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The Dynamic Role of HRM in Driving Organizational Performance: A Literature Review of Paper

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Abstract

In today's dynamic economic landscape, the role of Human Resources is pivotal in driving organizational growth, adaptability, competitive advantage and long-term success. Modern organizations increasingly recognize HR not just as a support function, but as a strategic partner in achieving business objectives. This paper examines the key Human Resources Management elements that influence the higher impact of Organizational Performance through HR practices and outcomes. It also highlights the crucial role HR plays in this dynamic. Ultimately, the study reveals that a company's competitive advantage is driven by the seamless integration and mutually reinforcing effects of these strategic HR elements. Additionally, a questionnaire-based study is being conducted among private organizations in Albania to better understand HR development's role in fostering sustainable success. This paper focuses on the theoretical framework of HRM's impact on organizational performance.

Keywords: business strategy, HRM, HRM practices, role of HR, HR results, performance of organization, strategic fit

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1. INTRODUCTION

Human Resource Management (HRM) plays a critical role in shaping the success and performance of organizations across industries. In a rapidly evolving global business environment, where competition is fierce and innovation is key, HRM practices are increasingly recognized as a strategic lever for achieving organizational goals (Delaney & Huselid, 1996). HRM is not only about managing employees but also about aligning the workforce with the company's vision and objectives, ensuring that talent is utilized effectively to drive success (Delaney & Huselid, 1996). This paper delves into the impact of HRM on organizational performance, investigating how various HR practices—such as recruitment, employee training and development, performance management, compensation, and employee engagement—contribute to improved business outcomes.

Through examining the role of HRM in enhancing employee productivity, job satisfaction, and organizational culture, we aim to understand how these practices contribute to achieving organizational goals, fostering innovation, and increasing profitability. Moreover, the paper explores the connection between HRM practices and organizational performance by addressing how HR strategies can be tailored to fit the specific needs and strategies of the organization, ultimately leading to competitive advantage.

This research draws on recent studies and theoretical frameworks to analyze the influence of HRM on business performance and the growing importance of HR as a strategic partner in the decision-making process (Delaney & Huselid, 1996). By providing evidence-based insights, the study highlights how HRM, when integrated effectively into organizational strategy, can positively influence key performance indicators such as financial performance, employee retention, and organizational sustainability (Delaney & Huselid, 1996). Through this exploration, we aim to demonstrate the significant role of HRM in not only managing the workforce but also in shaping the long-term success and resilience of organizations in a competitive market.

We are in an era where technology and business production processes are rapidly evolving across all sectors, while the human aspect remains irreplaceable. Human Resources (HR) identifies the workforce of a company, cultivating a team equipped with the necessary skills and approach to move the company forward in a supportive and advisory function, in line with the company's culture, ensuring that values, ethics, and behavior are aligned with its mission and vision.

Human Resources offer valuable insights into workforce trends, helping leadership make informed decisions about resource distribution and strategic planning. Over the last two decades, researchers have focused significantly on understanding the connection between HR practices and the outcomes of services and products in business companies (Delaney & Huselid, 1996). The concept that individual HR performance affects company performance has become

a reciprocal relationship (Delaney & Huselid, 1996). The concept that individual HR performance affects company performance has become a reciprocal relationship. HR management is a process that is connected to the entire business at every link, precisely because it deals with every employee, whether staff or worker, regardless of their position, hierarchy, or activity (Delaney & Huselid, 1996). Thus, HR management holds significant importance in a business.

This study focuses on explaining how Human Resource Management (HRM) impacts Organizational Performance. In this way, we can help the private sector leverage the strategic advantages that HRM offers as a competitive advantage in the market.

An analysis of INSTAT data on the economic activity of the Albanian economy shows that the number of employed people is increasing, and so is the trend in manufacturing activities (Delaney & Huselid, 1996).

An important driving force for this study was the data from INSTAT regarding the growth of medium and large businesses on one hand, and the need for optimal performance through HRM practices on the other. Based on INSTAT data in the “Final Results of the Structural Survey of Enterprises, 2022,” the following results are provided:

In 2022, there were 113,460 active economic enterprises in various sectors of the economy, marking an increase of 9.1% compared to 2021. Enterprises engaged in trade activities accounted for the highest percentage of the number of businesses, with 36.5%. The total number of employees in 2022 was 547,942, increasing by 5.5% compared to 2021. Net sales in 2022 reached 3,359 billion lek, showing a 26.7% increase compared to 2021. These data are presented in the graph below:

