

## CHAPTER II

### LITERATURE REVIEW

#### A. Previous Research

- 1) A research conducted by Darkwah (2014) entitled: *Examining the Recruitment and Selection Practices of Family Owned Small Medium Enterprises in the Kumasi Metropolis*. This research aims to identify the process of recruitment and selection in a family-owned small and medium enterprise in Kumasi Metropolis, Ghana. Type of research utilized in this research is quantitative method, and research method used herein is explanatory research. Total number of samples taken were 12 small and medium scale enterprise registered in enterprise list using area sampling technique. Analysis technique used is *Statistical package for the Social Sciences (SPSS)*.

Results of analysis showed that recruitment process occurred due to information obtained from internal person in the company, and the selection process of small and medium scale family business is by one-on-one interview. The biggest obstacle encountered by family business in small and medium scale is the limitation in getting attention from the high-skilled employees. Results of this study recommend the family business in small and medium scale to employ professionals according to their own professional field in order to improve company performance.

2) Research conducted by Songini (2013) entitled: *The Formality and Informality of HRM Practices in Family Small and Medium-Sized Enterprises*. The paper intends to capture evidences on the relative approach, between the formal and the informal one, within these organizations. Therefore its aim is to provide answers about the factors that influence the choice of informal HRM practices versus the formal ones and the contingencies that push family SMEs to formalize their own HRM practices. She followed the stages of systematic review recommended by Tranfield et al. (2003): (1) planning the review, (2) conducting the review, (3) reporting and dissemination.

After reading the contents of the 353 papers included in the first sample, 40 papers were finally selected according to the work's aim. The articles were excluded if they simply related firms to a kind of HRM style without in-depth investigations, they theoretically dealt with HRM issues without any reference to practices or they examined large and/or publicly-owned family businesses. The final sample thus obtained was composed of papers strictly dealing with informality and/or formalization of HRM practices in one or more of the five categories of recruitment, selection, training and development, compensation and performance appraisal. Both papers specifically focused on family SMEs and those concerning with SMEs in general were included in the sample because of the scarce number of contributions only addressed to family firms.

Research reports the word of mouth and the recommendations from staff as the main recruitment practices in family SMEs, as well as the preference for advancing insiders to fill managerial vacancies. Selection processes are mostly based on personal judgements of the owner-managers, who rely on informal one-on-one interviews, emphasizing employee's ability to fit into existing norms of the organization rather than paper qualifications. Formal application forms and entry requirements are found to be rarely used, especially for family members. Similar favoritism is further evident in compensation and appraisal procedures. It is argued that family members' performance is seldom assessed through formal appraisal systems and, generally, their remuneration packages or pay bonus are not merit-based ones. Also training is described as predominantly informal, not related to systematic analysis of employees' needs, and usually provided on-the-job by the owner-managers, through direct supervision and correction of performance.

Besides consistency with predictions from resource based view theory and, therefore, interpretation of the informal approach to HRM as result of the lack of financial, organizational and human resource due to the small firm size, the previous findings can be further attributed to the unique characteristics of family SMEs, and they can find explanations also in the agency theory, institutional theory, and equity theory.

3) Research conducted by de Kok, Thurik, and Uhlaner (2003) entitled:

*Professional HRM Practices in Family-Owned Managed Enterprises.*

This research aims to test we a limited number of variables to represent these organization characteristics, including firm size, the presence of formal business plans, HRM specialization either by department or individual manager and export strategy, and predicts that at least part of the differences in the extent to which professional HRM practices are used by family and nonfamily firms cannot be attributed to differences in organization complexity or resource availability but rather to a direct effect of the family firm variable consistent with agency theory predictions.

Data was collected by means of a written questionnaire sent to Dutch small and medium-sized enterprises. The questionnaire was developed by the University of Southern Queensland, Australia (Wiesner and McDonald, 2001). A first version of the questionnaire was submitted to a sample of 70 Australian SMEs, 31 of which responded. The results of this pilot were used to modify the questionnaire. Subsequently, it was submitted to several senior Australian academics in HRM for their comments. The revised questionnaire was then translated and further revised by Dutch HRM researchers and practitioners. A stratified sample plan was drawn distinguishing six sectors (manufacturing, construction, trade and repairs, catering, transport and communication, services) and three size classes (20-49

employees, 50-99 employees and 100-199 employees). Not all respondents fall within the originally defined sample classes. One hundred enterprises have either less than 20 or more than 200 employees. To avoid the loss of these observations, we decided to apply the Small Business Administration definition of SMEs (Flanagan and Deshpande, 1996), and to include all enterprises with 1 to 500 employees in our analysis. Four thousand questionnaires were sent, addressed to the CEOs. Seven hundred thirty-six (736) questionnaires were received, 52% of which were answered by the CEO and 33% by an employee directly answering to the CEO, resulting in an 18% response rate. To check for sample selection bias by size and sector, they compare the response rates for the 18 strata. There does not appear to be a serious sample selection bias by either size or sector. Whether selection is biased by the respondent's attitude towards HRM cannot be determined.

