THE IMPACT OF HUMAN RESOURCE MANAGEMENT PRACTICES ON EMPLOYEE RETENTION AMONG THE FRONTLINE HOTEL EMPLOYEES IN MALAYSIA

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THE IMPACT OF HUMAN RESOURCE MANAGEMENT PRACTICES ON EMPLOYEE RETENTION AMONG THE FRONTLINE HOTEL EMPLOYEES IN MALAYSIA

by

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td></td>
<td>ii</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td></td>
<td>iii</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td></td>
<td>xii</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td></td>
<td>xiii</td>
</tr>
<tr>
<td>LIST OF APPENDICES</td>
<td></td>
<td>xiv</td>
</tr>
<tr>
<td>LIST OF ABREVIATION</td>
<td></td>
<td>xv</td>
</tr>
<tr>
<td>ABSTRAK</td>
<td></td>
<td>xvi</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td></td>
<td>xviii</td>
</tr>
<tr>
<td><strong>CHAPTER 1- INTRODUCTION</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.1</td>
<td>Background of the Study</td>
<td>1</td>
</tr>
<tr>
<td>1.2</td>
<td>Problem Statement</td>
<td>6</td>
</tr>
<tr>
<td>1.3</td>
<td>Empirical Gaps</td>
<td>13</td>
</tr>
<tr>
<td>1.4</td>
<td>Research Questions</td>
<td>14</td>
</tr>
<tr>
<td>1.5</td>
<td>Research Objectives</td>
<td>15</td>
</tr>
<tr>
<td>1.6</td>
<td>Significant of the Study</td>
<td>17</td>
</tr>
<tr>
<td>1.7</td>
<td>Scope of the Study</td>
<td>19</td>
</tr>
<tr>
<td>1.8</td>
<td>Definition of Key Terms</td>
<td>20</td>
</tr>
<tr>
<td>1.9</td>
<td>Organization of Remaining Chapters</td>
<td>26</td>
</tr>
<tr>
<td>1.10</td>
<td>Chapter Summary</td>
<td>27</td>
</tr>
<tr>
<td><strong>CHAPTER 2- LITERATURE REVIEW</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1</td>
<td>Chapter Overview</td>
<td>28</td>
</tr>
<tr>
<td>2.2</td>
<td>Employee Retention</td>
<td>28</td>
</tr>
<tr>
<td>2.2.1</td>
<td>Employee Retention in Hotel Industry</td>
<td>30</td>
</tr>
<tr>
<td>2.3</td>
<td>Psychological Contract</td>
<td>31</td>
</tr>
<tr>
<td>2.4</td>
<td>Fulfillment or Breach of the Psychological Contract</td>
<td>32</td>
</tr>
<tr>
<td>2.5</td>
<td>Leader Member Exchange</td>
<td>35</td>
</tr>
<tr>
<td>2.6</td>
<td>The Concept of Unionized and Non-unionized</td>
<td>38</td>
</tr>
</tbody>
</table>
CHAPTER 3- THEORITICAL FRAMEWORK AND HYPOTHESES

3.1 Chapter Overview

3.2 Relevant of Theoretical Models
   3.2.1 Model of HRM practices with Psychological Contract
   3.2.2 Model of HRM practices with Employee Retention
   3.2.3 Model of HRM practices with LMX

