

HIGH PERFORMANCE WORK PRACTICES AND ORGANIZATIONAL PERFORMANCE: AN ANALYSIS OF THE MACEDONIAN FOOD AND BEVERAGE INDUSTRY

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Abstract. The current study analyses the relationship of high- performance work practices (HPWPs) and organizational performance in a sample of Macedonian food and beverage companies by using the universalistic approach which has been empirically accepted as relevant in the theory of strategic human resource management. A large number of studies, conducted in developed countries, confirm that the strategic approach towards human resources and the investment in HPWPs is connected to the superior firm performance. On the basis of literature review and analysis of the theory, hypothesis has been developed which propose a correlation of eleven components of HPWPs with subjective measures of organizational performance. The sample consists of 19 companies which are the largest and most successful in the industry in the year 2010. The data was collected from the surveys of human resource managers and CEO. The results show that there is statistically significant positive correlation between perceived organizational performance and certain components of the HPWPs - selectivity in staffing, training and skills development, the use of self-managing teams, information sharing, employee participation, but also points to the finding that certain work practices - internal career opportunities, the use of grievance procedures, performance appraisal, higher level of salaries, pay and reward practices, employment security, are not statistically correlated to the perceived organizational performance.

Keywords; strategic human resource management, high- performance work practices (HPWPs), organizational performance, Macedonian food and beverage industry.

1 Introduction

The economic activity of firms in the modern economic environment is becoming more complex due to the increasing globalization and liberalization of markets, changing customer requirements, and ever increasing market competition. Therefore, organizations constantly looking for ways to increase performance and competitiveness. Generally, human resources, as workforce and also as business function, are treated as the highest operating cost that should be minimized and at the same time as a source of higher efficiency. Along with this situation in practice, the researchers developed a new interest in human resources as a strategic driver of value creation that can have significant economic effects of the overall organizational results. The focus of the extensive literature in the field of strategic human resource management (SHRM) are the form and structure of those organizational policies and practices of human resources that can produce skilled, motivated and flexible workforce. In this context, it is considered that the concept of high-performance work practices (HPWPs) is strategically important in two different domains: a) the development and maintenance of core competencies and b) as a necessary condition for implementing organizational strategy [1]. In developed countries, researchers shows significant empirical efforts on the HPWPs and organizational performance relationship. In the Republic of Macedonia such studies are in its infancy and lacks serious analysis and empirical evidence. The purpose of this paper is to examine the relationship between high-performance work practices (HPWPs) and organizational performance in the successful Macedonian food and beverage companies.

2 Theoretical background and research hypothesis

In the SHRM literature there are different approaches in understanding the human resources policies and practices [2, 3, 4, 5, 6]. The debate is polarized between two normative approaches: universalistic approach, or "best practices" approach, and contingency approach, or "best fit" approach. Universalistic approach assumes a

direct relationship between human resource practices and firm performance, while, according to the contingency approach, the effectiveness of HR practices is contingent on other aspects of the organization, mostly with the business strategy. According to the universalistic approach, the application of certain HR practices always result in superior organizational performance, regardless of the context and independent of the chosen competitive strategy of the organization [2, 3]. Such a set of best practices has universal, an additive positive effect on organizational performance [4]. The strongest proponents of this approach are from the USA (Huselid, Osterman, Pfeffer, Ichniowski, Becker and Gerhart). Many empirical studies have shown that the relationship between a particular independent variable and dependent variable is universal in the entire population of organizations. Generally, these "best practices" are called high-performance work practices (HPWPs).

2.1 High-performance work practices (HPWPs)

The high-performance work practices are considered as organizational strategy for managing the employment relationship. As a specific combination of practices, HPWPs has intended to increase employees productivity by maximizing their competencies, motivation, commitment, communication, involvement and flexibility. The impact of HPWPs on the organizational performance is achieved through three basic elements: 1) increasing the employees knowledge, skills and abilities, 2) employees empowerment and participation in decision making and problem solving and 3) motivating employees through incentives to make additional discretionary work effort [5, 7]. As a strategic management approach to employees, HPWPs are away from the Taylor's scientific management and bureaucratic work organization and they create conditions for employee identification with organizational goals. They indicate the extent to which the firm invests in the best possible human capital and also indicate the value and importance of this capital as a source of sustainable competitiveness [8, 9].