- 4) Research conducted by Cameron (2008) entitled: *Staff recruitment, selection and retention in family owned small businesses*. The objectives of this research is to investigate and derive improved methods for the recruitment, selection and retention of employees in family-owned small businesses and to better understand the variables and dynamics affecting the recruitment, selection and retention processes. It is the intention of this research to draw conclusions that will enhance the capacity of owner/managers of family-owned small

business to deal with the difficulties of the recruitment, selection and retention relationship. The research design in this research includes a mixed methodological approach in order to provide a rigorous and thorough research design.

Previous research discussed above are identified in table 2.1 below:

**Table 2.1**  
**Previous Research**

No.	Name	Title	Research Focus	Research Methods
1.	Vida Darkwah. (2014)	Examining The Recruitment and Selection Practices of Family Owned Small Medium Enterprises In The Kumasi Metropolis.	Seek to reveal potential cause-and-effect relationship of recruitment and selection of Family Owned SME.	The research method is descriptive research. The method of purposive sampling was employed in arriving at the 120 selected registered SMEs. The data collected was then coded and analyzed using the Special package for the Social Science (SPSS).
2.	Lucrezia Songini. (2013)	The Formality and Informality of HRM Practices in Family Small and Medium-Sized Enterprises	The factors that influence the choice of informal HRM practices versus the formal ones on SMEs, and the contingencies that push family SMEs to formalize their own HRM practices	She followed the stages of systematic review recommended by Tranfield et al. (2003): (1) planning the review, (2) conducting the review, (3) reporting and dissemination. The sampling of articles on HRM and family SMEs was made through a search of keywords in the titles and abstracts of articles in the most relevant databases for social sciences research. A time range of observation from 1980 to date was adopted. 353 papers were included in the first sample. After reading the contents

				of the 353 papers included in the first sample, 40 papers were finally selected according to the work's aim.
3.	Jan de Kok, Roy Thurik, and Lorraine Uhlander. (2003)	Professional HRM Practices in Family-Owned Managed Enterprises.	The professional HRM Practices in Family-Owned Managed Enterprises	Data was collected by means of a written questionnaire sent to Dutch small and medium-sized enterprises. The questionnaire was developed by the University of Southern Queensland, Australia (Wiesner and McDonald, 2001). A first version of the questionnaire was submitted to a sample of 70 Australian SMEs, 31 of which responded.
4.	Leonne C. Cameron. (2008)	Staff recruitment, selection and retention in family owned small businesses.	To investigate and derive improved methods for the recruitment, selection and retention of employees in family-owned small businesses and to better understand the variables and dynamics affecting the recruitment, selection and retention processes.	The research design in this research includes a mixed methodological approach in order to provide a rigorous and thorough research design. The success of the pilot study conducted to test the proposed survey questionnaire led to the modification of the instrument and the mail and hand delivery of the questionnaire. The data was analyzed and ten constructs identified, all relating to the relationships of recruitment, selection and retention. The third and final phase of the triangulation focused on the confirmation of the four significant constructs, which were firstly pilot

				tested, then followed by the semi-structured interview process.
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(Source: Data Processed, 2017)

### 1. The Difference between This Research and Previous Research

- a. The research by Vida Darkwah (2014): Examining the Recruitment and Selection Practices of Family Owned Small Medium Enterprises in the Kumasi Metropolis is using quantitative research and questionnaire where the data was analyzed using SPSS but in this research I use qualitative method using descriptive that includes interview and documentation.
- b. The research by Lucrezia Songini (2013): The Formality and Informality of HRM Practices in Family Small and Medium-Sized Enterprises. The focus of the Lucrezia Songini research is the factors that influence the choice of informal HRM practices versus the formal ones on SMEs, and the contingencies that push family SMEs to formalize their own HRM practices. The method used by Lucrezia Songini in the research is the stages of systematic review recommended by Tranfield et al. (2003): (1) planning the review, (2) conducting the review, (3) reporting and dissemination. The sampling of articles on HRM and family SMEs was made through a search of keywords in the titles and abstracts of articles in the most relevant databases for social sciences research. A time range of observation from 1980 to date was adopted. 353 papers were included in the first sample.



After reading the contents of the 353 papers included in the first sample, 40 papers were finally selected according to the work's aim.

