HR PRACTICES AND FIRM PERFORMANCE.

LITERATURE REVIEW.

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GRADO EN ADMINISTRACIÓN Y DIRECCIÓN DE EMPRESAS

AE1049 - TRABAJO FINAL DE GRADO CURSO 2015-16

Abstract

This paper examining the important elements of human resource management (HRM) practices. This is done through detail review on relevant HRM theories and previous empirical studies. It is found that several practices such as training, recruitment, job design, employee compensation and performance appraisal exercise are important practices that relates to firms performance. The purpose of this essay is to review, analyze and discus about the existing literature regarding the relationships of Human Resources Practices and Firm performance. For that, some empirical studies have been analyzed, but, before the review of these studies, this essay will provide a theoretical framework that will lead to a better understanding of these practices and its effects on firm performance. After analyzing these studies and the methodology used to obtain the results, managerial conclusions will be made in order to determine which the effects are of develop a set of Human Resource practices on a business performance.

Key Words: Human resource management, Human Resource Practices, Employee Performance, Firm Performance.

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A. INDEX OF TABLES

1. INTRODUCTION.

In an environment where human resources is an important source of competitive advantage, it is also the one that contributes to sustained competitive advantage through facilitating the development of competencies that are firm specific. Strategic human resource management concerns with the creation of a linkage between the overall strategic aims of business and the human resource strategy and its implementation. The published research generally reports positive statistical relationships between the greater adoption of human resources practices and business performance. The causal linkage between human resources and organizational performance will enable the human resource managers to design programs and systems that will bring in the future better operational results to obtain higher organizational performance. Organizations today face many conflicting problems that they must strategically manage in order to operate successfully in the world of economic non-stability. They must continually improve performance by reducing costs, innovating processes and products, and improving quality and productivity. Due to the difficulty for organizations to sustain their position in the current environment, firms have established broader strategic of human resource practices for strategy fit along with contingency plans, and employees feel about career development, earnings, benefits and employment due to fact that human resource practices are aimed at work outcome, financial performance and contribution from employees while the organizations support them. At the same time, there is great concern about recruiting, retaining, managing, and motivating the workforce. Over the past ten to thirty years, various arguments have been made that the firm’s human resources may be its unique source of sustainable competitive advantage, as Ferris, et al., (1999) points. According to this point of view, human resources create value in a way that is rare, cannot be imitated, and cannot be substituted.

Due to the increasingly intense of global competition and the corresponding search for sources of sustained competitive advantage during the last thirty years, the interest in strategic management has risen, both among academics and researchers. One of the central issues that has been studied in the field of HRM is the HRM-performance relationship. Despite the big amount of studies on this topic, it has been criticized for its lack of a strong theoretical foundation. The purpose of this literature review is to make an exploration through the HRM-performance literature and to identify the different theories that can be useful in understanding and explaining the complex relationship between these two variables. Our main conclusion is that this field does not suffer from a lack of theories. On the contrary, this work will review some existing theories include economical, sociological as well as psychological perspectives and all together help to explain the link between HRM practices and firm performance.

The methodology used in this work consists to review and analyze the published literature regarding theoretical aspects linking Human Resource Practices and Firm performance. But this work not only focuses on theoretical aspects, some empirical studies have been reviewed in order to explain the assumption of Human Resource Practices and its effects on firm performance. All the literature reviewed came from the Uji’s Library Database and Google Academics. These studies were found by searching in the Uji's databases by key words like: *Human resource management, Human Resource Practices, Employee Performance, Firm Performance.* Several empirical studies were found but only a few of them were selected in order to comment them and obtain our own conclusions.

This work is structured as follows. First, this essay will provide a theoretical framework that includes a literature review explaining basic concepts regarding Human Resource Management, strategic HRM and HRM Systems. Following that, this work will focus on the theory regarding HR practices, the theoretical approaches published, some theories that will be useful to understand the relationship between HRM practices and firm performance. Before finishing the theoretical framework an important concept will be reviewed, "High involvement work practices". This term has received much attention over the last decade, and we consider that it has much to do in the relation that we are analyzing in this work. In the second part of the work will focus on empirical studies carried out by some researches on the field. On these studies, HR practices are tested in real companies and its effect on the firm performance is commented. Some of these empirical investigations on this relationship have focused on HRM practices such job design, employee selection, performance management, employee compensation or employee training. These practices will enable managers to employ and develop enough capable and motivated employees and to achieve expected organizational performance and competitiveness by achieving desired employee performance. Others empirical studies reviewed have suggested that strategic human resources have an impact on employee attitudes and behavior towards organizational support, which results in employee outcomes such as higher performance at work and commitment behavior. There is no doubt that strategic human resources management in the form of human resources practices directly impacts employees by increasing human capital or motivation.

According to Delaney and Huselid (1996), the implementation of human resource practices affecting motivation, skill and behavior can create a strategic advantage for the organization. However, the implementation of human resource practices have a relationship with the perception of employees in terms of how they feel that the organization can support or care about them in terms of well-being. According to social exchange theory of Gould-William and Davies, (2005) and organizational support theory purposed by Rhoades, and Eisenberger, (2002), the roles of perceived organizational support and the employees' perceptions of human resource practices and work outcomes are correlated. The perception of organizational support leads to the employee in return feeling an obligation to perform his or her duties through affective commitment accordingly.

Others empirical studies reviewed in this essay suggest that set of human resource practices, including comprehensive recruitment and selection, job design, compensation, training and extensive employee involvement, can improve acquisition and retention of a talented and motivated workforce. These Human resources practices are usually referred to as a High Performance Work System or in terms of high involvement or high commitment. The high performance work system proposed by Hegan (2006) explores how a broad set of management practices include how strategic human resources management and workplace partnerships relate to employee outcome through organizational support have a direct impact on an firm performance. The model of the high performance work systems focuses on key elements of workplace innovation, employee involvement, participation and equality.

After analyzing these studies and the methodology used to obtain the results, managerial conclusions will be made in order to determine which the effects are of develop a set of Human Resource practices on a business performance

2. HUMAN RESOURCES MANAGEMENT

The term “human resource management” has been commonly used for the last ten to fifteen years. Before that, the field was generally known as “personnel management”. Patterson et al., (1997) had made no differentiation between personnel management and HRM and saw that the last one as a modern expanded version of traditional personnel management due to technological change in the work environment and a shift in societal values. Torrington and Hall (1998) explained the differences between personnel management and HRM by mentioning that personnel management is considered as workforce-centered while HRM as resource-centered.

Since there is no universal agreement on the meaning of HRM, many definitions have been offered. Armstrong (1995) defined HRM as a strategic and coherent approach to the management of organization’s most valued assets; the employees who individually and collectively contribute to the achievement of the objectives of the business. Beer (1984) viewed HRM as involving all management decisions, systems and practices that affect the relationship between the organization and employees. Storey (1995) considered HRM as a distinctive approach to employment management, which seek to obtain competitive advantage through the deployment of a highly committed and skilled workforce, using an array of techniques and practices.

Human resource management refers to practices that enable any organization to attract, employ and develop enough capable and motivated employees, including such practices as job design and analysis, human resource planning, employee recruitment and selection, performance management and appraisal, employee compensation, employee training and development or employee care. These practices enable any organization to achieve expected organizational performance by achieving desired employee performance. Human resources management is usually ensured by line managers, in some organizations, mostly in organizations with a greater number of employees, normally with conceptual, methodological, analytical and administrative support of specialized human resource professionals. Line managers are responsible for managing and leading other employees to successfully perform agreed work, achieve desired performance and meet the strategic objectives of the organization. The successful fulfillment of this task differentiates successful and unsuccessful organizations.

The research on the relationship between human resource management and organizational performance has continued worldwide since the early eighties and, as we will see below, these studies support the assumption that the positive impact of human resource management on organizational performance is based on application of proven best practices in human resource management that help to achieve expected organization's results through achieving desired employees' abilities, motivation, results and behaviors.