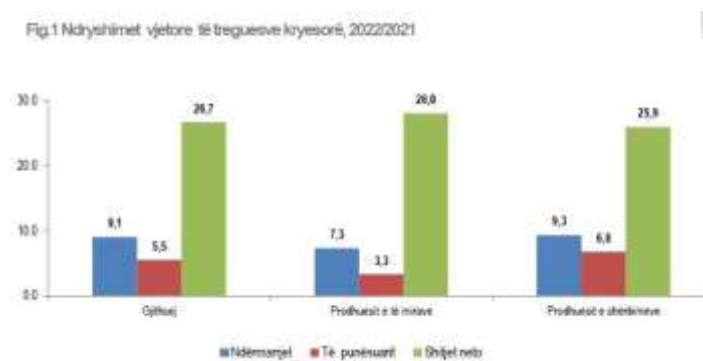


Figure 1. Source: INSTAT 2022, publication 15/02/2024

This situation can be explained by the fact that businesses with higher turnover levels are more likely to have inexperienced employees, who are less able to provide efficient service. Two theories support the viewpoint that businesses with higher turnover levels are more likely to have inexperienced employees, who are less able to provide efficient service [Delaney & Huselid, 1996]. First, there is a positive correlation between employee retention and

professional development, meaning that high-turnover businesses tend to have less qualified staff [Delaney & Huselid, 1996]. Secondly, businesses with high turnover levels have lower levels of work accuracy, which is an indicator of inefficiency [Delaney & Huselid, 1996]. Secondly, businesses with high turnover levels have lower levels of work accuracy, which is an indicator of inefficiency. In any case, it is noted that even the studies on human resource management do not provide absolute clarity or ideal actions.

However, within the profit focus of every company, there is also a continuous and strong focus on how to create stronger links between HRM and financial performance (Huselid, 1995; Guest et al., 2003; Wright et al., 2005; Fleetwood & Hesketh, 2006). There are two schools of thought that emerged in seeking the best ways to achieve company goals through HRM. One group of experts believes that universal "best practices" in HRM would bring benefits to every business, regardless of its strategy, while others argue that what matters is designing and implementing HR practices that best fit the specific practices and strategies of the business.

Since the introduction of the concept of Human Resource Management (HRM) in the early 1980s, many models have been implemented, indicating a 'direct' relationship between the individual representation of human resources (HR) and sustainable internal HR systems or shifting practices and organizational performance [Delaney & Huselid, 1996]. Several authors initially created HR strategies focusing on the relationships between individual HR representatives and organizational effectiveness, such as administrative personnel [Delaney & Huselid, 1996], business promotion systems [Delaney & Huselid, 1996], employee training [Delaney & Huselid, 1996], compensation for valued work [Delaney & Huselid, 1996], and retirement programs [Delaney & Huselid, 1996].

To support this objective, several authors initially created HR strategies focusing on the relationships between individual HR representatives and organizational effectiveness, such as administrative personnel (Terpstra & Rozell, 1993), business promotion systems (Ferris et al., 1992), employee training (Bartel, 1994), compensation for valued work (Banker et al., 1996; Gerhart & Milkovich, 1990), and retirement programs (Davidson, 1996).

Human Resources encompasses strategies, processes, and activities revolving around the management of an organization's workforce. This includes everything from recruitment and training to employee well-being and performance management. Essentially, HR is the bridge connecting a company's objectives and its people, linking both for mutual growth. The future of HRM in Albania is promising, and companies investing in improving their HR functions, including recruitment, skill development, and technology adoption, will be in better positions to face labor market challenges and identify themselves as leaders in an increasingly competitive market.

In conclusion, we say that human resources are the heart of a business company. Beyond administrative tasks, HR is a strategic partner, driving businesses toward their objectives. This

mission is carried out from cultivating merit and professionalism to maintaining culture, from encouraging innovation to ensuring compliance. HR is the indicator that keeps a company united. Therefore, whenever you think of HR, remember it is not just a department, but the driving force behind a company's success.

2. LITERATURE REVIEW

2.1. General Overview Through Years

The relationship between Human Resource Management (HRM) and organizational performance has been widely studied, with numerous scholars contributing to our understanding of how HRM practices influence business outcomes. Over time, research has demonstrated that aligning HRM strategies with a company's overall objectives can significantly enhance performance.

Miles & Snow (1984) were among the first to argue that HRM strategies should be fully integrated with an organization's broader business strategy. They emphasized that when HRM aligns with business goals, company structures, and operational procedures, organizations achieve superior performance. This idea laid the groundwork for understanding HRM as a strategic function rather than merely an administrative one.