In this research the research focus is to analyze the process of recruitment and selection in family owned small medium enterprise, and the research method is qualitative method that is descriptive using interview and documentation.

- c. The research by Jan de Kok, Roy Thurik, and Lorraine Uhlaner (2003): Professional HRM Practices in Family-Owned Managed Enterprises. The focus of Jan de Kok *et al* research is the whole professional HRM in family-owned managed, and they use data collected by means of a written questionnaire sent to Dutch small and medium-sized enterprises. The questionnaire was developed by the University of Southern Queensland, Australia (Wiesner and McDonald, 2001). A first version of the questionnaire was submitted to a sample of 70 Australian SMEs, 31 of which responded. In this research the research focus is to analyze the process of recruitment and selection in family owned small medium enterprise, and the research method is qualitative method that is descriptive using interview and documentation.
- d. The research by Cameron (2008): Staff recruitment, selection and retention in family owned small businesses. The objectives of this research is to investigate and derive improved methods for the recruitment, selection and retention of employees in family-owned

small businesses and to better understand the variables and dynamics affecting the recruitment, selection and retention processes. It is the intention of this research to draw conclusions that will enhance the capacity of owner/managers of family-owned small business to deal with the difficulties of the recruitment, selection and retention relationship. The research design in this research includes a mixed methodological approach in order to provide a rigorous and thorough research design. The difference is placed on the methodology of the research. This research is qualitative method with descriptive analysis and research by Cameron using mix method with sampling analysis.

## **B. Definition of Human Resources Management**

### **1. Definition of Human Resources Management**

Human resources secure an extremely strategic position in the organization, meaning that human is an element that holds an important role in performing activity for goal achievement. In order to obtain a better condition, a sufficient management of human resources is necessarily required in order to generate qualified, loyal and prestigious human resources.

Definition of human resources management according to experts:

- a. Human resources management includes aspects of planning, organization, implementation and control. Due to the fact than human resources are considered as a more important role as the time goes by in the achievement of organization goals, various experiences and a number of research in human resources field are gathered systematically. Management term refers to a set of

knowledge on how people should manage human resources (Rivai, 2009:1).

- b. Human resources management is considered as a strategy and implementation of management functions that consists of planning, organizing, leading and controlling in every activity/operational functions of human resources starting from recruitment, selection, training and development, placement which involves promotion, demotion and transfer, work assessment, compensation reward, industrial relation up to work termination, referred to the purpose of productive contribution improvement from organizational human resources for the achievement of organizational goals to be more effective and efficient (Sofyandi, 2008:6).
- c. Human resource management is utilization of a number of individuals to achieve organizational goals. Consequently, managers at each level need to involve themselves to the human resource management. Basically, all managers make things done through other efforts, which means that this requires effective human resources (Mondy, 2008:4).
- d. Human resource management is an attempt to direct and manage human resources within the organization to be able to think and act as demanded by the organization (Sulistiyani and Rosidah, 2006:10).
- e. Human resource management is a process consisting of planning, organizing, leadership, and control activities related with job analysis, job evaluation, acquisition, development, compensation, promotion and work termination in order to achieve the objectives specified (Panggabean, 2002:15).

Therefore, it can be concluded that human resource management is a process of planning, organizing, and managing human resources in order to obtain or acquire human resources who are able to work in accordance with objectives of the organization or company.

## C. Recruitment

### 1. Definition of Recruitment

Basically, recruitment refers to an attempt to fill the vacant position or employment within an organization or company, and for that purpose, there are two sources of workforce i.e., the source from outside of the organization or from internal of the organization.

Recruitment is an important aspect in the procurement of workforce. Recruitment can be considered as success, if many of the applicants came to submit their proposals to the company, so the chances of the company to get a good workforce or resources in high quality is getting bigger.

Definition of recruitment according to experts:

- a. A process of recruiting people at the right time, in sufficient quantities, and on reasonable requirements, to fill a vacancy in the organization (Mondy, 2008:132).
- b. A process of seeking by stimulating employee candidates who are capable to apply as an employee. This process begins when the job vacancy is started to be announced to public and ended by the submission of the applications. The result shows that there are groups of job seeker of where the candidates shall be selected. Success or failure of recruitment process can be seen from the existing recruitment ratio i.e. the ratio between the number of accepted applicants and the total number of applicants. A greater ratio between the accepted and the total number of applicants will lead to more successful recruitment process being implemented (Swasto, 2011:44).
- c. An attempt to seek for and to influence the workforce to possess a willingness to apply for jobs that exist in a company (Hasibuan, 2009: 40)
- d. Recruitment is a process of finding and "enchantment" employee candidates (applicants) who are able to apply as an employee (Handoko, 2008: 69).
- e. Recruitment is the act or process of an organization attempting to obtain additional manpower for operational purpose. Recruiting

involves acquiring further human resources to serve as institutional input (Sikula, 1981: 183).