HPWPs represent multidimensional construct and definition of its components (dimensions) always comes from studies of four sub-functions: selection, training, evaluation, compensation [6]. The three fundamental elements of HPWPs comprise a diverse group of practices (dimensions). HPWPs increase employees' knowledge, skills and abilities (knowledge, skills, and abilities - KSA) through extensive recruitment, selective staffing, training, job design and compensation related to skills development. Practices such as incentive compensation, performance evaluation, internal promotion, employment security, flexible work schedules, grievance procedures and high compensation are incentives that create motivation and commitment. But even the knowledge, skills and abilities, and motivation will not allow employees to make discretionary effort if the organizational structure and job design does not create the necessary conditions through participation programs, self-managing teams, information sharing and employment security. Given the fact that the SHRM researchers not reached full consensus on the question of which practices are considered HPWPs, in Combs and his associates meta-analysis are allocated 13 most researched practices and their frequency in research studies: incentive compensation (31); training (29); compensation level (18); participation (18); selectivity in staffing and recruitment (15); internal promotion (12); HR planning (10); performance assessment (8); teamwork (8); system of grievance procedures (8); flexible work (8); information sharing (7); employment security (6) [10]. Generally, these practices are researched in other relevant studies and accepted as HPWPs [5, 11, 12]. In this empirical study, conducted in Macedonian food and beverage industry, 11 practices were examined, which correspond to the already established important studies. *Selectivity in staffing* involves extensive and intensive processes of recruitment and selection according to predetermined and standardized methods and techniques. These procedures have a strong influence on the selection of skilled employees. Incompatibility of the individual and the organization can hurt performance level. *Internal career opportunities* are administrative system for allocating workforce according to the strategic needs and they demonstrate the long-term relationship between the organization and its workforce. *Training and skills development* practices are effective ways to develop core competencies. Modern organizations highlight knowledge, continuous learning and innovation as fundamental, and the training and skills development are two important factors of organizational performances. Organizations, strategically opted for more autonomy and participation of employees, apply working practices of *self-managing teams and quality circles*. The main goal of teamwork is to achieve greater efficiency and effectiveness in the execution of tasks by working together people with different skills and knowledge. *Information sharing* means having access to important information and data that are crucial to the success of empowerment and practicing employee participation. The basic idea of HPWPs is that employees should have the information in order to operate successfully. *Grievance procedures* are used as part of the overall mechanism of employee voice. HR managers need to encourage proper use of formal grievance procedures to discover the sources of employee dissatisfaction, which in turn affects performance and loss of a valuable employee. *Employee participation and empowerment* means greater responsibility and employee involvement in decision making and problem solving, in order to better utilization of their potentials and better implementation of organizational goals. In such a way employees have the opportunity to contribute to the improvement of

organizational performance. *Performance appraisal* involves assessment of current or past employee's performance in relation to established standards of performance. The initial concept of performance appraisal is expanded into an integrated system called performance management in order to focus on strategic performance goals. *Level of salaries* is a factor that helps in recruiting and retaining key employees. The practice of higher salaries than those in the labor market and higher than average in the industry is important in the system because HPWPs empower and encourage employees to develop their knowledge, skills and motivation. *Pay and reward practices* are part of the total compensation system that coordinate individual interests of employees and strategic goals. If wages and benefits are not fairly distributed, they can be an obstacle in achieving organizational competitive purposes. *Employment security* is an important part of HPWPs which promotes trust and confidence. Employees who feel that their work is guaranteed, are more likely to maintain commitment to the organization through doing the tasks as best they can.

2.2 High-performance work practices (HPWPs) and organizational performance

One of the main research goals in the field of SHRM is to establish clear connection between the HR practices and organizational performance. The results of many extensive researches confirmed that a higher level of SHRM effectiveness creates higher results in the performance. A Combs meta-analysis shows that until 2006 there are 92 studies (19 319 researched organizations) which shows relevant statistics for HPWPs and performance relationship [10].