3.3 Proposed Research Framework

3.4 Hypotheses Development
   3.4.1 The relationship between Recruitment and Selection and Employee Retention
   3.4.2 The relationship between Rewards and Incentives and Employee Retention
   3.4.3 The relationship between Career Development and Employee Retention
   3.4.4 The relationship between Performance Appraisal System and Employee Retention
   3.4.5 The relationship between Training and Development and Employee Retention
3.4.6 The relationship between Recruitment and Selection and Psychological Contract Fulfillment 68
3.4.7 The relationship between Reward and Incentives and Psychological Contract Fulfillment 69
3.4.8 The relationship between Career Development and Psychological Contract Fulfillment 70
3.4.9 The relationship between Performance Appraisal and Psychological Contract Fulfillment 72
3.4.10 The relationship between Training and Development and of Psychological Contract Fulfillment 73
3.4.11 The relationship between Recruitment and Selection and Leader Member Exchange 74
3.4.12 The relationship between Reward and Incentives and Leader Member Exchange 75
3.4.13 The relationship between Career and Development and Leader Member Exchange 76
3.4.14 The relationship between Performance Appraisal and Leader Member Exchange 77
3.4.15 There relationship between Training and Development and Leader Member Exchange 78
3.4.16 The relationship between Leader Member Exchange and Employee Retention 79
3.4.17 The relationship between Psychological Contract Fulfillment and Employee Retention 79
3.4.18 The relationship between Leader Member Exchange and Psychological Contract Fulfillment 80
3.4.19 The relationship between HRM practices, Leader Member exchange and Psychological Contract Fulfillment 81
3.4.20 The relationship between HRM practices, Leader Member Exchange and Employee Retention 83
3.4.21 The relationship between HRM practices, Psychological Contract Fulfillment and Employee Retention 84
3.4.22 The relationship between HRM practices, Leader Member Exchange, Union Membership Psychological Contract Fulfillment and Employee Retention 86

3.5 Chapter Summary 88

CHAPTER 4 RESEARCH METHODS
4.1 Chapter Overview 89
4.2 Research Paradigms 89
  4.2.1 Justification on the Choice of Paradigm 91
4.3 Research Process 93
4.4 Research Design 95
  4.4.1 The Survey Method 95
4.5 Research Instrument 96
  4.5.1 Items Generation 96
  4.5.2 Operationalization of the Constructs 98
  4.5.3 Exogenous Variables 98
    4.5.3(a) Human Resource Management Practices 99
  4.5.4 Endogenous Variables 102
    4.5.4(a) Employee Retention 102
  4.5.5 Mediating Variable 104
    4.5.5(a) Psychological Contact Fulfillment 104
    4.5.5(b) Leader Member Exchange 105
  4.5.6 Moderating Variable 107
  4.5.7 Demographic Variable 108
  4.5.8 Control Variables 109
4.6 Survey Questionnaire 109
  4.6.1 Translation Process 112
4.7 Pilot Study 113
4.8 Sampling Frame and Method 114
4.9 Justification of the Selected Sample 116
4.10 Data Collection 118
4.11 Data Analysis 119
  4.11.1 Preliminary Analysis 119
  4.11.2 Partial Least Square (PLS) 119
    4.11.2(a) Assess the Outer Model (Measurement Model) 120
    4.11.2(b) Evaluate Inner Model (Structural Model) 121
    4.11.2(c) Estimation 121
    4.11.2(d) Goodness of Fit 121
    4.11.2(e) Hypothesis testing 122
4.12 Chapter Summary 122

CHAPTER 5 RESULTS 123
5.1 Chapter Overview 123
5.2 Preliminary Analysis 125
  5.2.1 Data Processing 125
  5.2.2 Outliers Detection 126
  5.2.3 Normality Analysis 126
  5.2.4 Multicorenality Analysis 126
  5.2.5 Common Method Bias 127
  5.2.6 Non Response Bias 128
  5.2.7 Analysis Demographic profile respondents 129
  5.2.8 Analysis Descriptive Statistics of Study Variables 136
5.3 Rating Outer Model 137
5.4 Measurement Model 139
  5.4.1 Testing Outer Model 139
  5.4.2 Testing Inner Model 146
CHAPTER 6 DISCUSSION AND CONCLUSION

6.1 Chapter Overview

6.2 Summary of Statistical Analysis
   6.2.1 Summary of Descriptive Analysis
      6.2.1(a) Summary of Demographic Analysis
      6.2.1(b) Summary of Study Variables
   6.2.2 Summary Discriminant Validity
   6.2.3 Summary of Convergent Validity