- f. Recruitment is the generating of applications or applicants for specific position (Monappa and Saiyadain, 1979:104).
- g. Recruitment, including the identification and evaluation of source, is a major step in total staffing process. That process begins with inventories of capabilities, recruitment, selection, placement, and orientation (Yoder, 1981:261).
- h. Employee recruitment is a process or action taken by the company to obtain additional employees through a stage which includes identification and evaluation of sources of employee recruitment, determine required number of employees needed by the company, process of selection, placement, and orientation of employees (Mangkunegara, 2009:33).

From the definition above, it can be concluded that recruitment is a process to get new employees through a variety of terms, conditions, and procedures that have been made by the company. Results of the recruitment process is a number of workers who will be proceeded to the selection process. An effective recruitment requires the availability of accurate and continuous information regarding the number and qualifications of individuals required to perform variety of jobs within the organization. In the absence of such information, the recruitment process will experience a few obstacles on the implementation. One of them is less precise level of an individual who occupies a section to carry out his/or work for it is irrelevant to their expertise. The company must actually scrutinize individual qualification that they possess.

The most important activities in the recruitment is by eliminating the applicants who do not fit to the requirements of the company and focusing only on prospective applicants who will be called back to get

through the next stage. Recruitment activities may establish a favorable public opinion by influencing the attitudes of such applicants regardless of their appointment as an employee.

The company shall select the applicants whose qualifications are closest to the job description that the company needs. Company shall find a right way to motivate those applicants who are qualified or met the criteria to be able to work properly which is very essential when a company needs to hire employees so that later on, there would not be any constraints on motivating the employee.

It is not easy to get qualified candidates. Therefore, the company should be able to implement a good recruitment process. Because when the company takes a wrong step in decision-making process, it would be bad for the company to go forward. Companies should be capable to identify the needs of their employees so that their own employees can be motivated to work better. In addition to that, the company also should be able to define the basic recruitment, the sources of recruitment, media utilized in the recruitment process and to identify the obstacles upon recruitment process.

## **2. Purpose(s) of Recruitment**

Purpose(s) of Recruitment (Simamora, 2004:214):

- a. To attract a large set of job applicants so that the organization will have a greater opportunity to conduct elections upon the candidates who are considered as the workers who meet the qualification standards of the organization.
- b. The purpose of post appointment (post-hiring goals) is the income of employees who are implementing good-

implementation and will remain to stay with the company until a reasonable time period.

- c. Recruitment attempts should exhibit some spillover effects which refers to the public image of the organization that shall improve, and those applicants who fail must have positive impressions of the company left.

Recruitment is a series of events that begin when a company or organization requires workforce to fill the vacant position or the lack of number of workforce in particular areas and to open up the jobs vacancy to get the demanded qualified candidates according to existing vacant positions or title. Thus, the purpose of recruitment is to open a vacant job searching and looking for as many applicants that match the qualification required by the companies so as to enable filtering prospective employees with the highest quality from the best.

### **3. Source and Method of Recruitment**

Currently, most corporate organizations actively carry out the recruitment process of where they must be aggressive especially in looking for workforces who possess certain qualifications. Due to the fact that the competition from other companies is also very tight. A slight lateness in the recruitment process, all good and qualified employees could have been accepted by other companies. In this case, company is no longer solely seeking for workforces, but the company is finding the workers with specific skills and dedication to the organization. Indeed, there are many ways done by the company to perform recruitment process, there are companies which passively

waiting for job applicants to come, but such conditions would not be beneficial to the company itself, an activity or event jobs may not run optimally. The job vacancies can be filled from internal and external of the company. The job vacancies that were filled from inside part of the company is using internal recruitment channels, and for those that are filled from the outside part of the company is using external recruitment channels. It is possible for a recruitment channel to be more effective in the implementation in order to be used compared to external channels, with consideration as follow (Swasto, 2011: 44):

1. Qualifications and personality of the employees are known by the company, because the employee had previously well-known by the company members.
2. It does not require a lot of expense
3. Motivation possessed by the employees will increase, as they are considered and given by attention by the company for those who excel will be promoted to a higher position in accordance with the expectations of the employees.

Internal recruitment channels (Swasto, 2011: 45) consists of:

1. Mutation/Movement. Mutation/movement is the displacement of a position to another position at the same level. Mutation is necessary to eliminate the possibility of boredom of an employee or to fill the position which is currently vacant.
2. Promotion. Promotion is the displacement from a position to a higher position as a reward for good performance, long tenure and et cetera.
3. Job Posting Programs. In the event that there is a job opening at the top level organizational which prioritize and provide an opportunity for employees who meet the requirements to apply for such job.