In addition to the empirical studies where the organizational performance, as a criterion variable, was measured through objective indicators, there is one important group of studies where as indicators of performance are used the subjective managerial perception of performance in relation with competitor in the industry. One of the first of these researches was the one of Delany and Huselid, in which was found a positive association of selectivity in staffing, training and incentive compensations with perceptible performance measures [13]. Other group of researchers, in a study of a 97 manufacturing plants in the metal industry in USA, investigated the relation between the HR practice and operational performance. The results showed that the HR system has influence over the quality of the product and productivity of the workforce. These findings suggested that the HR system which reinforces the human capital is the right approach to enhance operational performance [14]. These findings were also confirmed in the researches in Great Britain. On a sample of more than 200 production companies the results shows that innovative work practices are in positive correlation with the financial performance and with the ability for innovation [15]. According to one study conducted in British organizations, task variability is determined as the most important factor which influences the productivity, and compensations practices in combination with employee involvement, has a positive connection with the level of changes in productivity [16]. In a study of the relationship between trust, HR practice and organizational performance, on a sample of 275 organizations in Israel, was confirmed that organizations that invest more in training, use performance based compensation system, stimulate employee participation, and use the internal labor market, demonstrate important higher level of organizational performance. We can draw conclusion from all of this that most often the way to allocate the money and improve the productivity within the organization is through pay for performance programs [17]. One research in France examined 28 organizations and showed that there is a significant statistical correlation between HR practices (recruitment, promotion, training and development, performance appraisal, compensation) and the index of relative organizational performance [18]. Further confirmation of the assertion that HPWPs have significant influence on the perception of organizational performance, we get from Eurofond research, which were held in multinational sample, within countries of EU and some other European countries. One of those are EPOC survey and European Company Survey 2009 . In the EPOC survey was examined the influence of the employees on the work organization and work environment [19]. The results showed that employee participation has a huge positive effects on behavior and on the economical performances. European Company Survey 2009 use data from 27 160 companies. On the basis of this survey, the study was conducted about HR practices and performance relation [20]. Four performance indicators were used: working climate, absence of problems in the HR domain, labor productivity and organization economic condition. The five groups of working practices are: flexible working time, financial incentives, training, autonomous teams and voice of the employees. The conclusion is that innovative work practices have positive effect on different dimensions of performance. Productivity of the workforce is not related only to the new technology and higher capital investments, it also is the way of the work is organized. The main results give consistent prove that the use of HPWPs are connected with improved employee performance and overall organizational performance.

Drawing on the above empirical and theoretical studies, we hypothesize:

There will be a positive relationship between perceived organizational performance and: 1) selectivity in staffing; 2) internal career opportunities; 3) training and skills development; 4) the use of self-managing teams; 5) information sharing; 6) the use of grievance procedures; 7) employee participation and empowerment; 8) performance appraisal; 9) level of salaries; 10) pay and reward practices and 11) employment security.

3 Method

3.1 Sample and data collection

Survey sample consists of 19 private companies from the food and beverage industry in Republic of Macedonia, and according to the population of the 200 largest and most successful companies in fiscal 2010, and according to data published in the edition "200 largest and most successful companies in Macedonia in 2010 " by Euro Business Center - Skopje. The edition contains the 200 largest (ranked by total revenue) and most successful (ranked by profit before income tax) companies (public and private), according to certain financial indicators derived from authorized financial institutions of R.M. Data were collected through two questionnaires. The first questionnaire relates to issues like the number of employees and extent of use of HPWPs. The respondent is head of the Department of Human Resources. The second questionnaire contains questions related to the years of existence of the company, type of ownership, as well as questions about perceptions of organizational performance. The respondent is the CEO. Questionnaires were distributed and then returned by previously personal telephone contact. The decision to personal handing in of the questionnaires was made because the personal contact helps to ensure a higher response rate to the questionnaires.

3.2 Measurement

HPWPs variable is measured by scale. In creation of the HPWPs scale, set off different instruments used in the previous research were applied [1, 9, 15, 18, 16, 21]. According to the 11 component of HPWPs, which are discussed above, in the scale were defined a set of items that measure each component (practice). Items were selected and taken from the instruments used in the studies, and then translated and adapted to the needs of research companies in the R. M. HPWPs scale contains 44 items, on the 5 - points Likert scale that measures the frequency of application of a particular component in the range of 1-5 (1 - never, 5 - always). An exception was made in the measurement of some components. The component level of salaries and employment security were measured by yes / no binary scale (1 - no, 2 -yes). Higher score for each item means more frequent use of a given practice.