2.1.Strategic HRM

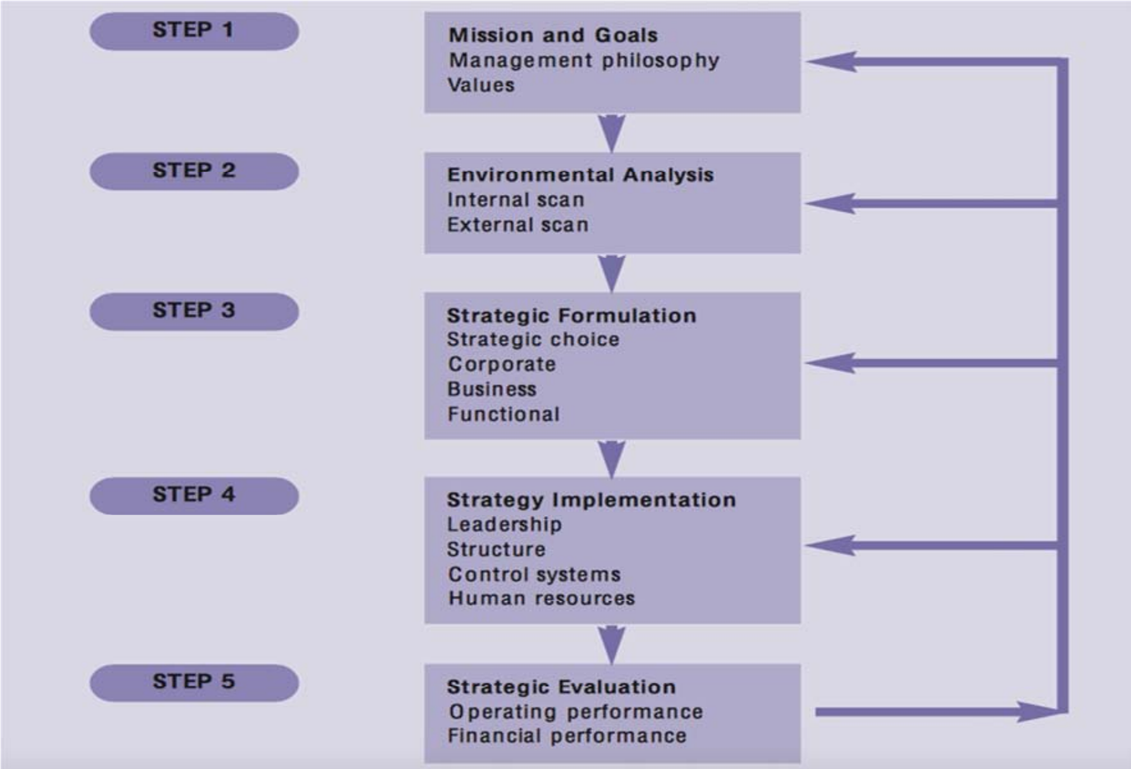
Strategic management has been defined by Wheelen and Hunger (1992) as the set of managerial decisions and actions that determines the long-run performance of a corporation. Wright and McMahan (1992) take a similar view when they see strategy as the maintenance of a 'vision of the future' that is constantly updated by data on both the internal and the external environment.

Other definitions emphasize the achievement of performance goals, Collins and Clark (2003) affirms that a strategy is a specific pattern of decisions and actions that managers take in order to achieve the organization's goals. A strategy can often be defined more precisely as the specific pattern of decisions and actions that managers take to achieve superior organizational performance'. Strategic management is considered a continuous activity, undertaken by the upper management of the organization that requires constant adjustment of three major interdependent poles: the values of senior management, the environment, and the resources available. Any changes in the environment and the internal and external resources must be monitored closely so that the goals pursued can, if necessary, be adjusted. The goals should be flexible and open to change, subject to the demands and constraints of the environment and what takes place in the status of the resources.

According to Bratton (2007) the strategic management process is divided into five steps (see table 1):

1. Organization's direction
2. Environmental analysis
3. Strategy formulation
4. Strategy implementation
5. Strategy evaluation.

Table 1.Strategic management process



Bratton, J. (2007). Strategic human resource management. Human Resource Management içinde, Der: John Bratton,-Gold, Jeffrey, London: Palgrave Macmillan, London.

One key feature purposed by Beer' et al., (1984) model of HRM is 'strategic integration', in particular the need to establish a close two-way relationship or 'fit' between the external business strategy and the elements of the internal HR strategy. An organization's HRM policies and practices must fit with its strategy in its competitive environment and with the immediate business conditions that it faces. Consequently, the implementations of HR strategies become more problematic if the human resources component is not an integral part of the strategic planning processes. In many cases, the term strategic human resource is used interchangeably with high performance work system. The common understanding in the strategic human resources literature is that, a set of practices that provide employees with skills, information and freedom to be a source of competitive advantage and consequently it will have an impact on firm performance.

3. HUMAN RESOURCE SYSTEM

Strategic HRM researchers have generally focused on the firm's HR system, rather than individual HR practices, because it is believed that the overall system of practices provides the strongest theoretical basis for understanding the HRM–firm performance relationship. As Becker and Huselid (1998) observed, an internally consistent and coherent HRM system that is focused on solving operational problems and implementing the firm's competitive strategy is the basis for the acquisition, motivation, and development of the underlying intellectual assets that can be a source of sustained competitive advantage. Many strategic HRM researchers (Delery, 1998; Schuler, 1992; and Gerhart, 1996), have focused on defining and measuring combinations of HR policies and practices that constitute a firm's HR system and demonstrating the relationship of this HR system and organization-level performance outcomes and have proposed that it is possible to conceptualize a firm's HR system as a multi-level construct, consisting of multiple hierarchically arranged components. These researches defined five components of the HR system structure: *HR principles, policies, programs, practices, and climate.*

The first, and perhaps the most abstract component in the HR system structure is labeled HR *principles*; which is defined as the stated values, beliefs, and norms regarding what drives employee performance and how organizational resources and rewards should be allocated. This component is what Becker and Gerhart (1996) labeled the “HR system architecture,” which they defined as the “guiding principles” underlying choices about HR policies and practices (e.g., “employee performance is valued”). Discussion about different types of management philosophies or theories about how best to manage people at work has a long history in the management literature. In McGregor's (1960) classic work, he contrasted assumptions, policies, and expectations in traditional, human relations, and human resource management theory models. More recently, other management researches have emphasized importance of management values or principles in shaping corporate culture and guiding management decision-making. Yeatts and Hyten (1998) noted that organizational philosophy or principles and organizational culture are sometimes treated as synonymous. Typically, however, principles are distinguished in that they represent an explicit set of values and beliefs that may or may not be practiced, whereas organizational culture is treated as an implicit set of assumptions and norms that are being applied by existing employees. To the extent that the explicit philosophy is actually practiced, it may reflect the organizational culture.

The next level in the HR system structure, *HR policies*, as Dyer and Holder (1988) pointed out; it refers to organizational goals or objectives for managing human resources and incorporates the relative emphasis firms place on program choices in areas such as staffing, training, rewards, and job design. In other words, the HR policies component of the HR system structure focuses attention on the overall objectives and strategies for managing human assets and shaping (or controlling) employee behavior at work. Following previous research of Schuler (1992), HR policies are treated as representing a higher level of abstraction than HR programs or practice;

In contrast then to HR policies, the HR *programs* component refers to the set of formal HR activities used in the organization. Much of the previous empirical strategic HRM researches (Arthur, 1994; Delery and Doty, 1996; Guthrie, 2001; and Huselid, 1995). has focused on this component by identifying bundles of internally consistent HR programs and practices and assessing the relationship between these sets of programs and practices and firm performance outcomes, these analysis identify firms using sets of practices that are labeled as control and commitment. Moreover Huselid (1995) identified a set of HR programs and practices he labeled high performance work systems.

In addition to formal HR programs, HR *practices* are defined by Huselid & Becker (2000) as the implementation and experience of an organization's HR programs by lower-level managers and employees. The HR practice component captures the potential for variation in employees' perceptions and experiences of an HR program based on the quality of the HR program implementation. For example, at the HR program level an executive might accurately report that a large percent of employees are covered by a certain benefit program (e.g., employee personal leave). However, because few managers or employees are aware that the program exists, or because managers actively discourage their employees from participating in the benefit, it is almost never used. In this case, employee perceptions and experiences of this HR program would be very different from a firm in which the benefit was communicated more effectively and organizational leaders actively supported its use. Thus the HR practice component in our framework can be seen as a function of both the existence of a specific HR program as well as the quality of the HR program's implementation.

Finally, *HR climate* is identify by Schneider (2000) as shared employee perceptions and interpretations of the meaning of the HR principles, policies, programs, and practices in their firm. In contrast to the HR practice component, which focuses on employees' experience of specific HR programs, the HR climate component is more generally related to employee perceptions of organizational expectations and rewards derived from the combination of other components of the HR system structure. Using a similar definition, Bowen and Ostroff (2004) developed the concept of the "strength of HR system" which they define as the strength of shared employee perceptions and interpretations of behaviors that are expected and rewarded. Bowen and Ostroff (2004) argued that HRM practices and processes communicate important messages to employees that shape their perceptions and interpretations of organizational expectations and rewards.