External recruitment channels (Swasto, 2011: 45-47) consists of:

1. Walk-ins. By using this method, the applicant comes to company on their own, and then they fill in the application



form that has been provided. These applications are stored in an archive until there is a job vacancy.

2. Via local employees. In this way, there is no formal way done, but management will encourage its employees to participate in spreading the information regarding company's need for specific personnel. There are weaknesses in this manner, which allows the acceptance of the employee in the company that consists only of family members and friends, and employees only.
3. Office staffing. In terms of numbers, this is very satisfying, because it is often, in terms of qualifications, especially for those companies, less can be expected.
4. Institutions / private placement. This is more effective, especially because of the nature of the professional rather than the institutions. Other than that, these institutions have generally been familiar with the labor market, up to the estimation of the cost and time which can be done as accurately as possible. The disadvantage is that these institutions are not well informed regarding the actual requirements of the company, up to the possible mismatches between the number of workforce accepted with the company's needs. Particularly in Indonesia, most private institutions also provide services in the field of personnel selection than the new workforce provision.
5. Advertisement. By using this way, people can get plenty of applicants, and with very varied qualifications. These are the advantages and the disadvantages. The disadvantages may be reduced if the formal requirements are created as specific and as strict as possible. Up to the point that the preliminary filtering can be performed through letters of application that were submitted before the people called.
6. Educational institutions. Particularly, in order to get young workers with limited education, this can be considered as an extremely effective method. Besides, the company may also hold a campaign for socializing the benefits of working at the company. One of the disadvantages is lack of experienced personnel that can be obtained from schools.
7. Professional associations. Particularly for personnel who one-in-a-million individual workforce, for example for high qualified personnel in a high position. Usually such workers were already employed, and through professional acquaintances, they were once having a desire to move from their company. This is different from workforce "hijacking".
8. Leasing. In order to adjust the workforce needs in a short term, the company may conduct leasing, which is paid per day or per hour. By leasing, the company will acquire trained workforce

in a short term and without having the obligation to take care of their pension, insurance, and so forth.

9. Nepotism. Recruitment of workforces according to family relation is a component of recruitment programs that often occurs in private enterprise or family business. This wisdom is based on loyalty to the company.

## **D. Selection**

### **1. Definition of Selection**

The success of a leader depends on his/her ability to achieve a goal that has been set with the help of employees. A leader always expects that his/her employees have a classification in accordance with what is expected. Recruitment of workforce needs a selection program in order to obtain generate the workforce in accordance with the classification of the required work so that the employees may possess a classification in accordance with what is expected.

Definition of selection according to experts:

- a. A series of activities process used to determine whether an applicant is qualified to be employed or not (Swasto, 2011:49).
- b. Continuation of the recruitment activities in the form of decision-making in accepting and placing the workforce (Nawawi, 2001: 185).
- c. A series of steps in activities undertaken to decide whether an applicant is accepted / rejected, fixed / temporary term of a worker placed in certain positions that exist within the organization (Gomes, 2003: 117).
- d. A process of choosing candidates who possess the appropriate classification according to the requirements of the job. Selection activities is carried out to reduce the most number of applicants, in order to obtain the best candidates. Without qualified employees, it is difficult for the company to achieve their success (Bangun, 2012: 159).
- e. The process of identification and selection of people from a group of applicants with the most suitable or the most qualified

qualification to occupy certain title and positions (Sofyandi, 2013: 105).

It can be concluded that the selection of employees is an initial process to identify and to select prospective employees to occupy certain positions. This selection process is very important in order obtain the best candidates for the job required. There are a number of companies that chose to select their own candidates for employees so that it does not take a lot of expense. But there are also companies that hire some experts to do the selection of candidates that will surely cost quite a lot of money.

There are different methods used in selection process implemented by each company. Some of the selection processes are well-planned and some are not planned at all. Small companies often create a selection which is not planned at all. It means that the activities will only be carried out when the company requires additional labor. Normally this task is directly handled by experts of the company itself. But in most large enterprises, selection activities are carried out in a planned and carried out by the most competent human resources. This task is handled by people who have special expertise in the selection or experts from outside of the company.

## **2. Purpose(s) of Selection**

The purpose of selection is to generate workforces who is most appropriate for a particular position (Martoyo, 2007: 41). Selection

process aims to obtain the required workforce for the company. Selection is a two-way process in which the organization offers job positions with proper compensation, while the applicants evaluate the organization and the attractiveness of the position as well as the rewards offered by the organization. However, in reality, the selection process is still a one-way process, where applicants can only accept the position in any way of any organization who offers job positions, while the organization has a stronger position to bargain applicants.

