CHAPTER II

LITERATURE REVIEW

2.1 Human Resource Management

According to Milkovich and Boudreau (1991, p. 2) human resource management is "a series of decision about the employment relationship that influence the effectiveness of employees and organization." While Werther and Davis (1996, p. 8) said "The purpose of human resource management is to improve the productive contribution of people to the organization in ways that are strategically, ethically, and socially responsible." From the definition above the researcher may say that human resource management is to make a better contribution from the people who work in the organization for their organization.

Managing the human resource can be in a reactive way or proactive way according to Werther and Davis (1996). A reactive way means that HR management tends to solve the problem whilst the problem is happening while the proactive way means that HR management tend to solve problem before the problem happen. The researcher agrees with Werther and Davis (1996) that a good way to manage human resource is to take a proactive stance. So that we can take preventive action before a real problem happens. But unfortunately that not all problems can be anticipated before they happen sometimes we just realize it's a problem when it happens.

2.1.1 Human Resource Process

Human resource management may vary from one organization to other organization but in general they have some similarity in the human resource management activities. According to Milkovich and Boudreau (1991, p. 15) the human resource management activities are:

- ***Staffing.*** This activity includes recruiting and selecting employee.
- ***Development.*** This activity includes improving employees skills
- ***Compensation.*** This activity is giving payoff for the employee, including salary, bonus, incentive, etc.
- ***Employee/Union Relations.*** This activity is to keep the management and employees have a good relationship.

Milkovich and Boudreau (1991) state that recruitment is the first step of staffing activities. While the recruitment definition is "The process of identifying and attracting a pool of candidates, from which some will later be selected to receive employment offers." (Milkovich and Boudreau, 1991, p. 217) There are two types of recruitment channels which are from inside the company and from outside the company. The inside company recruitment can be divided into (Werther and Davis, 1996):

- ***Job-Posting Programs.*** This included promotion to a higher rank.
- ***Departing Employees.*** This included an employee who already leave the company and then come back again when there is a job opening.

While the recruitment source from outside are (Werther and Davis, 1996):

- Walk-ins.
- Employee Referrals.

- Advertising.
- Professional Search Firms.
- Educational Institutions.

Recruitment process according to Werther & Davis (1996, p200):

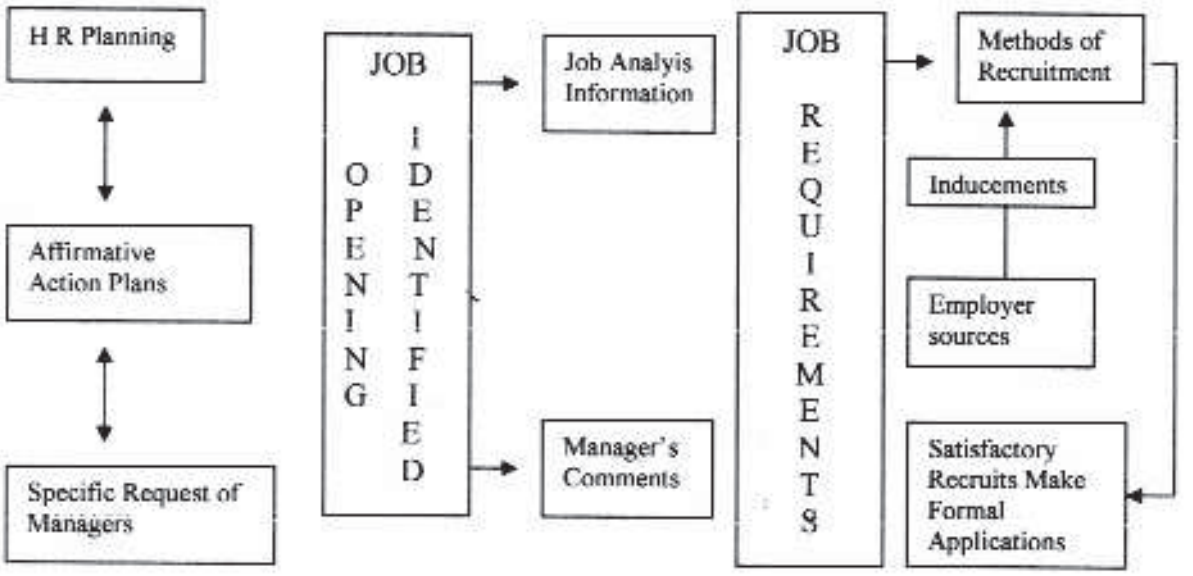

Figure 2.1 Recruitment Process

2.2 Business Model

A business model is the method of doing business by which a company can sustain itself, by generating revenue (Rappa, 200). The business models describe how a company makes money by specifying where it is positioned in the value chain. Some models are quite simple. A company produces a good or service and sells it to customers. If all is running well, the revenues from sales exceed the cost of operation and the company realizes a profit. Other models can be more complex.