4. HRM PRACTICES

As the world is becoming more competitive and unstable than ever before, all industries are seeking to gain competitive advantage at all cost and are turning to more innovative sources through HRM practices. HRM practices have been defined in several aspects. Schuler and Jackson (1987) defined HRM practices as a system that attracts, develops, motivates, and retains employees to ensure the effective implementation and the survival of the organization and its members. Delery & Doty, (1996) also conceptualized HRM practices as a set of internally consistent policies and acts designed and implemented by the HR department in every business to ensure that a firm's human capital contribute to the achievement of its business objectives. Wright (2003) viewed HRM practices as set of practices used by organization to manage human resources through facilitating the development of competencies that are firm specific, produce complex social relation and generate organization knowledge to sustain competitive advantage. According to Alcazar Fernandez, and Gardey, (2005), human resource practices can be defined as the integrated set of practices, policies and strategies through which organizations manage their human capital that influences and are influenced by business strategy, organizational context and the socio-economic context. Alcazar, Fernandez, and Gardey (2005) found recognition, empowerment, distributive and procedural justice, competence development, work-life policies, and information sharing to be the critical HR practices in any business. Below, in this essay we will review some of the empirical studies regarding the effects of some HR practices on employees and firm performance. But first, we will review some published literature about perspectives, concepts, theories and views regarding HRM, its practices and its importance on the company success.

4.1. Perspectives in Studying HRM Practices

Most of the studies that have being reviewed have as their goal to verify the relationship between HRM practices and organizational performance. As a consequence, different approaches to these examinations have emerged. The following section provides a critical review of the various approaches taken in the area of HRM, and the assumptions made under each approach.

4.1.1 Universalistic perspective

Universalistic perspective is the simplest form of theoretical model in the HRM literature. Universalistic perspective seeks for “best practices”. Researches in the universalistic perspective suggest that some HRM practices are always better than others are and that all organizations should adopt these practices.

Huselid's (1995) works reflected the "universalistic" approach to HRM. This perspective assumes that there are certain "best" HRM practices that contribute to increased financial performance regarding the strategic goals of organizations. Huselid (1995) examined the effects of the use of specific HRM practices on firms. Two measures of HRM practices were identified. The first of these were designated "employee skills and organizational structures"; with practices enhancing skills, abilities, and role performance, and the second was labeled "employee motivation", with practices targeted at evaluating and reinforcing desired employee behaviors. His findings indicated when these two measures were regressed on productivity individually, both measures were positive and significant, but when they were entered simultaneously, only the motivation measure remained significant. In the study of Ichniowski, et al., (1996) it is said that the universalistic approach of HRM assumes that HRM practices contribute to worker motivation (and thereby increased productivity) as well as increased efficiency, Others studies made by Mick Marchington and Irena Grugulis (2000), have utilized various selection of these HRM practices, and their work provides a definitive description as to which HRM practices should be included as "best HR practices". These practices are consistently considered to be strategic in a firm performance. Some practices identified in this study are: internal career opportunities, formal training system, appraisal measures, profit sharing, employment security and job definition.

4.1.2 Contingency perspective

Contingency theorists suggest that an organization needs to adapt specific HR practices for different firm strategies. The contingency theorists argue that, in order to be effective, an organization's HRM practices must be consistent with other aspects of the organization. The contingency approach emphasizes HR practices need to contingent upon the firm's business strategy to be effective. It is important to integrate HRM with business strategy more effectively to gain competitive advantage. This can best be understood by identifying different, internally and consistent sets of HR practices and their relationships to organization's business strategy and performance outcomes.

Schuler and Jackson (1987) argued that HRM practices which are not synergistic and consistent with organizational strategy and, which conflict with other HRM practices are confounding and may create ambiguity, which can restrict both individual and organizational performance.

In his study, Arthur (1994) adopted a contingency approach to his intra-industry analysis of the HRM practices of thirty U.S. steel companies (Minimills). In addition to the impact of HRM practices on firm performance, the contingency approach concerns with the congruence or fit between various policies and practices adopted by organizations. Arthur employed an empirical taxonomy identifying two types of HRM systems (control and commitment) to test the extent to which the specific combination of practices utilized by organizations could predict differences in organizational performance. His findings indicate that minimills using the commitment systems of HRM practices had higher productivity, lower scrap rates, and lower turnover than those minimills using control systems.

Although on the surface the universal and contingency perspectives may appear to be competing, we would argue that they can be complementary. A good deal of evidence suggests that individual HR practices, as well as internally consistent systems or bundles of HR practices, can indeed directly influence organizational performance, as Huselid' (1995) work shows.

4.1.3. Configurational perspective

Configurational arguments are more complex than those of either of the previous two theoretical perspectives**.** The configurational perspective contributes to the explanation of SHRM with a useful insight about the internal aspects of the function, by means of the analysis of the synergic integration of the elements that build it. In this sense, the HRM system is defined as a multidimensional set of elements and practices that can be combined in different ways to obtain an infinite number of possible configurations in order to achieve organization's goals. From among them, researchers can extract management patterns that represent different ideal possibilities for managing human resources and its practices. According to Martín-Alcázar,. et al., (2005). The configurational perspective, in order to be effective, an organization must develop its HRM system that achieves both horizontal and vertical fit. Horizontal fit refers to the internal consistency of the organization's HRM practices, and vertical fit refers to the congruence of the HRM system with other organizational characteristics, such as firm's strategy

4.1.4. The contextual perspective

The contextual perspective according Martín-Alcázar, et al., (2005) proposes an important movement in the point of view of the analysis of SHRM. Unlike the previous approaches, it introduces a descriptive and global explanation through a broader model, applicable to different environments including the particularities of all geographical and industrial contexts. In this sense, the main contribution of the contextual approach lies in the reconsideration of the relationship between the SHRM system and its context. While the rest of the perspectives, at best, considered the context as a contingency variable, this approach proposes an explanation that exceeds the organizational level and integrates the function in a macro-social framework with which it interacts.

Table 2 shows a summarized comparison of the four perspectives reviewed in this point.

Table 2. Summarized version of the four perspectives studying HRM practices.

	Basic assumption	*Relationship among variables*	*Level of analysis*	
			Single practice	Sets of practices
Universalistic	Existence of Best Human Resource Management Practices	Linear, and universally generalizable	One single practice leads to superior performance	A certain set of practices leads to superior performance. They do not consider either synergistic interdependence relationships or integration mechanisms. Additive focus
			Single practice	Set of practices
Contingent	There are not Best Practices. Its effects depend on third variables such as corporate strategy or the internal and external environment	The relationship between the dependent and the independent variable will be mediated by contingency variables	Many contingent works just focus on a single practice	In some cases, contingent works focus on set of practices, but again without defining parallel configurations. The effects are also additive, and although there are constant calls for analyzing the internal fit, the integration of practices is not studied
Configurational	It is possible to identify SHRM patterns from the combination of the elements that built the elements that built the HRM system. Those patterns could be equally efficient	The configurational perspective focuses on how the HRM patterns affect the organizational performance as a whole. Synergistic interdependence relationships are introduced	They always adopt a systemic level of analysis	
Contextual	SHRM is understood as something broader than managerial decisions. It is considered as part of a bigger social macrosystem that both influences and is influenced by the HRM strategy	HRM variables are integrated in a supra-system	Supra-organizational level of analysis	

Source: Martín-Alcázar, F., Romero-Fernandez, P. M., & Sánchez-Gardey, G. (2005). Strategic human resource management: integrating the universalistic, contingent, configurational and contextual perspectives. The International Journal of Human Resource Management

4.2. Social exchange theory

Social exchange theory was introduced in 1958 by the sociologist George Homans with the publication of his work "*Social Behavior as Exchange*". Social exchange was defined by George Homans (1958) as the exchange of activity, tangible or intangible, and more or less rewarding or costly, between at least two persons. Many experts have developed this theory focusing on the HR field. This theory is crucial to understand the relationships that exist within a company (employee-employer) and its implications on HRM.

Regarding social exchange theory, Cropanzano, and Mitchell (2005), asserted that the exchange relationships between two parties are more than an economic exchange. They refer to social exchange as actions like, support, respect and approval. Social exchanges are 'voluntary actions' which may be initiated by an organization's treatment of its employees, with the expectation that such treatment will eventually be reciprocated. The future returns are dependent on type person making them and are thought to be a function of personal obligation, gratitude and trust in the organization. However, such is not the case with economic exchanges, which are characterized by contractual arrangements enforceable through legal sanctions.