### **3. Process of Selection**

Mathis, Robert L and John H Jackson (2006: 227) stated that the selection process is a series of activities that company use to obtain information about the knowledge, skills and abilities of prospective employees. Each stage in the selection process will obtain some information about prospective employees, then the information will be used to match company employees with the requirements that have been made to determine whether to process them in the next selection stage or otherwise, to reject them. Each stage in the selection process will decrease the number of candidates who participate in the next stage and will eventually the company will get the employees that really fit with the company's needs.

Most companies determine the selection process in a right way to get the best job candidates, in accordance with the requirements that have been made. The selection process can be carried out in a long

time, or it could be carried out only in three days, five days, and could be a week, depending on their own needs. The longer the selection process conducted, the more selective the company in hiring the best employees.

To begin the process of selection of employees, it all starts from the three conditions, namely:

- a. Set the effective withdrawal method by selecting one appropriate method of multiple methods of recruitment.
- b. Implement human resource planning to determine the number and quality of candidates selected.
- c. Setting standards or requirements of the job instead of the qualifications of candidates.

From those three provisions, it will be determined tools for selection for implementing the proper selection of candidates so that they are managed to follow the orientation stage as the final stage of the selection process.

#### **4. Requirements of Selection**

Gomes (2003: 117) stated that the effectiveness of the selection function may run well either by the presence of some important terms in the selection process, and even depending on the information obtained through these requirements. The information obtained through the terms will be used as input for a manager to make

decisions by himself/herself regarding the acceptance and placement of the employees.

The terms referred to:

- a. Job analysis information: which provides a position description, job specification, and standards of achievement required in each position.
- b. Plans for human resources that provide information to managers about availability or unavailability of job vacancy in the organization.
- c. The success of the recruitment function, which will ensure that the manager provided a group of people who will be elected.

## **5. Steps in Selection**

Swasto (2011: 49) stated that in order for the company to be able to know how the specifications of personality required to perform a task, they need various kinds of accurate and reliable tests, which can be used by personnel of selection process.

- a. Administrative test that refers to a process of checking on the applicant's identity, educational history, employment history, and other activities outside of work consisted in the application letter which is in conformity with the requirements needed in the work, which is expressed in the job ad.
- b. Knowledge and skill test that refers to a test utilized to test applicant's knowledge to carry out their job or to measure the

ability of applicants in executing their tasks that they are going to be responsible for.

- c. Psychological tests which means that the test is required to measure or test the intelligence, personality, talents, interests, and willingness of the applicants to perform their tasks well.
  1. Intelligence test refers to a test that measure the ability of the applicants in terms of logical thinking or reasoning thoroughly. This activity may be carried out by conducting IQ test or psychological test.
  2. Personality Test: to test applicant's personality in regards with their leadership, honesty, a willingness to cooperate, and other elements of personality. This test may diverse, according to requirements set by the company.
  3. Interest test, which measure how far the applicants are interested in any type of work. The purpose of this test is to help in finding basic interests of a person or applicant, after their basic interest is known (whether there is an interest in something, the direction of individuals interest, as well as the strength of the interest they possess), then it can be used to help the corresponding person to be a hard worker or those with interest, to have good adaptability and effectiveness.
  4. Aptitude tests, which means to measure the ability of an individual in achieving something, potential and attitude of

employees to be developed. This can be carried out by DAT (Differential Aptitude Test), this test is able to determine to which direction the tendency of one's aptitude is. From the test results, it can be obtained scores of each sub-test which is available. Moreover, it can also be done with Kreplin. Kreplin test is a single aptitude test. Kreplin test aims to find a talent (ability) of a person in performing a particular task.

5. Achievement tests, which measures the performance of the employee at the time of the test. This can be carried out by conducting a written test which consists of subjective and objective test.

#### **E. The Definition and Concept of SME**

Different authors have usually given different definitions to this category of business, it is important to note that there is no one single definition for an SME, (Storey, 1994) on Vida Darkwah (2014). But the definition of an SME is based on a lot of variables. The Bolton Committee (1971) on Vida Darkwah (2014) first came out with some working definition of a small firm; they formulated an “economic” and “statistical” definition of a small firm. With respect to the “economic” definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a



formalized management structure; and it is independent, in the sense of not forming part of a large enterprise.