Guest (1997) expanded on this notion, presenting employees as valuable assets and emphasizing the role of line managers in implementing HRM policies effectively. His research highlighted the importance of employee engagement in driving organizational performance, underscoring HRM's strategic significance.

Further empirical support came from Arthur (1990, 1994), who examined how HRM practices impact employee turnover and company productivity. He found that organizations adopting high-commitment HRM strategies, such as extensive training and development initiatives, tend to outperform those with less employee-centric approaches.

Similarly, Pawee & Richardson (1997) investigated the link between HRM policies and business success. Their study confirmed that HRM practices directly influence motivation and engagement, which are key drivers of performance. This idea was further substantiated by Huselid (1995), whose research indicated that effective HRM strategies reduce employee turnover, boost productivity, and improve financial performance.

Becker & Gerhart (1996) reinforced this perspective by emphasizing the role of high-performance work systems, which include meticulous staff selection, comprehensive training, and performance-based rewards. Delaney (1996) also contributed to the discussion by demonstrating that employees' perceptions of HRM strategies significantly impact their view of organizational effectiveness.

Jackson & Schuler (1997) took a more technical approach, arguing that HRM management—both from a strategic and operational perspective—affects firm performance. Their work emphasized that aligning HRM with business objectives is crucial to organizational success.

Pfeffer (1998) introduced a practical framework for improving performance, recommending seven key HRM practices aimed at enhancing employee commitment and motivation. His recommendations have since influenced many HRM strategies worldwide.

The AMO Model (2003) provided a more structured approach to the HRM-performance relationship, focusing on three core factors: Ability, Motivation, and Opportunity. This model stressed the importance of skill development and creating opportunities for employees to contribute effectively to business success.

In 2004, Wright & Nishii divided HRM into three levels: strategic HRM practices, managerial implementation, and employee perception. Their research found that employee-perceived HRM effectiveness is a major determinant of organizational performance. More recently, Zhou, Liu, Chang & Hong (2021) examined the role of HRM in fostering innovation, concluding that flexible organizational structures and strong social networks enhance innovative capabilities.

In "HRM and Innovative Work Behavior: A Systematic Literature Review" (2016), the authors emphasize the importance of adopting HRM practices that actively encourage innovative behaviors among employees. Organizations are encouraged to design policies that foster creativity, collaboration, and problem-solving. The study also recommends that future research focus on exploring the direct impact of HRM practices on specific innovation outcomes.

In "HRM Practices and Innovation: An Empirical Systematic Review" (2020), Easa and El Orra suggest that organizations should integrate HRM strategies with innovation policies to maximize employee engagement in creative processes. Managers are advised to consider how HRM practices interact with organizational culture to foster innovation. Additionally, they stress the need for more empirical studies to address the "black box" of HRM's impact on innovation.

The paper "Innovative Human Resource Management: Measurement, Determinants, and Outcomes" (2020) recommends that HR professionals develop standardized measures to evaluate the impact of innovative HRM practices. Policymakers are encouraged to push organizations to adopt HRM strategies that promote long-term business innovation. Further research is also needed to examine industry-specific determinants of innovative HRM practices.

In "Innovation and Human Resource Management: A Systematic Literature Review" (2021), the authors recommend that organizations align HRM with innovation goals. This can be done by implementing flexible work arrangements, providing training programs, and offering employee incentives. Future research should also focus on the role of HRM in digital transformation and artificial intelligence-driven HR processes. Moreover, the study emphasizes

the importance of building a knowledge-sharing culture through HRM to enhance innovation within organizations.

In "Disruptive Human Resource Management Technologies: A Systematic Review" (2022), De Alwis and Welmilla suggest that companies invest in disruptive HRM technologies, such as AI and automation, to enhance HR functions and decision-making. HR leaders are encouraged to adopt data-driven approaches to improve both employee experience and organizational performance. The study calls for future research to examine the long-term impact of these disruptive HR technologies on workforce management.

During this literature review but also in focus of my thesis have been studding further more on the gaps during the years. To develop my study model but also to adress two of the gaps identified through years: (1)-need to focus on long term impact of Human Resource Management (HRM) practices and (2)- the lack of universal framework or standardized methodology for measuring the effectiveness of HRM- I have taken analyzed ten significant studies between 1996-2022 of the authors: David E. Guest, Michael Armstrong, Katou A. Anastasia, Boselie, Paauwe, Jaap, Jansen, Paul, Boxall P., Purcell, Pawee, Delerey, Ben S. Kuipers, Laura M. Giurge, Assefa Tsegay Tensay, Manjit Singh, Pawan S. Budhwar, Charmi Patel, Ermanno C. Tortia, Silvia Sacchetti, Francisco J. López-Arceiz, among others (as referenced).