Eisenberger, et al., (2001) based on social exchange theory implied that, perceived organizational support (POS), which refers to employees' perceptions about the degree to which the organization cares about their well-being and values their contribution, describes the social exchange relationship between the organization and its employees. Employees with higher levels of POS are likely to have positive attitudes and behaviors and it has a direct impact on their work outcome. They also affirm that, in companies where employees perceive that organizations value and deal equitably with them, they will reciprocate these good acts with positive work attitudes and behaviors. Eisenberger et al., (2001) propose that positive, beneficial actions directed at employees by the organization and/or its representatives contribute to the establishment of high quality exchange relationships that create obligations for employees to reciprocate in positive ways that help improving firm performance. For example, it has been noted that where organizations invest in individual training and development programs, employees reciprocate through desirable work-related behaviors

4.3. Resource Based View

Although multiple theories have been used to explain the relationship between HRM and performance outcomes the predominant theory currently used by researchers studying SHRM is the resource based view. The resource based view proposes that competitive advantage comes from the internal resources of an organization. This view provided a theoretical explanation of how the human resources of a firm could in fact contribute to performance and competitive advantage. Wright,et al., (2001) said that these resources must be valuable, rare, inimitable and non-substitutable in order to lead to competitive advantage. When the human resources within a firm meet these criteria, they will contribute to the competitive advantage of the firm by providing a valuable resource not easily replicated by competitors. These arguments raise the question of which aspect of the human resources within a firm constitutes a resource.

Wright McMahan and McWilliams (1994) argued that it is the actual human resources or human capital of a firm that constitute the resource leading to competitive advantage. From his view, HR practices or HR systems could easily be duplicated (imitated) by other firms and the knowledge skills and abilities possessed by individuals within a firm would be much harder to imitate. HRM practices or systems could be easily duplicated by competitors and thus could not be a source of sustained competitive advantage. Becker and Gerhart (1996) outlined two different reasons why HR systems of successful firms could not be easily duplicated. First, which system or human resource practices contribute to the competitive advantage of the firm is either unknown or sufficiently ambiguous so as to be difficult or impossible to imitate. According to Becker and Gerhart (1996), the ability to replicate a successful HR system would require an understanding of how all of the elements of this complex system interact. Second, the difficulty and costly that suppose a implementation of HR systems or practices. Take for example a single HR practice such as the use of a variable pay system for management compensation. The development and implementation of this single HR practice takes place over time including time to solicit management input and buy-in, work out discrepancies, and align the practice with current strategies as well as firm culture and needs. The end result would be a practice that reflects the philosophies and culture of the firm and its management created to solve the specific needs of the organization. So, that single HR practice with a whole system of practices in a particular firm, its philosophies and current situation and you have an HR system that cannot be bought or easily replicated without a significant investment both of time and financial resources.

The resource based view witch its focus on the internal resources possessed by a firm has given the field a theoretical understanding of why human resource systems might lead to sustained competitive advantage that cause a better firm performance. The application of the resource based view in SHRM researches has allowed the SHRM field to move away from individual HR functional areas and practices to focus more on the HR system and how this system of HR practices or philosophies contributes to competitive advantage. This, at the same time has opened the door for further development of the field by answering questions about HRM and firm performance such as whether the relationship between HRM and performance is causal and if so, by what mechanisms does HR lead to performance or what variable might moderate that relationship? These questions built around the resource based view, are questions that the field of SHRM is currently attempting to address.

4.4. Best HRM practices.

In this point we will review some of the published literature about the application of best practices in human resource management. The explanation of the positive impact of human resource management on organizational performance and competitiveness as well as the validation of the application of best practices or best fit in human resource management are fundamental goals of the ongoing global research on human resource management. Delery and Doty, (1996) studied the application of best practices in human resource management and they assume that there are universally applicable practices in human resource management that positively influence organizational performance and competitiveness more or less regardless of the conditions of their application. In contrast, the approach made by Schuler & Jackson, (1987) based on best fit in human resource management assumes that no practices in HRM can be applied universally but rather should always be applied with regard to the conditions of a particular organization. In other words, in human resource management, there are universally applicable best practices that positively influence organizational performance and competitiveness, but their application requires best fit to the conditions of the organization that determine the positive effect of applied best practices in human resource management on achieved organizational performance and competitiveness.

In his book, Armstrong, (2007) refers to Best practices to those that are applied by the best organizations operating in similar conditions and pursuing similar goals. They are applied to achieve continuous improvement of organizational performance and competitiveness by critical assumption of conceptual and system practices in management of the best organizations in a specific sector or region. Using best practices allows implementation of significant changes on an easier, faster and cheaper basis. Their application is based on benchmarking, a systematic process of comparing organizational performance and competitiveness with the performance and competitiveness of the best organizations in a specific sector or region. The purpose of benchmarking is to understand why comparable organizations are better, how they have become the best in their sector or region and then take advantage and implement the necessary changes to improve organizational performance and competitiveness according to one's own conditions competitiveness, but they have failed to satisfactorily answer the principal questions concerning the successful application of best practices in human resource management

Following the study carried out by Sikýr, M. (2013), Professor Department of Personnel Management University of Economics, Prague, The most applied best practices in human resource management include talent management (attracting, selecting, training, developing, and retaining employees with high performance and development potential), leadership (influencing employees to achieve organizational goals), performance-related pay (rewarding employees related to their results and behavior) performance management (managing and leading employees to achieve desired abilities, motivation and performance), systematic training (teaching employees how to perform their jobs and preparing them for the future), motivating jobs (designing of complex, various, significant and autonomous jobs, satisfying needs of both employees and organizations), selective selection (choosing employees applying specific criteria and methods related to job requirements), work-life balance (creating conditions for achieving a balance between work and lifestyle of employees) or formal adaptation (ensuring professional and social integration of new employees into the organization). Generally, these are practices that enable to positively influence the abilities, motivation and results of employees to achieve expected results of the organization.

5. HIGH INVOLVEMENT WORK PRACTICES

In this part we want to focus on high involvement work practices, as we have said, over the years the importance of the HRM systems in organizations has increased, because not all companies require the same practices to improve the company. Organizations have become progressively more complex, dynamic and flexible, there are companies which strategies require to implement higher performance practices, depth, breadth of knowledge and a higher level of commitment from workers, and these are the high involvement practices. Benson, (2006) said that these practices provide employees with opportunities, skills and increased motivation to carry out their activities, making the company capable of adapting to turbulent environments more easily, because their employees are eager to continue growing in their workday. For all this, it would be appropriate to implement a system of high involvement practices and related it to issue of engagement

According to Pil and MacDuffie, (1996), the term high-involvement work practices refers to a set of practices or systems aimed at improving employee performance by increasing employees’ skills and motivation This system seeks the commitment of employees. It increases the effort of employees as it tries to meet the needs of working through coordinated policy. High involvement work practices are defined in terms of four attributes, these are:

1. Employees have the power to make decisions and/or to participate in decision-making.
2. Task relevant information is shared throughout the employees.
3. Employees are provided with necessary training to do their work.
4. Employees are rewarded for using their participation in decision making, information sharing, and training to positively influence unit outcomes.

The High Involvement Work Practices, as it is said by Guthrie, et al., (2002), aims to achieve a competitive advantage through the strategic development of a workforce capable and committed, through the use of different techniques of personnel, corporate culture and organizational practices such as teamwork, self-managed and self-directed teams, flexibility in terms of job design, sophisticated selection, formal training programs, quality or problem-solving teams, formal programs for participation and involvement, autonomy in decision making, formal performance appraisals, internal promotion opportunities, performance related and incentive pay, high pay, profit sharing and share options, attitude surveys and employment security. High involment work practices are consistent with providing employees with the opportunity, skills and motivation to contribute to organizational success in environments demanding greater levels of commitment and involvement

Benson et al., (2006) identified four interlocking principles for building a high-involvement work system that help to ensure that the system will be effective and that the various practices will work together to have a positive impact on employee engagement. These principles can be summarized as providing employees with *power*, *information*, *knowledge* and *rewards*.