6.3 Discussion of Major Findings
   6.3.1 Relationship between Recruitment and Selection and Employee Retention
   6.3.2 Relationship between Reward and Incentives and Employee Retention
   6.3.3 Relationship between Career Development and Employee Retention
   6.3.4 Relationship between Performance Appraisal and Employee Retention
   6.3.5 Relationship between Training and Development and Employee Retention
   6.3.6 Relationship between Recruitment and Selection and Psychological Contract Fulfillment
   6.3.7 Relationship between Reward and Incentives and Psychological Contract Fulfillment
6.3.8 Relationship between Career Developments and Psychological Contract Fulfillment

6.3.9 Relationship between Performance Appraisal and Psychological Contract Fulfillment

6.3.10 Relationship between Training and Development and Psychological Contract fulfillment

6.3.11 Relationship between Recruitment and Selection and Leader Member Exchange

6.3.12 Relationship between Reward and Incentives and Leader Member Exchange

6.3.13 Relationship between Career Development and Leader Member Exchange

6.3.14 Relationship between Performance Appraisal and Leader Member Exchange

6.3.15 Relationship between Training and Development and Leader Member Exchange

6.3.16 Relationship between Leader Member Exchange and Employee Retention

6.3.17 Relationship between Psychological Contract and Employee Retention

6.3.18 Relationship between Leader Member Exchange and Psychological Contract Fulfillment

6.3.19 Leader Member Exchange mediate the relationship between Recruitment and Selection and Psychological Contract Fulfillment

6.3.20 Leader Member Exchange mediate the relationship between Reward and Incentives and Psychological Contract Fulfillment

6.3.21 Leader Member Exchange mediate the relationship between Career Development and Psychological Contract Fulfillment
Leader Member Exchange mediate the relationship between Performance Appraisal and Psychological Contract Fulfillment

Leader Member Exchange mediate the relationship between Training and Development and Psychological Contract Fulfillment

Leader Member Exchange mediate the relationship between Recruitment and Selection and Employee Retention

Leader Member Exchange mediate the relationship between Reward and Incentives and Employee Retention

Leader Member Exchange mediate the relationship between Career Development and Employee Retention

Leader Member Exchange mediate the relationship between Performance Appraisal and Employee Retention

Leader Member Exchange mediate the relationship between Training and Development and Employee Retention

Psychological Contract Fulfillment mediate the relationship between Recruitment and Selection and Employee Retention

Psychological Contract Fulfillment mediate the relationship between Reward and Incentives and Employee Retention

Psychological Contract Fulfillment mediate the relationship between Career Development and Employee Retention

Psychological Contract Fulfillment mediate the relationship between Performance Appraisal and Employee Retention

Psychological Contract Fulfillment mediate the relationship between Training and Development and Employee Retention

The Moderating Effect of Union Membership between LMX and Psychological Contract Fulfillment

The Moderating Effect of Union Membership between Psychological Contract Fulfillment and Employee Retention
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.4 Implication of the Study</td>
<td></td>
</tr>
<tr>
<td>6.4.1 Theoretical Implications</td>
<td>207</td>
</tr>
<tr>
<td>6.4.2 Practical Implication</td>
<td>208</td>
</tr>
<tr>
<td>6.4.3 Policy/Governmental Implication</td>
<td>209</td>
</tr>
<tr>
<td>6.4.4 Association Implication</td>
<td>211</td>
</tr>
<tr>
<td>6.4.5 Managerial Implication</td>
<td>211</td>
</tr>
<tr>
<td>6.4.6 Trade Union Implication</td>
<td>214</td>
</tr>
<tr>
<td>6.5 Limitation of the Study</td>
<td>215</td>
</tr>
<tr>
<td>6.6 Recommendations for Future Research</td>
<td>216</td>
</tr>
<tr>
<td>6.6 Conclusion</td>
<td>218</td>
</tr>
</tbody>
</table>