Their hypotheses explore various dimensions of HRM's influence on organizational performance. Policies and practices of HRM-effect directly on HRM outcomes, making better motivation and engagement of employees which lead to increased efficiency and long-term organizational performance. Moreover, the impact of HRM policies on HRM outcomes depends on business strategies and external factors, requiring a flexible adaptation of HRM practices to strategic objectives and market needs to ensure sustainable success which also serves as a competitive strategy. Furthermore, aligning business strategies with HRM practices enhances their impact on organizational performance by ensuring that human resource management aligns with the company's goals and vision. All the hypotheses above had a positive result going in the conclusion that a well-balanced and strategic approach to HRM can be a key factor in building a successful and competitive organization in today's market.

Another important aspect that I have taken into consideration is also the importance of integration of the strategies. The integration of HR practices with business strategy delivers superior results compared to isolated efforts because it ensures alignment with organizational goals, maximizes employee potential, and fosters consistency and engagement across the company. This approach enhances decision-making, provides a competitive advantage, and supports long-term success by ensuring HR initiatives directly contribute to business objectives, resulting in better performance and adaptability. Different integration models, such as the Best Practices Model, the Best Fit Model, High-Performance Work Systems (HPWS), AMO (Ability, Motivation, Opportunity), and the Resource-Based View (RBV), show that HR

practices, such as recruitment, training, and engagement, must align with business strategies to achieve high performance and sustainability, ensuring increased efficiency and competitive advantage.

2.2. Overview in Albania

Albania, as a country in transition with an unstable political climate, faces significant challenges in the private sector. Political uncertainty creates an unclear environment for investors, leading to hesitation in investing in human resources development. Many companies prioritize investments in machinery and physical capital over human resources, which negatively impacts employee engagement and productivity.

Moreover, foreign investments are hindered by perceptions of political risk, and nepotism becomes more evident in leadership positions. This limits the ability of human resources departments to implement effective policies for employee evaluation and motivation.

However, the situation is different in the private sector, where greater competition encourages better human resources management. After the COVID-19 pandemic, companies recognized the need to improve HR standards to compete in the global market, leading to increased investment in employee training and development.

In Albania, the connection between Human Resource Management (HRM) and organizational performance is still developing, although progress has been made since the country transitioned to a free-market system in 1991.

Shatra and Çela (2017) examined the impact of HRM policies on the financial and operational performance of Albanian companies, focusing on practices like employee selection, training, and engagement. Preka and Kola (2016) explored how investment in training and employee development can lead to increased productivity and overall organizational performance. Shkurti and Kallulli (2018) focused on HRM's effect in various sectors, including banking and business services, and its role in employee motivation and development. Gentiana Kraja (2013) The bunch of human resource management practices effectively improve both individual and organizational performance in public administration. Public administrators often adopt neutral stances, possibly due to hesitation or indifference. Further research is needed to explore the reasons behind this. Koci and Shala (2019) highlighted the service sector, analyzing the link between HRM practices and organizational performance, particularly focusing on motivation and performance management.

In Albania, while HRM practices have developed significantly in the private sector, challenges remain, particularly in aligning HRM with broader business strategies. Many organizations still see HRM as an administrative function, rather than as a strategic component tied to achieving business goals. There is also ongoing resistance to change, particularly in older, more traditional organizations. When compared to developed countries, Albania is still in the early stages of

HRM integration. In developed countries, HRM is deeply embedded in business strategies, with practices designed to support long-term organizational objectives. In contrast, Albanian companies have yet to fully integrate HRM into their strategic planning, limiting its potential to improve organizational performance.

Additionally, technology and innovation in HRM are still developing in Albania. Many organizations have not yet adopted modern HR tools, such as performance management systems or digital training platforms, which are commonly used in more developed countries. Despite these challenges, Albania has great potential to further develop HRM practices and integrate them with business strategies. As organizations continue to evolve, better alignment between HRM and business objectives will be essential for improving performance and achieving long-term organizational success.