First of all, *Power* means that employees have the power to make decisions that are important to their performance and to the quality of their working lives. Power can mean a relatively low level of influence, as in providing input into decisions made by others or it can mean having final authority and accountability for decisions and their outcomes. Involvement is maximized when the highest possible level of power is pushed down to the employees that have to carry out the decisions. Creating forums for employees to develop and share ideas for improving firm performance can be effective, but only when good ideas from employees actually get used. For example, in the study carried out by Arthur (1994) describes an employee suggestion system in a large manufacturing plant in the Midwestern U.S. with a unionized workforce of 1,500 employees. The system was successful in generating large numbers of useful suggestions from the employees that saved the company US$9M in its first four years. Implementation was facilitated by a joint union management review board that assessed each suggestion and either accepted, declined, or asked for further investigation.

Information is a system that provides employees with data that is timely and relevant to their particular work process, that they can influence personally by either expending or withholding effort, and that they can understand. A major challenge for managers developing a high-involvement work system is to create an information system that provides employees with data that is timely and relevant to their particular work process, that they can influence personally by either expending or withholding effort, and that they can understand. The more transparent managers can make the firm's operations, the more effectively employees can contribute to the firm's success. Transparency is important because it helps employees see the link between their actions and the performance of the firm, thereby enhancing the cognitive aspect of engagement. Therefore, transparency is essential for employees to see what they are doing that is working and what is not.

Knowledge, or employee skills and abilities, is the data employees use to make decisions and take action. When the employees are making important workplace decisions, it is important that they have the skills and abilities to make the right decisions. Knowledge, or employee skills and abilities, can be distinguished from information, which is the data employees use to make decisions and take action. Improving employees' knowledge means a commitment to training and development. The training investments are essential in a high involvement organization because when employees are making important workplace decisions, it is important that they have the skills and abilities to make the right decisions. In a study carried out by Konrad (2006) shows that new employees at General Motors' Saturn plant initially receive between 350 and 700 hours of initial training; Saturn sets an organization-wide goal that all employees receive at least 92 hours of additional training each year. On average, Saturn employees have received 148 hours of training each year since 1991. The reason Saturn relies so heavily on training is the fact that the work process design relies heavily on the use of employee skills and knowledge, "to build a small car competitively in the United States, either costs (wages) had to be lowered or organizational productivity raised to make up the difference. The only way to make up this difference would be to mobilize the knowledge, skills, and commitment of the workforce, and to design the work systems and organization in ways that achieved higher quality and productivity".

The *rewards* component in the HIWP means rewarding employees for expending discretionary effort to enhance organizational performance. A key element in the high-involvement equation, rewards for performance ensure that employees use their power, information and knowledge for the good of the firm. In each of the three cases mentioned in the previous discussion of power, information and knowledge, rewards were in place for employee contributions to the firm, and that link was critical to the success of the firm's high involvement work practices.

High involvement work practices can improve, enhance and sustain both the competence and commitment of employees, essential for competitive advantage in today's turbulent business. High involvement work practices also put firms in a position to create knowledge and opportunities, which makes organizations more dynamic, flexible and agile, and thus better able to adapt to turbulent environments. Employees in HIWP firms have more skills to perform their jobs properly, more information which make thoughtful decisions about how to achieve company goals, more authority to make decisions in the firm's best interests, and greater incentives to align individual effort with unit goals. By choosing employees who are eager to continue growing at work rather than simply "filling slots," units with HIWP acquire personnel who are willing and eager to expand their roles and take on increasing amounts of responsibility. Providing employees with additional training and more challenging work assignments, units with HIWP develop both the breadth and depth of employees' work competencies. By giving employees more opportunities to participate in decisions that affect their jobs, units with HIWP promote greater commitment to the organization, personal responsiveness to colleagues and customers, and greater innovation. Also, by using better performance appraisal systems and merit-based reward systems, units with HIWP create stronger incentives to work effectively and efficiently.

Thus, after getting all this information we can confirm that there is indeed a relationship between high commitment work practices and its effects on companies' performance. Researchers as Bakker and Schaufeli, (2008) suggests that high-involvement work practices can develop the positive beliefs and attitudes associated with employee engagement, and that these practices can generate the kinds of discretionary behaviors that lead to enhanced performance. Modern organizations expect their employees to be proactive and show initiative, take responsibility for their own professional development, and to be committed to high-quality performance standards. Thus employees who feel energetic and dedicated are needed, organizations need engaged workers and the best way to reach that, is the implementation of HIWP-

6. Relationships between HRM Practices and Firm Performance

In this part of the work we will review some studies and the literature publishes about linking the HRM practices and the effects on Firm performance.

The assumption that supports the practice of HRM is that people are the organization's key resource and organizational performance largely depends on them, as we see before in the resource-based view theory. As Armstrong and Taylor, (2014) affirms, if an appropriate range of HR policies and processes are developed and implemented effectively, then HR will make a substantial impact on firm performance. Assuming that, in the context of globalization, human resources and their management are vital to achieve sustainable competitive advantage, many of HRM research efforts have been directed to understand HRM and performance link. In spite of the statistically and managerially significant relationships between two variables and growing number of research demonstrating that HRM practices can serve as a value-creating function, still there remains considerable space for improvement this understanding. Although all the theory reviewed before, the theories and approaches used trying to linking HRM and performance do not provide answers to huge amount of questions in relation on how the two variables studied are linked.

Performance, in the context of organization, is not only a broad concept which has been used synonymously with productivity, efficiency, effectiveness and, more recently, competitiveness; it has also been a subject of study for social scientists from a wide range of disciplinary perspectives. More recently, efforts have been made by human resource management theorists to try to establish a causal link between HRM and performance. This has led to a growing number of studies which examine the potential contribution that good human resource (HR) practices can make to improving organizational performance, so much so that the impact of human resource management on performance has become the dominant research issue in the field as Guest (1997) claim. Theoretically we can define as organizational performance the results of an organization, including operating results (productivity, quality, efficiency, etc.), market results (sales, market share, customer satisfaction, etc.) and financial results (costs, revenues, profits, etc.). According to Huselid, (1995) organizational competitiveness refers to an organization’s ability to gain and maintain market share in its industry and satisfy the needs of important stakeholders, especially stockholders who want a return on their investment, customers, who demand a quality product or service, and employees, who desire interesting work and reasonable compensation for work done (In this context, there is considerable evidence that organizational performance and competitiveness are determined by employee performance. Huselid defined Organizational performance as the result of the pattern of actions carried out to satisfy an objective according to some standard. It can be expressed as the ratio of output (Firm perform) to inputs (HR practices) used in the production.

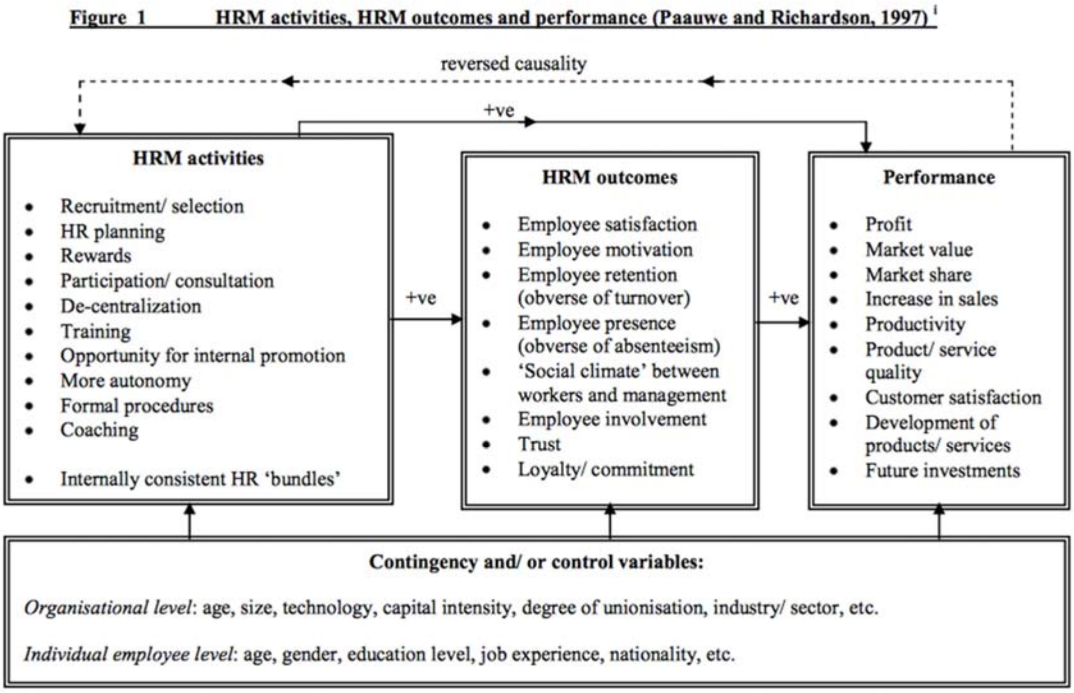
But, before enhance organizational performance, it necessary to improve levels of employee performance. Employee's performance is defined by Bratton, J. (2007) as the employee's results and behavior, determined by employee's abilities and motivation, which enable organizations to achieve expected goals. A natural goal of any organization is to gain and maintain regular and satisfied customers by producing and distributing demanded products and services and so achieve expected outputs or results. Achieving this goal is conditioned by the ability and motivation of organizations to optimally use and develop the necessary and available resources. Employees' abilities (knowledge and skills to perform agreed work), motivation (willingness to perform agreed work) and performance (working results and behavior) enable organizations to produce and distribute demanded products and services, gain and maintain regular and satisfied customers and achieve expected outputs or results. Organizations that want to achieve excellent performance and sustained competitiveness must ensure that individual employees achieve desired performance and contribute to achieving excellent performance and sustained competitiveness of the organization. In other words, organizations must pay particular attention to human resource management.