**REFERENCES**

**APPENDICES**
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1.1</td>
<td>Employee Turnover rate according to Industry</td>
<td>7</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>Total of Scale Items Used to Measure Each Construct</td>
<td>97</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>Human Resource Management Scale Items</td>
<td>99</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Employee Retention Scale Items</td>
<td>103</td>
</tr>
<tr>
<td>Table 4.4</td>
<td>Psychological Contract Fulfillment Items</td>
<td>105</td>
</tr>
<tr>
<td>Table 4.5</td>
<td>Leader Member Exchange items</td>
<td>106</td>
</tr>
<tr>
<td>Table 5.1</td>
<td>Demographic Profile of Respondents from Unionize hotels</td>
<td>129</td>
</tr>
<tr>
<td>Table 5.2</td>
<td>Demographic Profile of Respondents from Non-unionized hotels</td>
<td>132</td>
</tr>
<tr>
<td>Table 5.3</td>
<td>Summary of Descriptive Statistics of the Study Variables</td>
<td>136</td>
</tr>
<tr>
<td>Table 5.4</td>
<td>Reliability of Constructs</td>
<td>140</td>
</tr>
<tr>
<td>Table 5.5</td>
<td>Cross Loadings</td>
<td>143</td>
</tr>
<tr>
<td>Table 5.6</td>
<td>Construct Correlations (Diagonal Elements are Square Roots of the AVE)</td>
<td>145</td>
</tr>
<tr>
<td>Table 5.7</td>
<td>Inner Model Results by Size of R-Square</td>
<td>146</td>
</tr>
<tr>
<td>Table 5.8</td>
<td>Path Coefficients for Hypothesis Testing between HRM Practices, LMX, Psychological Contract Fulfillment and Employee Retention</td>
<td>149</td>
</tr>
<tr>
<td>Table 5.9</td>
<td>Path coefficients for Mediation Hypothesis between HRM Practices, LMX Psychological Contract Fulfillment and Employee Retention</td>
<td>152</td>
</tr>
<tr>
<td>Table 5.10</td>
<td>Path coefficients for Moderation Hypothesis between HRM Practices, LMX, Psychological Contract Fulfillment, Employee Retention and Union Membership</td>
<td>155</td>
</tr>
<tr>
<td>Table 6.1</td>
<td>Summary of Hypotheses Results</td>
<td>161</td>
</tr>
</tbody>
</table>
# LIST OF FIGURES

| Figure 3.1 | A Model of relationship between HRM Practices and psychological contract and their impact on employee attitudes and behaviors. | 54 |
| Figure 3.2 | A Model of relationship between HR Practices and Employee Retention | 56 |
| Figure 3.3 | A Model of relationship between HRM Practices and Leader Member Exchange and Intention to Leave | 57 |
| Figure 3.4 | The Current Research Framework with Research Objectives | 58 |
| Figure 3.5 | The Current Research Framework with Hypothesis | 59 |
| Figure 4.1 | The Main Stages of the Research Process | 93 |
| Figure 5.1 | Path Coefficients among Exogenous and Endogenous Variables | 138 |
| Figure 5.2 | t-values among Exogenous Variables and Endogenous Variables | 148 |
| Figure 5.3 | t-values among Exogenous Variables and Endogenous Variables for Unionized Employees | 154 |
| Figure 5.4 | t-values among Exogenous Variables and Endogenous Variables For Non-Unionized Employees | 154 |
LIST OF APPENDICES