In Indonesia as cited on Profil Bisnis Mikro, Kecil, dan Menengah (2015), the statically of SMEs is:

**Table 2.2 Criteria of SMEs & Big Company Based on Assets and Turnover**

Enterprise Size	Assets	Turnover	Employee
Micro	Maximum Rp. 50 million	Maximum Rp. 300 million	1-10 people
Small	> Rp. 50 million – Rp. 500 million	> Rp. 300 million – Rp. 2.5 billion	11-30 people
Medium	> Rp. 500 million – Rp. 10 billion	> Rp. 2.5 billion – Rp. 50 billion	31-300 people
Big	> Rp. 10 billion	> Rp. 50 billion	301 +

**Source: Profil Bisnis Usaha Mikro, Kecil, dan Menengah (UMKM), 2015.**

In addition, based on aspects of commodities produced, SMEs also has its own characteristics, among others:

- a. The quality is not standard. Because most SMEs do not have sufficient technological capabilities. The resulting product is usually in the form handmade so the standards vary in quality.
- b. Limited product design. It is triggered by lack of knowledge and experience about the product. The majority of SMEs working based on orders, not many dare to try to create a new design.
- c. Type of product is limited. SMEs usually only produce some kind of products. If there is a demand for new models, SMEs difficult to fulfill. If it accepts, requires a long time.

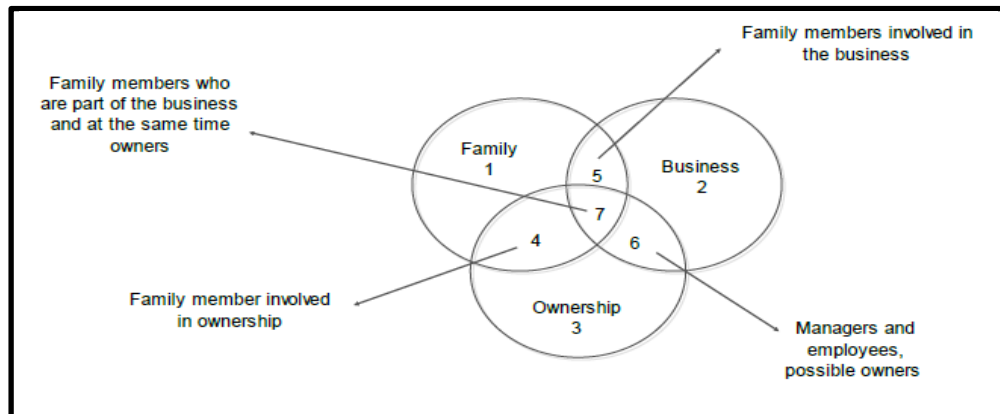
- d. Capacity and price list of products is limited. With difficulty sets capacity of consumer product and price make trouble.
- e. Raw materials are less standardized. Since the raw material is obtained from different sources.
- f. Continuity of product is not guaranteed and is less than perfect. Because production is not regular, then usually the products produced often is.

#### **F. Family-Owned SME**

Hulshoff (2010) on Vida Darkwah (2014) observes that in SMEs where more than 50% of the voting shares are owned by one single family and more than 50% of the management (team) are drawn from the family that owns the business, and the enterprise is owned by second- or later generation family members. A family business is said to be a special kind of enterprise. It is largely classified as special because of the way that family members involved combine family life and work. In addition, the family influences business decisions. Usually each family member may play one or more of several possible roles, for instance: owner, manager or employee. However, even if a member is „only“ a non- voting shareholder, he/she will always be part of the business. (Hulshoff, 2010). In a family business, it is difficult to view the business, the management and the ownership of the family enterprise separately, because every decision and/or change in one field will affect one or more other fields.

This has important implications for the enterprise and/or the stakeholders (i.e. family members). The three fields comprise (possibly major) stress and/or opportunities for the partners (family and non-family) and other stakeholders. Besides, the differing roles a family member may have to assume in the enterprise may sometimes be a challenge and sometimes lead to a disaster, due to conflicting interests. In addition, emotions may play a major role in daily business (the business is as a „child“ to the founder, keeping peace in the family). (Hulshoff, 2010).

A carefully examination of Figure 2.1 below provides an impression of (the interaction of) the subsystems of a family business. Business, family and ownership are visualized as three overlapping subsystems, resulting in seven possible positions or sectors. Each individual who belongs to the system of a family business may be placed in one of the seven sectors. Someone who only has one connection to the enterprise will be in sector 1, 2 or 3. People who have more than one connection to the enterprise will be placed in one of the other sectors. Sectors 4, 5 and 7 comprise the family members who are directly involved in the business and/or its ownership. Of those, sector 7 comprises the owner who is a family member and is working in the business. Sectors 2, 3 and 6 include managers, employees and possible co-owners from outside the family. Finally, sector 1 indicates the family members who are not themselves involved in the business but may somehow relate with it.