Research focusing on the firm-level impact of HRM practices has become popular in last decades (Huselid, 1995; Arthur 1994; Ichniowski et al. 1994; and Gerhart and Milkovich 1990). The literature reviewed includes studies that focus on the performance effects of specific HRM practices, or researches that examines the influence of systems of such practices on organizational outcomes (Huselid, 1995; Bartel (1994); and Ichniowski et al., 1994). The literature revised can be generally categorized as optimistic concerning the potential for progressive HRM practices to enhance the performance of employees and organizations. Some of these practices can be classified in terms of their impact on employees' skills and ability, motivation, and the way that work is structured (Arthur, 1994; Huselid, 1995; Ichniowski et al., 1994).Organizations can follow various path regarding HRM practices to enhance employee skills. First, efforts can focus on improving the quality of the individuals hired, or, raising the skills and abilities of current employees, or on both. Employees can be hired via sophisticated selection procedures designed to select best potential employees. Indeed, some researchers indicate that selectivity in staffing is positively related to firm performance. Second, training and development activities after selection these practices can improve the quality of current employees by providing comprehensive training and development activities after selection. Considerable evidence suggests that investments in training produce beneficial organizational outcomes as the studies made by Bartel, (1994) and Russell,et al,, (1985).

The form and structure of an organization's HRM system can affect employee motivation levels in several ways. For instance, organizations can implement merit pay or incentive compensation systems that provide rewards to employees for meeting specific goals. A substantial body of evidence has been reviewed on Gerhart and Milkovich, (1990) study. This study has focused on the impact of incentive compensation and performance management systems on firm performance. In addition, protecting employees from arbitrary treatment, perhaps via a formal grievance procedure, may also motivate them to work harder because they can expect their efforts to be fairly rewarded. Also, the way in which a workplace is structured should affect organizational performance to the degree that skilled and motivated employees are directly involved in determining what work is performed and how this work gets accomplished. For example, employee participation systems, internal labor markets that provide an opportunity for employees to advance within a firm and team-based production systems (are all forms of work organization that have been argued by Levine, (1995) that positively affect firm performance. In addition, it has been argued that the provision of job security encourages employees to work harder.

Table 3 shows the causality established by Paauwe and Richardson (1997) between HRM practices, HRM outcomes and Firm performance.

Table 3.(HRM Activities, HRM Outcomes and Performance)



Paauwe, J., & Richardson, R. (1997). Introduction. International Journal of Human Resource Management, 8(3), 257-262.

Researchers have become active carrying out empirical research aimed at providing evidence that HRM practices results in higher organizational performance. In the course of twenty years the huge number of studies in different industries and different countries were conducted. Although the bulk of literature seems to accept that HRM practices have a significant impact on organizational performance, it should be taken into consideration that there are two different approaches:

- Conviction concerning link.
- Doubt about link or even negation.

The researches of the first approach highlight that:

A set of HRM practices (high performance work systems – HPWS) is related to turnover, accounting profits and organization market value according to Huselid (1995).

- Bundles of HRM practices are related to productivity and quality (auto assembly plants). As it is demonstrate in his study by MacDuffie, J. P. (1995).

- There are significant relationships between HR practices and accounting profits (a sample of banks) Delery, and Doty (1996) affirms.

- Youndt, et al,.(1996) said that a certain combinations of HRM practices are related to operational performance outcomes.

- HRM practices are related to turnover and profitability. Guthrie, (2001) concludes.

- Paauwe and Richardson, (1997) corroborated the relationship first, between a range of HRM practices and important HRM outcomes, such as satisfaction, motivation, turnover, absenteeism and commitment, and second, between these outcomes and more general performance outcomes at the organizational level, like productivity, quality, R&D, customer satisfaction, sales, profit and market value.

The researches of the second approach underline that:

- Wall and Wood, (2005) conclude that it is premature to assume that HRM practices will inevitably result in performance gain.

- Guest, et al,. (2003), using stricter tests claims that there is little or no association between HRM and performance.

After the reflection on the available evidence a conclusion sounds that HR practices are at least weakly related to firm performance. However, even researchers who have doubts as Guest et al,. (2003), Wall and Wood, (2005) assume that the scientific literature conveys a strong message that HRM does promote performance. Acknowledging that HRM can contribute to superior performance as a source of competitive advantage by making organizations more effective. Assuming the relevance of empirical finding, there is the need theoretically to approve link by providing some theories, otherwise the analysis of constructs and link between them will lack scientific rationale. The theory consists (minimally) of statements that deliver predictions in terms of relations between events and statements that deliver explanation in terms of the causal mechanisms responsible for generating these events. According to Boxall and Purcell (2000) the problem in relating HRM practices and performance stars in the simplistic perception of the link, which is often discussed without contemplating the organizational, industrial and national context. For example, critiques by Purcell (1999) have suggested that some HR policies (e.g. performance related-pay, team working or employee involvement) may be ideologically defective, difficult to implement and with negative outcomes for various reasons.

While these studies provide us with colorful opposing findings and rich competing theoretical perspectives, the emerging field of HRM on performance suffers from a lack of unity in theory and inconsistency in research methodology. As Wood (1999) notes, the studies vary so markedly between each other that there is not even a pair of studies that differs simply on one or two dimensions. Accordingly, a consistent picture does not emerge from the studies. As Guest (2003) pointed out, we need a theory about HRM, a theory about performance and a theory about how they are linked. This also occurs in the theory reviewed in this work, different approaches as we reviewed before, the universalistic, the contingency and the configurational determine that there appears to be no consensus on the nature of HRM: there is no agreement, or fixed list of HRM practices or systems of practices that are used to define or measure the of human resource management practice.

7.RESULTS.

In this point we will review some of the empirical studies selected from a wide range of studies found in the Uji's databases and google academics. The studies below have been selected because they are the most representative in order to try to explain the relationships between the Human Resource practices used in the studies and the effects of these practices on the organizational outcomes. Some of these empirical investigations on this relationship have focused on HRM practices such as Staffing, training, goal-setting, job design, compensation, and the effects of those practices on organizational outcomes. The key point studied by many researchers on human resource management is to establish that a clear positive link between HRM practices and organizational performance exists. There has been much research, as we will review in this point. Over the last decades many researches have attempted to answer two basic questions: ‘Do HR practices make a positive impact on organizational performance?’ ‘If so, how is the impact achieved?’ The second question is the most important one. It is not enough to justify HRM by proving that it is a good thing. What counts is what can be done to ensure that it is a good thing. This is the ‘black box’ mentioned by Purcell et al (2003) that lies between intentions and outcomes.

The studies cited below provide examples of the effects of specific HRM practices on organizational outcomes. However, HRM policies and practices, as it has been said, do not exist in organizations in isolation. This approach emphasizes that HR practices need to be contingent upon the firm's business strategy to be effective. It is important to integrate HRM with business strategy more effectively to gain competitive advantage. This can best be understood by identifying different, internally consistent sets of HR practices and their relationships to organization's business strategy and performance outcomes. The goal of many researchers on human resource management is to establish that a clear positive link between HRM practices and organizational performance exists. As summarized in Table 3, there has been much research over the last 3 decades that has attempted to demonstrate this positive relationship.