Appendix A  Questionnaire in English version
Appendix B  Questionnaire in Malay version
Appendix C  Multicollinearity
Appendix D  Common Method Bias
Appendix E  Combined Respondent profile
Appendix F  Descriptive Statistics of the study variables
Appendix G  Path Coefficients among Exogenous and Endogenous Variables
Appendix H  Reliability of Constructs
Appendix J  Cross Loading for all indicators
Appendix K  Latent Variable Corrélations
Appendix L  Non Responsive Bias
Appendix M  Test of Normality
Appendix N  t-values among Exogenous Variables and Endogenous Variables
Appendix P  Moderation Analysis Calculation
Appendix Q  Studies related to Human Resource Management Practices, Psychological Contract Fulfillment and Employee Retention
Appendix R  The justification of quantitative approach is able to be applied for this research.
Appendix S  Hotel Name List and Selected 86 hotels
Appendix T  Researcher Data Request Letter to MAH
Appendix U  MAH Reply Letter
Appendix W  Sampling Method
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>HRM</td>
<td>HUMAN RESOURCE MANAGEMENT</td>
</tr>
<tr>
<td>LMX</td>
<td>LEADER MEMBER EXCHANGE</td>
</tr>
<tr>
<td>MAH</td>
<td>MALAYSIAN HOTEL ASSOCIATION</td>
</tr>
<tr>
<td>OCB</td>
<td>ORGANISATIONAL CITIZENSHIP BEHAVIOUR</td>
</tr>
<tr>
<td>POS</td>
<td>PERCEIVED ORGANISATIONAL SUPPORT</td>
</tr>
<tr>
<td>NURHB</td>
<td>NATIONAL UNION OF RESTAURANT HOTEL AND BAR</td>
</tr>
<tr>
<td>MTUC</td>
<td>MALAYSIAN TRADE UNION CONGRESS</td>
</tr>
</tbody>
</table>
KESAN AMALAN PENGURUSAN SUMBER MANUSIA KEPADA PENGEKALAN PEKERJA DIKALANGAN PEKERJA HOTEL BARISAN HADAPAN DI MALAYSIA

ABSTRAK

Industri hospitaliti telah menjadi pemangkin penting kepada pembangunan industri pelancongan di Malaysia. Walaupun pembangunan yang amat pesat dalam industri hotel di Malaysia, isu berhenti kerja masih kekal tinggi dalam industri ini. Oleh itu, objektif kajian ini adalah untuk menyiasat sejauh mana amalan pengurusan sumber manusia iaitu pengambilan dan pemilihan, ganjaran dan insentif, pembangunan kerjaya, penilaian prestasi, dan latihan dan pembangunan memainkan peranan yang penting dalam pengekalan pekerja. Kajian ini juga memeriksa peranan keahlian dalam kesatuan sekerja dalam memoderasi hubungan antara LMX dengan pemenuhan kontrak psikologi serta antara pemenuhan kontrak psikologi dengan pengekalan pekerja. Data bagi kajian ini diperolehi melalui kajian ke atas 279 pekerja barisan hadapan industri hotel. Dapatan kajian menunjukkan bahawa pekerja barisan hadapan industri perhotelan memberi perhatian utama terhadap aspek pembangunan kerjaya, ganjaran dan insentif, dan penilaian prestasi sebagai tujuan utama untuk kekal dalam organisasi manakala aspek pengambilan dan pemilihan, dan latihan dan pembangunan tidak berapa penting. Pembangunan kerjaya, dan ganjaran dan Intensif mempunyai hubungan terus dengan pemenuhan kontrak psikologi manakala pembangunan kerjaya, ganjaran dan insentif, dan penilaian prestasi mempunyai hubungan terus dengan LMX. Keputusan juga menunjukkan bahawa LMX mempunyai hubungan terus dengan pemenuhan kontrak
THE IMPACT OF HUMAN RESOURCE MANAGEMENT PRACTICES ON EMPLOYEE RETENTION AMONG THE FRONTLINE HOTEL EMPLOYEES IN MALAYSIA

