP) as variable Y (dependent variable).
4. On this research, Leadership variable is focused on the son of company's owner, who is positioned as the leader of Sales and Marketing department.
5. The research was conducted in Medan, North Sumatera, Indonesia.
6. Questionnaires are limited only to 30 respondents who are employees of PT Greenex Sumatera Mandiri Medan.
7. Questionnaire respondents are limited to 18-60 years old.

### **1.3.Problem Formulation**

Analyzing how the impacts of Leadership and Reward (Extrinsic & Intrinsic) at PT Greenex Sumatera Mandiri are the intention of this research. Because of this, the research attempts to answer the following questions:

1. Does Leadership influence Employee's Performance at PT Greenex Sumatera Mandiri?
2. Does Extrinsic Reward Influence Employee's Performance at PT Greenex Sumatera Mandiri?
3. Does Intrinsic Reward Influence Employee's Performance at PT Greenex Sumatera Mandiri?
4. Do Leadership, Extrinsic Reward, and Intrinsic Reward simultaneously Influence Employee's Performance at PT Greenex Sumatera Mandiri?

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

Find the impact of Leadership and Reward (Extrinsic & Intrinsic) at PT Greenex Sumatera Mandiri is the reason of this research. The purposes of this study are:

- a. To identify whether Leadership influences Employee's performance at PT Greenex Sumatera Mandiri.

- b. To investigate whether Extrinsic Reward influences Employee's Performance at PT Greenex Sumatera Mandiri.
- c. To explain whether Intrinsic Reward influence Employee's Performance at PT Greenex Sumatera Mandiri.
- d. To analyze whether Leadership, Extrinsic Reward, and Intrinsic Reward simultaneously Influence Employee Performance at PT Greenex Sumatera Mandiri.

### **1.5. Benefit of the research**

Theoretical Benefit and Practical Benefit are the two (2) forms of benefits in this research.

#### **a. Theoretical Benefit**

As far as the educational context is concerned, the accomplishment of this research will stand as a means of extra learning about the influence of Leadership and Reward (Extrinsic & Intrinsic) on Employee performance, it can enrich the writer's understanding and improve future educational discussions of the similar topics.

#### **b. Practical Benefit**

The writer expects that this research will deliver three (3) benefits, which are as follows:

1. For the writer, this research would improve the experience and knowledge in the relationship between Leadership and Reward

(Extrinsic & Intrinsic) towards Employee performance in real life setting.

2. For the company, this research would serve as a foundation for improving the company's performance by integrating the employee performance throughout the company.
3. For other researcher, this research would be able to stand as their references when they conduct research on similar topic.