Table 4. Summary of analyzed studies (Practices, Effects, Researcher)

Practices	Effects	Researcher
Strategic communications system, quality work life, incentive payment, training, motivation and promotion on merit among others.	- Productivity is influenced by employee motivation. - Financial performance is influenced by employee skills, motivation and organizational structures".	Huselid (1995)
Commitment HR practices Control HR practices	-High commitment strategy had significantly higher levels of both productivity and quality than those with a control strategy	Arthur (1994)
Compensation practices: base pay, bonus pay, and eligibility for long-term incentives.	-Smallest organization effects are on the level of base pay. -The largest organization effects are on bonus levels and eligibility for long-term incentives	Leonard (1990)
Practices regarding training and organizational support.	-Clear evidence that both training and organizational support was positively and significantly related to store performance.	Russell, Terborg and Powers (1985)
Human Resource staffing practices: recruitment and selection.	-Organizations that used more of these practices had higher levels of profitability and sales growth than organizations that used fewer of them. This relationship varies by industry type.	Terpstra and Rozell (1993)
Practices regarding salary levels any types: base salary and variable salary.	-Variable pay was associated with financial performance but base pay was not.	Gerhart and Milkovich (1990)
HRM practices like; Selection, induction, training, the use of appraisals, skill flexibility, job responsibility, job variety and use of formal teams.	-HR practices explained significant variations in profitability and productivity (19% and 18% respectively).Two HR practices were particularly significant: the acquisition and development of employee skills and job design including flexibility, responsibility and the use of formal teams.	Patterson (1997)
Analyze the HR practices regarding employee training and labor productivity.	-The major finding is that businesses implemented training practices increased their labor productivity.	Bartel (1994)

Source: own elaboration

In the first study reviewed, Huselid (1995) evaluated the links between systems of High Performance Work Practices and firm performance using a national sample of 968 US companies. The main finding of this study is that Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation organizational structures. Huselid (1995) found that HRM practices such as strategic communications system, quality work life, incentive payment, training, motivation and promotion on merit among others, had an economically and statistically significant effect on turnover, productivity, and corporate financial performance. Huselid's empirical study has showed that linking employee participation results in greater productivity, satisfaction and reduction in turnover. Two measures of HRM practices were identified in the study. The first of these were named "employee skills and organizational structures", with practices enhancing skills, abilities, and role performance, and the second was labeled "employee motivation", with practices targeted at evaluating and reinforcing desired employee behaviors. His findings indicated that the use of High Performance Work Practices will be reflected in better firm performance. Across a wide range of industries and firm sizes, Huselid (1995) found considerable support for the hypothesis that investments in such practices are associated with lower employee turnover and greater productivity and corporate financial performance. He affirms that, "Productivity is influenced by employee motivation; financial performance is influenced by employee skills, motivation and organizational structures".

In the study made by Arthur (1994), he uses an empirical taxonomy of HRM practices; these practices were divided in commitment HR practices and control HR practices. Based on the contingency approach, the impact of HRM practices on firm performance is concern with the congruence or fit between various policies and practices adopted by organizations. Arthur identified two types of HRM systems (control and commitment) to test the extent to which the specific combination of practices utilized by organizations could predict differences in organizational performance. His findings indicate that minimills using the commitment practices of HRM had higher productivity, lower scrap rates, and lower turnover than those minimills using control systems.

Similarly, in a study on long-term incentives plan, Leonard (1990) examines the effects of executive compensation policy and organizational structure on the performance of 439 large U.S. corporations between 1981 and 1985.He found that organizations having long-term incentives plan for their executives had greater increase in return on equity over a four-year period than did other organizations. Workers' participation ensures organizational effectiveness as well. This study is based on the compensation strategy literature. Leonard examines the extent to which organizations facing similar conditions make different managerial compensation decisions regarding base pay, bonus pay, and eligibility for long-term incentives. Leonard explores the consequences of these decisions for subsequent firm performance as measured by return on assets. Using longitudinal data about significant data in compensation levels and types on approximately 16,000 top and middle level managers and 439 organizations. The smallest organization effects are on the level of base pay. The largest organization effects are on bonus levels and eligibility for long-term incentives. In other words, these results suggest that organizations tend to distinguish themselves through decisions about pay contingency or variability rather than through decisions about the level of base pay.

Other important study reviewed is the one carried out by Russell, Terborg and Powers (1985). This study examined the relationship between training, organizational support, and performance of organizations in a sample of sixty-two retail stores. The study utilized both archival data and information obtained from a company survey. The findings provided clear evidence that both training and organizational support was positively and significantly related to store performance. This study examined relations between two measures of training, two measures of organizational support, and two measures of organizational performance in retail industry. Percentage trained was consistently correlated with organizational performance, while training emphasis and merchandising support variables were marginally correlated. Training and support variables did not interact, and training made larger contributions to the relationship with performance than did the support variables. The study provides documentation on the relationship of training emphasis, organizational support, and organizational effectiveness and raises questions about the importance of supportive environments

Terpstra and Rozell (1993) examined the effects of staffing (recruitment and selection) HR practices, with firm performance as their dependent variable. They collected survey data from the heads of the HRM departments of 201 organizations regarding the extent of use HR staffing practices supported by the academic literature. They also investigated whether organizations that used more of these practices had higher levels of profitability and sales growth than organizations that used fewer of them. It was found that the extent of use of these staffing practices varied by industry and organizational size. Performance measures examined in the study were annual profit, profit growth, sales growth and overall performance. The results of the study demonstrated a positive and significant effect of extensive staffing practices on annual profit, profit growth and overall performance. Organizations that used more of these practices had higher levels of profitability and sales growth than organizations that used fewer of them. These staffing practices were five; the use of follow-up studies of recruiting sources to determine which sources creates greater proportions of high-performing employees, the use of validation studies for the predictors used in selection, the use of structured, standardized interviews for selection, the use of cognitive aptitude and ability tests for selection, and the use of biographical information blanks (BIBs) or weighted application blanks (WABs) for selection. However, the strength of the relationship between the use of the staffing practices and organizational performance was found to vary by industry type. The service industry employed more of the five staffing practices than did the manufacturing industry. It is possible that manufacturing firms focus relatively more attention toward materials, equipment, and technology than toward human resources in their efforts to improve organizational performance and productivity. On the other hand, service organizations would be expected to focus more on their primary resource, their employees.

Gerhart and Milkovich (1990) examined different managerial decisions regarding base pay, bonus pay, and eligibility for long-term incentives using data about 14,000 top and middle level managers and 200 organizations. They found significant relationships between contingency incentives (bonus payment) and firm financial performance. The results suggest that organizations tend to make different decisions about pay contingency, or variability, rather than about base pay. Findings indicate that contingent pay was associated with financial performance but base pay was not.

Patterson (1997) assessed the effect of using a particular HRM practices on the business performance. Manufacturing companies throughout the United Kingdom were analyzed in this study. Companies from four manufacturing sectors were approached: mechanical engineering, plastics and rubber processing, electrical and electronic engineering, and food and drink, and a small number of companies from other sectors were included in a miscellaneous category. Analysis of the 1988–1992 ratio of labor productivity in 67 UK manufacturing firms. Companies with a number of employees from 60 to 1000, averaging 253. Interviews were carried out with senior managers in each of the organizations were study was carried out. Usually four or five senior managers participated in the interviews, including the chief executive of the company, production director/manager and often the finance director and human resources director/manager (where there was one). Interviews always took place at the site of company production and in all cases coincided with a tour of the production areas by the researchers. Interviewers were all qualified industrial/organizational psychologists who had received a minimum of two weeks training in administering the interview schedule. All interviews were audio taped.

HR practices explained significant variations in profitability and productivity (19% and 18% respectively).Two HR practices were particularly significant: the acquisition and development of employee skills and job design including flexibility, responsibility and the use of formal teams. In the study, three causal routes from HRM to performance are described to provide a basis for determining ‘good’ or ‘high performance’ HRM practices:

- Increasing employee skills and abilities.

- Promoting positive attitudes and increasing motivation.

- Providing employees with expanded responsibilities so that they can make full use of their skills and abilities.

Patterson and his colleagues explains that HRM practices can influence employee skills through the use of valid selection methods to hire appropriately skilled employees and through comprehensive training to develop current employees. Examples of HRM practices that may encourage the development of a committed and motivated workforce include the use of performance related pay or high levels of basic pay. In the study it is also said that more positive employee attitudes will result from a policy of harmonization (reduction of differences in terms and conditions between managers and workers, such as a shift from hourly to salaried compensation) and from employee involvement (such as through extensive communication to all employees and the use of quality improvement teams).