Organizational performance variable is measured as subjective managerial perception and reflects the relative performance of the organization. Thus way, obtained data provide broader insight on performance because they include measuring the size of non-financial performance. Perception of organizational performance scale [13] contains 7 items measured on five point Likert scale (1 – much below average, 5 – a lot of above average). The respondent should give a subjective assessment of the organization according to 7 indicators of operating performance (quality of product/service; new product/service development; ability to attract core workers; ability to retain core employees; customer satisfaction; quality of the relationship between management and employees; quality of the relationship between employees in general) and in relation to the competitors in the past two years.

Because some other organizational factor may be in relation with performance, in the study were included company size (operationalized by using the number of employees) and company age as control variables.

4 Analysis and results

The results from the descriptive analysis show that most of the companies in the sample have long tradition and successfully operate on the market. The total number of employees in the companies from the sample is 4 877, the smallest company has 55 employees, and the largest 805. Companies' frequency according to the number of employees is shown in Table 1. Out of 19 companies, 8 (42.1%) have 200-499 employees.

Table 1 Companies' frequency according to the number of employees

Number of employees	Frequency	Percent
50 - 99	3	15.8
100 - 199	6	31.6
200 - 499	8	42.1
500 and more	2	10.5
Total	19	100.0

In Table 2 the grouping criteria is by the age of the company. More than half of the companies in the analysis are companies which succeeded to keep their competitiveness on the market and exist more than 25 years. This means that these companies were well established organizations in the old economic system, during socialism, but went through a period of transition and privatization, however they maintained the leadership and stayed successful in the contemporary market conditions.

Table 2 Companies' frequency according to their age

Age of the company (in years)	Frequency	Percent
6 -15	5	26.3
16 – 25	3	15.8
Over 25	11	57.9
Total	19	100.0

The research hypothesis proposed positive relationship between the organizational performances and the 11 components of HPWPs. The goal was to examine the connection between the investigated variables, excluding the explanation of the effects of HPWPs on the performances. To test the hypothesis the means and standard deviations were calculated, as well as bivariate Pearson correlations for all the research variables. The results show that some components (subscales) of HPWPs have a correlation between them. Statistically strongest significant correlation is found between: training and skills development and self-managing teams; information sharing and pay and reward practices (in both cases $r = .78, p < .01$); self-managing teams and grievance procedures ($r = .73, p < .01$); self-managing teams and performance appraisal ($r = .66, p < .01$); self-managing teams and information sharing, pay and reward practices and employee participation, pay and reward practices and level of salaries (in each of the three cases $r = .65, p < .01$). Moreover self-managing teams and employee participation, as well as training and skills development and performance appraisal show significant correlation (in both cases $r = .64, p < .01$).

The calculated correlations between perceived organizational performances and HPWPs components show that out of 11 defined components of HPWPs 5 are in correlation with managerial perception of performances. The results are the following: the perceived organizational performances are in statistically significant correlation with selectivity in staffing ($r = .47, p < .05$); training and skills development ($r = .48, p < .05$); self-managing teams ($r = .50, p < .05$); information sharing ($r = .54, p < .05$) and employee participation ($r = .60, p < .01$). The remaining 6 components: internal career opportunities, grievance procedures, performance appraisal, level of salaries, pay and reward practices, and employment security are not in correlation with the perceived organizational performances. These kind of findings suggest that the proposed hypothesis of positive relationship of HPWPs and organizational performances, measured as subjective managerial perception, is partially supported.

Finally, the results showed that the number of employees is not in correlation neither with the components of HPWPs, nor with the perceived organizational performances. The age of the company is statistically connected with only 2 components of HPWPs: grievance procedures ($r = .51, p < .05$) and employment security ($r = .49, p < .05$). There is no connection among the age of the company and the perceived organizational performances. Table 3 presents descriptive statistics and bivariate Pearson correlations for all research variables.