The definition of business model by Paul Timmers (1998), is:

- An architecture for the product service and information flows, including a description of the various business actors and their roles: and
- A description of the potential benefits for the various business actors: and
- A description of the sources of revenues.

From the definitions above the researcher can summarize that a business model contains:

1. Business process that needs a combination of resources on running business.
2. Value creation that generates the revenue to sustain the company.

2.3 SSM Methodology

According to Flood, R. L and Jackson, M (1991) the characteristic of the problems can be described as follows:

Simple "systems" have the following characteristics:

- A small number of elements;
- Few interactions between the elements;
- Attributes of the elements are predetermined;

- Interaction between elements is highly organized;
- Well-defined laws govern behaviour;
- The "system" does not evolve over time;
- "sub-systems" do not pursue their own goals;
- The "system" is unaffected by behavioural influences;
- The "system" is largely closed to the environment.

Complex "systems" have the following characteristics:

- A large number of elements;
- Many interactions between the elements;
- Attributes of the elements are not predetermined;
- Interaction between elements is loosely organized;
- They are probabilistic in their behaviour;
- The "system" evolves over time;
- "sub-systems" are purposeful and generate their own goals;
- The "system" is subject to behavioural influences;
- The "systems" is largely open to the environment.

While the relationships between participants are defined as:

Unitary

- They share common interest;
- Their values and beliefs are highly compatible;
- They largely agree upon ends and means;
- They all participate in decision making;
- They act in accordance with agreed objectives.

Pluralist

- They have a basic compatibility of interest;
- Their values and beliefs diverge to some extent;
- They do not necessarily agree upon ends and means, but compromise is possible;
- They all participate in decision making;
- They act in accordance with agreed objectives.

Coercive

- They do not share common interest;
- Their values and beliefs are likely to conflict;
- They do not agree upon ends and means and "genuine" compromise is not possible;
- Some coerce others to accept decisions;
- No agreement over objectives is possible given present systemic arrangements.

By using a grouping of system methodologies, the problem can be grouped as follow:

Table 2.1 Grouping of Problem Contexts

	UNITARY	PLURALIST	COERCIVE
SIMPLE	Simple-Unitary	Simple-Pluralist	Simple-Coercive
COMPLEX	Complex-Unitary	Complex-Pluralist	Complex-Coercive

Based on the grouping of problem context above, Flood et. al., grouping some methodologies that are considered to solve the problems.

Table 2.2 Grouping of System Methodologies Based Upon The Assumptions About Problem Contexts

	UNITARY	PLURALIST	COERCIVE
SIMPLE	**Simple–Unitary:** - Operation Research - System Analysis - System Engineering - System Dynamics	**Simple-Pluralist:** - Social System Design - Strategic Assumption Surfacing & Testing	**Simple–Coercive:** - Critical System Heuristics
COMPLEX	**Complex-Unitary:** - Viable System Diagnosis - General System Theory - Socio-Technical System Thinking - Contingency Theory	**Complex-Pluralist:** - Interactive Planning - Soft System Methodology	**Complex-Coercive:** ?

Taken from: Robert L. Flood and Michael C. Jackson, Creative Problem Solving, Total System Intervention, 1991

As an organization within its environment, human resource recruitment process can be viewed as complex-pluralist. It is complex because it has many part of organization, like manager, commissioner, staff, investor and franchiser. Each of them have their own individual objective, but some issues, they have some agreed objectives. That is why the organization can be viewed as pluralist. Because the problem situation is Complex-Pluralist, then in analysing and developing the business model, Soft System Methodology will be used. SSM was chosen rather than Interactive planning because SSM has more systematically system, yet open to another system thinking.

SSM is a method created to deal with "soft" problem which paradigm that stating the real world is problematical, but the process of enquiring into it, the methodologies, may be systemic. Soft problems usually deal with "people" problem in an organization.

There are 7 iterative stages guiding the process of SSM like the diagram below:

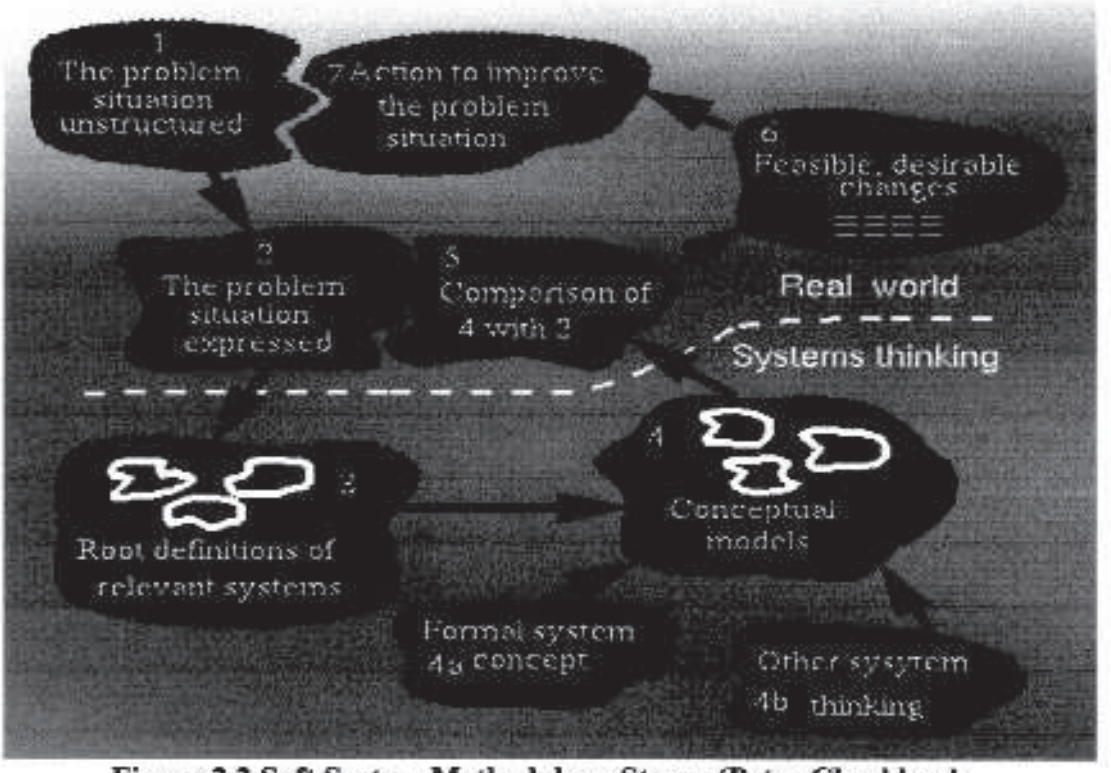

Figure 2.2 Soft System Methodology Stages (Peter Checkland, http://www.sfc.keio.ac.jp/~masanao/Mosaic_data/ssm.html)

1. The Problem Situation: Unstructured

   In this stage used to find out the problem. Method used is gather information about structure and processes collecting secondary data (e.g. minutes of committee meetings) by observation (e.g. informal analyst observation or more formal sampling procedures), and informal interviews.

2. The Problem Situation: expressed

   Information from stage 1 can be summarized in a "rich picture", a cartoon-like expression, which, in the spirit of such representation, allows for certain issues, conflicts and other problematic and interesting features to be accentuated.

3. Root Definitions of Relevant Systems

A root definition is an idealized view of what a relevant system should be. This is achieved by formulating the statement around six elements (**CATWOE**):

- **C**ustomers: the victims/beneficiaries of the purposeful activity.
- **A**ctors: those who do the activities.
- **T**ransformation process: the purposeful activity, which transforms input into an output.
- **W**orld-view: the view of the world that makes the definition meaningful.
- **O**wners: who can stop the activity.
- **E**nvironmental constraints: those constraints in its environment that this system takes as given.

4. Conceptual Models

Conceptual model is an account of the activities, which the ideal system must do in order to fulfil the requirements of the root definition. A conceptual model is constructed by drawing out the minimum number of verbs that are necessary to describe the activities that would have to be present to carry out the task named in the root definition.

5. Comparing Models and "Reality"

The aim behind the comparison stage is essentially to generate debate about possible changes that could be made to bring about improvements in the problem situation.

6. Defining Changes

By this time, we identify culturally feasible and systemically desirable changes for discussion and action.

7. Action to Improve

This stage implements changes, which are both desirable and feasible. Often such changes can be classified as attitudinal, structural and procedural.

2.4 Management Function

According to http://www.southalabama.edu/mcob/dcmosley/princ_mgt/noteslides exercises/1 planning is "the process of setting objectives and determining what should be done to accomplish them." While according to http://www.nepc.lk/Planning%20News/ Plg-News-3-2003/Feature.htm "Planning implies that we must think through our goals and actions in advance and decide, What to do? and How to do?" From these definitions the researcher may say that planning is a process to state the goal that an organization wants to achieve in the future. According to http://www.southalabama.edu/mcob/ dcmosley/princ_mgt/noteslides_exercises/2 the Planning process can be define as follows:

- Define objectives
- Develop premises regarding future conditions
- Analyze action alternatives & choose the best
- Implement plan & evaluate the results

The controlling process according to http://www.nepc.lk/Planning%20News/Plg-News-3-2003/Feature.htm planning is "...planning, organizing and leading are carried out as a process, it must be ensured that we measure the ongoing performance of the task and compare such current performance with the established objectives, to see whether we are heading towards the right directions."