In Albania, the relationship between business strategy and Human Resource Management (HRM) is evolving, albeit at a gradual pace. While there is growing recognition among some companies of the importance of aligning HR practices with overall business goals, many organizations still treat HRM as a separate, administrative function. Over time, as the strategic value of HRM becomes more apparent, the integration between HR practices and business strategy is expected to strengthen, ultimately leading to improved organizational performance and competitiveness.

In certain Albanian companies, HRM is already beginning to align with broader business objectives, particularly in terms of enhancing productivity, fostering employee development, and improving organizational competitiveness. However, this shift remains inconsistent. In many organizations, HRM is still seen primarily as a support function with limited influence on business strategy. As a result, HR practices are not fully integrated into business goals, which means that many organizations are missing the opportunity to leverage HRM's strategic potential.

Larger companies, particularly those with international connections or affiliations, are increasingly adopting global HRM practices that aim to align HR efforts with business strategy. These organizations tend to recognize the importance of HR in supporting business success and are more likely to implement practices that contribute to strategic objectives. Conversely, in the private sector, especially in more advanced industries, the integration of HRM with business strategy is more common. This trend is less visible in the public sector, where the focus is often on sustainable HR management practices, but alignment with business strategy is not as emphasized.

One significant challenge faced by many Albanian companies is the lack of awareness among business leaders about the strategic role that HRM can play in achieving organizational success. As a result, HR departments often struggle to gain a seat at the strategic table. However, this is changing as HR managers receive more education and training, equipping them to bridge the

gap and better align HR practices with the overarching business strategy. Organizations that have successfully integrated HRM with business strategy report benefits such as higher employee engagement, improved productivity, and enhanced overall performance.

Ulrich's model of HR roles has begun to gain traction in Albania, although its full potential has not yet been realized across all organizations. Some companies are beginning to view HR as a strategic partner and a key driver of change. This perspective is more common among larger companies or those operating in competitive, international markets. In smaller businesses, however, HR is still often seen as a functional, administrative unit focused on efficiency. The role of HR as a change agent is gradually growing, particularly in companies that are investing in improving organizational culture and managing change. Additionally, companies in export or international markets are becoming more focused on talent management, although there is still considerable room for improvement in how HR is integrated into the business strategy.

3. CONCLUSION

Nowadays, businesses that integrate HRM into their strategy don't just survive, they thrive. By prioritizing people as the key driver of success, they build long-term sustainability, high employee satisfaction, ensuring continuous growth and resilience in an ever-evolving corporate landscape. HRM is no longer a standalone administrative function but a strategic pillar of sustainable business success that aligns workforce capabilities with business objectives.

HRM and the critical role it plays in fostering innovation through HR technology, decision making through data driven and aligning organizational culture with strategic goals. The recommendations point to the necessity of integrating HRM with broader business objectives, supporting a culture of innovation, and leveraging emerging technologies to improve HR practices and overall organizational performance.

In general, most studies focus on the short-term impact of Human Resource Management (HRM) practices, whereas ensuring long-term sustainability and effectiveness requires further research. The fact that HRM's impact is influenced by various external factors—such as policies, the economic environment, industry dynamics, and technological advancements—as well as internal factors, including collaboration with other departments, company culture, and the integration of HR policies, makes this research even more complex. These interdependencies make it challenging to derive direct and definitive conclusions.

Furthermore, drawing clear conclusions becomes even more difficult due to the lack of a universal framework or standardized methodology for measuring the effectiveness of HRM in relation to organizational performance. Each organization applies different measurement criteria, making cross-company comparisons even more challenging. To conduct this research, I analysed a significant range of studies from different years, examining their criteria, methodologies, and findings to gain a comprehensive understanding of the subject, taking into consideration the most used one.

Developed economies and the latest AI-driven HR trends create a dynamic work environment, yet their true impact on organizational performance still requires further investigation. Most existing studies focus on developed countries when exploring this relationship. This is precisely why my research adds value—Albania, as a country in transition, presents a unique case that contributes to the broader understanding of HRM’s role in evolving economic contexts.

While HRM in Albania is gradually being recognized as an essential component of organizational success, there is still significant room for growth in its strategic integration. Many organizations are still in the process of fully aligning HR practices with their business strategies. The future of HRM in Albania holds great promise as organizations begin to realize the value of HR as a strategic partner in driving success.

This research aims to help researchers, Human Resources managers, and business leaders, especially in developing countries better understand the importance of HR development and encouraging strategic investment in Human Resource Management to foster sustainable success. I hope that my research will inspire young and professional people, not only in Albania, to deep dive more in the importance of boosting human resources impact in countries in transition.

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