ABSTRACT

The hospitality industry has become an important catalyst to the development of tourism industry in Malaysia. Despite tremendous development of hotels industry in Malaysia, the issues of employee turnover still remains high in this industry. Thus, the objectives of this research is to investigate the extent to which human resources management practices namely recruitment and selection, rewards and incentives, career development, performance appraisal and training and development plays an important role in employee retention. This research also investigates whether union membership will moderate the relationship between LMX and psychological contract fulfillment as well as between psychological contract fulfillment and employee retention. The data for this research was obtained through a survey of 279 frontlines hotel industry employees. Findings shows that frontlines hotel industry employees are more concerned with career development, rewards and incentives, and performance appraisal as the main objective for remaining in the organization whereas recruitment and selection, and training and development was not that important. Career development, and rewards and incentives have a direct relationship towards psychological contract fulfillment while career development, reward and incentives, and performance appraisal have a direct relationship with LMX. Result also shows that LMX has direct relationship with psychological contract fulfillment and employee retention. Psychological contract
fulfillment has direct relationship with employee retention. Career development and performance appraisal mediated by LMX towards psychological contract whereas only career development was mediated by the psychological contract fulfillment towards employee retention. Finally, trade union membership moderates the relationship between psychological contract fulfillment and employee retention while it doesn’t moderate between LMX and psychological contract fulfillment. The level of retention among unionized workers is higher than the non-unionized workers. The findings of this research provide new directions for future research and highlights key implications to the hotels’ management, Malaysian Association of Hotel and the government on the impact of human resource management practices, psychological contract fulfilment, LMX and the function of trade union on employees’ retention in the hotel industry.
CHAPTER 1
INTRODUCTION

1.1 Background of the study

The tourism sector has been the second highest contributor to the Malaysia’s Growth Domestic Product (GDP). The Malaysia Insider (2010) reported that 9% of Malaysia’s GDP was contributed by the tourism sector and figures continue to increase in tandem with the increase in the number of tourist visits to Malaysia. A survey conducted by the Malaysian Association of Hotel (MAH) in 2011 indicates that in the year 2005, a number of 16.4 million tourists have visited Malaysia. Over the period of five years, the numbers of tourists have shot up to 23.6 million.

In addition to this, the Malaysian Government under the Industrial Malaysian Plan 3 (IMP3, 2006) indicates that there will be 520,770 direct employment opportunities in the tourism sector, an increase by 570 percent as compared to IMP2 figure of 91,156. Moreover in the year 2015, a sum of RM 115 billion is anticipated to be contributed by the hotel sector to the Malaysia’s GDP with two million job opportunities available for the fresh graduates as well as the experienced workforce. According to the Economic Transformation Program (2010), a total of 14 percent of Malaysian workforce were employed by the hospitality industry. The hospitality industry is considered as one of the fastest rising global industries contributing to more than one third of the service business (Bharwani & Butt, 2012).

The Ministry of Human Resources (2009) stated that the employee job turnover from the tourism industry in Malaysia was 16 percent, of which 8 percent was from
hotel sector employees and this percentage of employee turnover is considered high and is anticipated to continually increase over the years to come. In the year 2013, MAH survey on manpower needs and demand confirmed that the turnover is still increasing. In the light of this alarming situation, employee retention has become a major issue to be addressed. Many researchers have found that retaining employees is a significant challenge for many organizations as different employees are motivated by different factors (Shoaib, Noor, Tirmizi, & Bashir, 2009). There are several reasons why employees leave an organization. Most of the employees leave the organization due to poor training and development programs, work displacement, lack of appreciation, unsatisfied with salary, benefits and job opportunities, job stress and burnout (Khan, Mahmood, Ayoub, & Hussain, 2011; Ghosh, Satyawadi, Prasad Joshi, & Shadman, 2013).

A research was conducted and determined that violation of the psychological contract may lead to an increase in employee turnover (Robinson & Rousseau, 1994). This was further confirmed by Hemdi and Abdul Rahman (2010) and also Hemdi and Abdul Rahim (2011) in their research and investigation. The psychological contract can be breached if any of the parties did not fulfill their explicit or implicit promises and it may lead to psychological contract violation. Psychological contract violation is defined as employees’ feelings of disappointment (ranging from minor frustration to betrayal) arising from their belief that their organization has broken its work-related promises (Morrison & Robinson, 1997). Additionally, Grimmer and Oddy (2007) study shows that psychological contract breach will lead to intention to leave, attrition, reduced trust, low organizational citizenship behavior (OCB), low job performance, low job
satisfaction, low organization commitment, increased cynicism, all of which are the consequences of psychological contract breach and the main problem that needs to be addressed.