This study also affirms that firms can make full use of a skilled and motivated workforce by promoting job designs which provide enriched jobs for employees in terms of variety, skill flexibility and increased autonomy, whereby employees have responsibility for such activities as problem solving, maintenance, scheduling and quality assurance. The use of work teams may also positively affect productivity.

The study supports that firm performance will be enhanced by systems of practices that support each other and that have a mutually reinforcing effect on employee contributions to company performance. For example, the effectiveness of a comprehensive training programme may be increased when combined with appraisals to assess employee performance and target development needs.

In the study practices were divided in two “dimensions”:

1. Selection, induction, training and use of appraisals represented one factor which they named acquisition and development of employee skills’.

2 .Skill flexibility, job responsibility, job variety and use of formal teams were also interrelated and they called this factor ‘job design’.

The results of this study reveal that HRM practices taken together accounted for 19 per cent of the variation between companies in change in profitability .When we examine change in productivity, HRM practices together account for 18 per cent of the variation between companies in the change in productivity over the time period of our study. This is a clear demonstration of the link between the management of people and the performance of companies.

In a study carried out by Bartel (1994), used data on the personnel policies and economic characteristics of businesses in the manufacturing sector to measure the impact of formal training programs on labor productivity. The major finding is that businesses that were operating below their expected labor productivity levels in 1983 implemented new employee training programs after 1983 that resulted in significantly larger increases in labor productivity growth between 1983 and 1986. This higher rate of productivity growth was sufficient to bring these businesses up to the labor productivity levels of comparable businesses by 1986.

8. CONCLUSIONS.

As a way to end our work, a summarized version of the theory and the empirical studies reviewed will be displayed on this chapter, together with our conclusions, limitations and future research.

The primary purpose of the study was to examine the relationship between HR practices and firm performance, and thereby showing some lights on the process through which HR practices influences on firm performance. In the beginning of this work it has been highlighted the positive perception, in the field of HRM, about the relationship between HR practices and its link with organizational performance. A wide theoretical framework has given in order to understand the relationship proposed on this work.

The growing complexity and dynamism of organizational context necessitates a real understanding of organizations, and the factors on which lies business success. In today's business environment where technological change is constant and competition is very high, the human factor has acquired great importance within organizations. The technology and processes can be imitated and replaceable, so are the people in a company that can make an organization apart from the rest. The quality of human resources, its degree of commitment to the company and motivation have a decisive influence on its operating results, the quality of service provided, in the image of the company and in its continuity market. Because of the importance of this factor we can say that part of business success lies in a correct management of people who are part of an organization. The management of people in an organization can be realized in different ways and will depend on various aspects such as the environment itself, its strategy, its characteristics, management philosophy, etc.

It was hypothesized on the theoretical framework that organizations that viewed employees as potential partners and important assets would train and develop them in the hope that it would lead to higher organizational and financial performance. A general explanation is that increased HR practices are reflected through the increased skills, attitudes, and motivation of employees. This increased skills, attitudes, and motivation are translated into increased productivity of employees. Higher productivity will directly contribute to the financial health of the organization reflected by growth in sales and profits. This gives the idea that HR practices contribute to an increase in firm performance by helping employees develop their skills for performing jobs, shaping their attitudes in the workplace and motivating them to achieve organizational goals. HR practices can also be a mechanism for better aligning the skills offered by employees to the required skills. This fit will probably be translated into higher productivity. The essence of the positive relationship between best practices in human resources management and organizational performance and competitiveness is the optimal system of human resource management that enables to employ and develop capable and motivated employees and achieve expected organizational performance and competitiveness by achieving desired employee performance. Managers who want to achieve excellent performance and sustained competitiveness of their organizations need to apply the optimal system of human resource management based on proven practices in job design, employee selection, performance management, employee compensation or employee training. Successful human resource management requires one to design motivating jobs that will satisfy the needs of both employees and organizations, to select employees by paying attention to their personal characteristics, to apply a Human resource management system that enables achievement of expected performance and competitiveness of the organization by achieving desired performance of employees, to apply fair and stimulating monetary and non-monetary compensation system that enables one to employ capable and motivated employees, and to apply systematic training of employees to teach employees to perform their jobs and prepare them for changes of their job.

In this work it has also commented that, in human resource management, there are useful best practices that positively influence organizational performance and competitiveness, but their application requires best fit to environmental conditions (political, economic, legal, technical, cultural, social, etc.) that determine the positive effect of applied best practices in human resource management on achieved organizational performance and competitiveness. The relationship between various best practices in human resource management and performance, market and financial results of an organization is mediated by the abilities, motivation and performance of employees and is influenced by environmental conditions. Among proven practices in human resources management that demonstrably enable to influence employee abilities, motivation and performance are best practices in job design, employee selection, performance management, employee compensation or employee training. Numerous authors have developed a long list of management practices for generating high involvement and high performance among employees. These practices are divided into categories that start from selecting the right people for the organization and follow to a commitment to training and skill development, team based work organization, job security, and incentive-based pay. For example, incentive-based pay can take the form of a gain-sharing program, performance- contingent pay to individuals, team-based pay, or employee ownership. Training programs can be developed for current and future skills, technical and interpersonal skills, new hires and experienced employees. With all of the choices, developing a coherent set of high-involvement work practices that are consistent across the organization and reinforce each other is an important challenge for all managers. It follows that companies should continue in enhancing more the competence of its employees to attain better performance goals. So, it is important to that the HR function plays its full role in attracting, retaining, motivating and developing the human resources according to personal and group requirements, which will help the company to use effectively its human capital to develop and sustain a competitive advantage, as people remain the unique inimitable resource in the firms.

On the other part of this work, we have focused on the empirical studies trying to link HR practices and firm performance. Past research has provided extensive data on the positive relationship between HR practices and organizational performance in an effort to demonstrate a positive impact of HR practices. Researchers on HRM argue that firms should adopt well-fitted HR practices in order to increase their competitiveness. Amongst other practices, functional flexibility through investment in training, increasing job satisfaction, employee involvement and commitment...etc., are seen as central to sustained economic performance. While we could accurately interpret the results as showing HR practices to be part of a “high performance” organization, they certainly do not provide a real proof that these practices cause that high performance. It is important to comment the opinion of some writers that have been sceptical about the outcomes of HR practices, in part because of their conceptual limitations and in part, because of the adversarial business environment. It is not the intention of this paper to deny the benefits of HRM to performance or to discredit the productivity gains achieved through the implementation of HR practices and employee involvement initiatives.

Rather, what is argued here is that the link of performance/competitiveness requires a stable and high trust environment, which is currently unavailable to most firms (although firms themselves have played a role in creating the current environment). Viewed in this light, the investigation into the links between HR practices and performance should necessarily be put in a broader context.

Consequently, our work points to the need to design and conduct studies that are better able to examine the extent to which implementing progressive HR practices will result in improved operating and financial performance. Such new researches will provide for decision makers a more convincing business case for the need to properly manage human resources. By developing more specific measures of HR practices should increase reliability and validity as well as increase our theoretical understanding. It would be expected that as the measures of HR practices become more precise, we will be better able to capture this interaction between strategy and HR in impacting firm performance.

Summarizing, the field of HRM practices is still at his earlier stage. Significant progress has been made since last decades with a number of seminal articles that have demonstrated support for the relationship between HR practices and firm performance. These articles illustrated some profound truths, but, we may not yet know what these truths are. As it has been reviewed, there is a critical need for consensus concerning the measurement of HRM practices. To date, the relevant literature is distinguished by the fact that no two studies measure HRM practices in the same way. In addition, few studies have considered important related issues, such as whether firms implement HRM practices effectively. As a result, we see the development of reliable and valid measures of HRM systems to be one of the primary challenges and opportunities for researches interested in advancing this line of research.

This paper has attempted to provide a critique of past researches on the relationship between HR practices and firm performance, and to provide some recommendations for how future research in this area can move the field forward. This critique points to weaknesses in past researches. In the future, we advocate further delineation of an empirical research on processes and mechanisms through which HR practices can aid in value creation for firms. It is think that at a minimum, if profitability is the major dependent variable on the studies reviewed, such models must include at least some variables regarding operational performance (labor costs, customer satisfaction, quality, etc.), and some variables regarding the impact of HR practices on employees (skills, attitudes, behaviors, absenteeism, turnover, etc.). Such theorizing might also provide a deeper understanding of the causal direction of these relationships. Future research need to elaborate on more precise mechanisms and to theorize deeply the means through which the HRM and performance link occurs.

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