**Figure 2.1 Diagram of interaction of Family, Business, and Ownership in the Family Owned Business**

**Source: Gersick et.,al (1997) on De Kok (2003), Generation to generation, Harvard Business School Press.**

## **G. Characteristic Of Family Owned SME**

According to Chua et al., (1999) on De Kok (2003) Family businesses may be distinguished from nonfamily businesses on a number of characteristics. Some characteristics (differences) that have been found in literature are:

- 1. High level of commitment.** The family –as the business owner– shows the highest dedication in seeing its business grow, prosper, and get passed on to the next generations. As a result, many family members identify with the company and are usually willing to work harder and reinvest part of their profits into the business to allow it to grow in the long term. In dealing with its family business clients.
- 2. There is knowledge continuity.** Families in business make it a priority to pass their accumulated knowledge, experience, and skills to

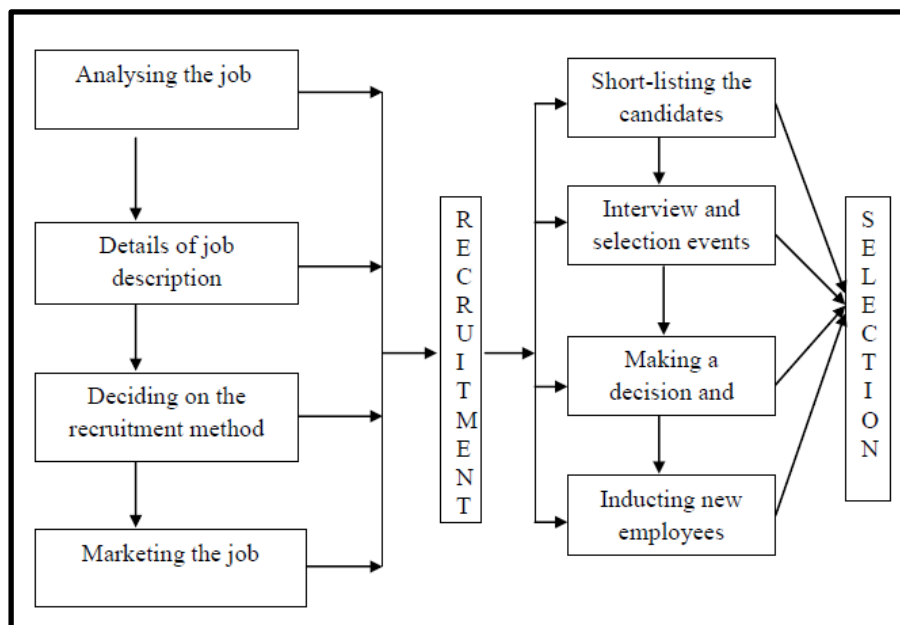
the next generations. Many family members get immersed into their family business from a very young age. This increases their level of commitment and provides them with the necessary tools to run their family business.

- 3. High level of complexity.** Family businesses are usually more complex in terms of governance than their counterparts due to the addition of a new variable: the family. Adding the family emotions and issues to the business increases the complexity of issues that these businesses have to deal with. Unlike in other types of businesses, family members play different roles within their business, which can sometimes lead to a non-alignment of incentives among all family members.
- 4. There is lack of disciplines.** Many family businesses do not pay sufficient attention to key strategic areas such as: managers and other key management positions“ succession planning, family member employment in the company, and attracting and retaining skilled outside managers. Delaying or ignoring such important strategic decisions usually lead to business failure in any family business.
- 5. Highly Informal.** Because most families run their businesses themselves (at least during the first and second generations), there is usually very little interest in setting clearly articulated business practices and procedures. As the family and its business grow larger,

this situation can lead to many inefficiencies and internal conflicts that could threaten the continuity of the business.

## H. Recruitment and Selection Process in SMEs Frame Work

Based on the ideas and insight obtained from the review of relevant literature, figure 2.2 presents the conceptual framework of the study.



**Figure 2.2 Conceptual Framework on recruitment and selection in SMEs**  
(Source: Vida Darkwah, 2014)

The recruitment process involves analyzing the job to be offered, providing details of job description, deciding on the recruitment method and the marketing of the job. After the recruitment process, the selection process begins with the short-listing of interested candidates. The short-listed applicants are further interviewed in order to make employment decisions. The interview is an important part of the selection process.

According to Reynolds et al. (1994), the interview process enables the organization to identify key attributes of prospective employees in terms of knowledge, experience, personality and any special features necessary. Based on the interview process, a decision is taken on the suitability or otherwise of the candidates for the job. Candidates who emerge successful from the selection process are inducted into the organizations to begin work.