Table 3 Means, standard deviations and correlations for all variables

	<i>Variables</i>	<i>Mean</i>	<i>S.D.</i>	<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>5</i>	<i>6</i>	<i>7</i>	<i>8</i>	<i>9</i>	<i>10</i>	<i>11</i>	<i>12</i>	<i>13</i>	<i>14</i>
1	Selectivity in staffing	3.67	0.92	1													
2	Internal career opportunities	4.12	0.52	.38	1												
3	Training and skills development	3.16	0.94	.33	.35	1											
4	Self-managing teams	3.60	0.98	.01	.10	.78**	1										
5	Information sharing	3.68	0.76	.36	.50*	.60**	.65**	1									
6	Grievance procedures	4.05	1.31	.09	.21	.58**	.73**	.52*	1								
7	Employee participation	3.58	0.67	-.04	.01	.50*	.64**	.62**	.30	1							
8	Performance appraisal	3.93	1.16	.14	.38	.64**	.66**	.51*	.39	.55*	1						
9	Level of salaries	1.82	0.34	.24	.28	.16	.21	.60**	.09	.61**	.51*	1					
10	Pay and reward practices	3.52	0.54	.04	.42	.39	.58**	.78**	.46*	.65**	.56*	.65**	1				
11	Employment security	1.84	0.37	-.05	.24	-.01	.15	.14	.36	.16	.33	.19	.29	1			
12	Perceived organizational performance	3.77	0.38	.47*	.03	.48*	.50*	.54*	.20	.60**	.40	.45	.41	-.26	1		
13	Number of employees	256.68	182.91	-.25	-.16	.07	.17	-.16	.26	.25	.31	.21	.21	.07	.17	1	
14	Age of the company	45.26	34.33	-.18	-.30	-.07	.11	-.13	.51*	.14	-.03	-.07	.01	.49*	-.01	.43	1

Notes: N = 19; ** Correlation is significant at the 0.01 level (2-tailed); *Correlation is significant at the 0.05 level (2-tailed)

5 Discussion and conclusions

The aim of this research was to examine the correlation between HPWPs and the organizational performance of companies that operate in the food and beverage industry, in the fiscal 2010. This year has been marked by the impacts of the global economic crisis, which reflected reduced credit activity of economic entities and a slowdown in future investments, accompanied with insecurity and great uncertainty in business operations. Despite the unfavorable conditions these companies have achieved high results. Similar, the above mentioned research of this kind in other countries, the achieved results in this research, in terms of Macedonian companies in the food and beverage industry, provide partially empirical support to the global approach according to which an identical set of best practices in human resources, called "high-performance work practices", always result in superb organizational performance, regardless of the context and, independent from the competitive strategy of the organization [2, 3]. From the performed research emerged interesting findings and simultaneously raised a series of questions.

With regard to the internal correlation between components of HPWPs, the intercorrelation matrix shows statistically significant correlation in specific parts and pairs of variables. There is a strong link between training and skills development practices and self-managing teams, this suggests that outworn training to overcome specific skills and knowledge are directly related to the ability to organize work in autonomous teams which decide on issues of developing a new product or improve the quality of existing products, business processes and more. The moderate correlation between training and skills development practices and performance appraisal practices suggest that the application of a formal evaluation system of their working performance is associated with systematic planning, organizing and conducting training for employees for at least two reasons. First, investment in improving knowledge, skills and abilities of employees in turn should show feasibility in achieving higher performance in the achievement of goals, both in terms of higher productivity and profitability, and in terms of higher quality of work done and the ability of employees for improvements and innovation. The mechanism used for measuring the results and targets is the individual, team and organizational performance. Secondly, the data obtained from the assessment of work performance have developing component related to allocate gaps in skills, knowledge and abilities of employees and opportunities for their improvement, and these are important inputs to the analysis of training needs. The positive relationship of practices of self-managing teams with employee participation and empowerment, confirms that job structure is another important factor of involvement. Properly structured work through involvement and empowerment will entitle the employee to determine what work they need to do and how to do it. Usually, the autonomy is given to the teams in terms of management tasks. But autonomy can get an employee or a team who has the expertise and the best information about what to do and how to do the work. Today's organizations rely on the initiative of those employees who respond quickly to problems and opportunities. Without timely and accurate information about the circumstances and conditions in the business they will not be able to understand the strategic direction and contribute to organizational success. Organizations strategically opted for more autonomy and participation of employees, apply the practices of self-managing teams and quality circles. Significant correlation between grievance procedures and self-managing team practices indicate that HR managers need to encourage proper use of grievance procedures to discover the sources of employee dissatisfaction. Individual dissatisfaction can lead to loss of a hard working employee. Formal grievance procedures provide a framework within which employees can express their discontent and this is an important factor for successful teamwork. The results of the correlations between the components of HPWPs show that pay and reward practices, and practices to a higher level of pay regarding the competition, are important in this system of HPWPs because for most people work is the main source of income and financial security. Pay level is a basic indicator of the status of the organization, and the status in society. For most employees, the wage level is becoming more important than the size of the salary per se. Comparison of his own salary compared to others in the organization or in relation to the salaries of those who do the same work for another employer, affect work attitudes and behavior. For certain categories of employees, salary becomes a reflection of how much worth as a person the employee is, so salary satisfaction has implications for various aspects of participation, behavior and performance of employees. Interesting results appear in employment security, which is a component of HPWPs and it is not associated with other components, sometimes even appears negative sign in the correlation coefficient, although not with statistical significance. This finding leads to the conclusion that employment security is perhaps the most uncertain practice, especially in situations when economic conditions are unfavorable for the organization. Similarly, the component internal career opportunity shows no significant association with other components. This suggests the need for further theoretical and empirical research on the nature and characteristics of the relations among the components of HPWPs.

The results of the relationship between HPWPs and performance suggested that some components of HPWPs are significantly correlated with the managerial perceptions of organizational performance, and they are: selectivity in staffing; training and skills development; self-managing teams; information sharing; and employee

participation and empowerment. Component selectivity in staffing is crucial to the overall success of the organization. The processes of recruitment and selection also receive a strategic role and importance as factors of "social reproduction of the organization". Their significance consists in contributing to the achievement of the strategic intent of the organization. Practices of training and skills development are factors of organizational performance. If the organization has a strategic intent to be competitive by hiring a quality workforce, investing in training and development should be a priority. In this sense, human capital, bandwidth and method of its development, obtain strategic dimension. In modern organizations, investment in human capital through education and development is considered essential for success in business. Also, the organization of work which applies self managed teams proves to be useful and productive. Such autonomous teams are a potential source of useful ideas for improving systems and reducing costs, i.e. raising the overall efficiency. They are accepted as a successful strategy for engaging the maximum creative potential of employees for advancement and transfer of knowledge and general awareness of the organization's performance. The positive link of practices of employee participation and practices of information sharing with performances is logical only if it is taken into consideration that the responsible and effective participation and authority for decision making cannot be reached if the employee is not timely informed of all aspects of organizational operations relating to its scope of work. Practices of internal career opportunities, grievance procedures and employment security are typically applied components HPWPs in Macedonian companies, but also the findings indicate that they are not associated with performance results. This indicates the need for companies to focus on broader and more frequent use of those components of HPWPs which show connection with the performance. Although some components have stronger links to performance than others, the results provide considerable empirical support to the assertion that investments in strategic HR practices, like HPWPs, are important and they can assist companies in improving overall performance.

Implementation of HPWPs is imperative because of the need of rapid economic development necessary for the Macedonian economy to get closer to the developed economies of Europe and imperative for Macedonian companies that aspire to competitiveness and sustainable development. In this sense, the EU adopted a strategy for development, called Europe 2020, which set the agenda for creating work environments that attract and retain people to work, improving adaptability of workers and companies, creating sustainable working practices and environments that encourage human capital through training and skills development, while protecting the health of workers and promote their welfare [22]. Thus, HPWPs receive important place in the agenda of the EU.

The question is how important HPWPs is for organizational performance for both researchers and managers. Explaining and proving the extent to which they are related to performance, and the conditions under which this relation is realized, helps researchers to build the theory of SHRM, while helping the practitioners in seeking justification for investing in HPWPs.

As far as it is known to the authors, this study is the first empirical test of HPWPs - performance relationship in the context of Macedonian companies producing food and drinks. This study extends research on the Balkan countries where the institutional structure and culture are different from those in Western developed countries.

Finally, this study has some limitations. First, the sample size of the survey is determined by the actual situation. The Macedonian economy is small and a sample of successful companies in one industry cannot be taken from it, which will be suitable for extensive exploration research, which would be established causality - the effect of HPWPs on organizational performance. Second, research findings apply only to the food and beverage industry cannot be generalized to all sectors and industries. Third, although subjective measures of performance are often used and are considered valid, future studies should examine a broader set of performance indicators, including objective performance measures.

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