In addition, human resource management practices (HRM practices) are closely related with the psychological contract (Guzzo & Noonan, 1994; Upasana & Shivagnesh, 2009; Mossholder, Richardson, & Settoon, 2011). HRM practices have been proven to significantly influence psychological contracts between employees and employers (Rousseau, 1995). Extant literature review concluded that human resource studies resolved on such treaty (Suazo, Martinez, & Sandoval, 2009). Rousseau (2001) indicates that scholars and practitioners deemed that an excellent HR deliverance will result in greater or better achievement of the psychological contract which would eventually improve organizational performance. HRM practices communicate a promise to the employees of future career development in exchange of employee services and contributions, hence a strong persuasion in the shaping and development of the psychological contract. Employees understand that each HRM practices are a benefit offered in return for the service expected by the organization and in return for the service offered by the employee (Upasana & Shivagnesh, 2009).

It is safe to conclude that psychological contract’s violation opens a pathway to employee’s turnover as a result of poor management of human resources (Ahmad & Scott, 2014; Hemdi & Rahim, 2011). This essentially means that, efficient human resource management will result in the high fulfillment of the employees psychological contract; evidencing the intention to remain in the organization. Thus, we can clearly see that the psychological contract to mediate between the efficiency of human resource
management and employee retention. Psychological contract fulfillment will not happen by itself but with the help of an intermediary agent as mentioned by Liden, Wayne and Stilwell (1993) in which the psychological contract formed during their interaction with the managers and supervisors starts from the day of recruitment and selection. So here too we can see clearly that the LMX mediate between HRM practices and psychological contract fulfillment.

Studies also reveal that psychological contract violation is minimal with union commitment being stronger as employees’ belief and perceive that the employee trade union is there to protect their employment rights and benefits (Turnley, Bolino, Lester, & Bloodgood, 2004). The difference between hotels with unionized employees and hotels without unionized employees is the availability of the collective agreement. The collective agreements give union workers rights and protections that work at hotels without an employees’ trade union (Mohamed, Ramendran, & Yacob, 2012).

In the non-unionized hotels, organizational line managers often have their subordinate staff at their mercy; grouping the employees into their respective favorites and non favorites, and often perceived to unilaterally alter the terms and conditions of the subordinate workers employment at their own whim and fancy. As compared to union employees’ workplaces, employees have a lawful obligatory written and guaranteed coverage which includes salary and benefits (Mohamed et al., 2012). The possibility of employees to be retained in an organization is greater in a union employee’s workplaces compared to non-union employee’s workplaces as the former protects employee’s rights and in the latter workplaces, employees have to depend on the discretion of their manager (Delery, Gupta, Shaw, Jenkins Jr, & Ganster, 2000).
The management often engages in the decision making process to a great extent, solely based on the employee leader’s (line manager or supervisor) report (Wittmer, Martin, & Tekleab, 2010). Since the manager plays a crucial role in the relationship between management and employees as a middle man, a study need to be conducted to determine whether the manager’s relationship contribute an impact on psychological contract fulfilment and retention of unionized and non-unionized employee’s. This is because, studies carried out by Cleyman, Jex and Love (1995), reveals that employees who are considered to have high-quality information exchange ties with their managers will less likely file complaints as compared to workers having low-quality information exchange ties. Based on Cleyman, Jex and Love (1995) and Ali, (2014) studies, a question arise as to which group the unionized employees’ fall under (in group or out group). Wittmer, Martin and Tekleab (2010) study also reveals that leader member exchange (LMX) is related to actual turnover among unionized employees. This is why LMX is also considered as an important element in researching the relationship between HRM practices, psychological contract fulfilment and employee’s retention as a mediator for this current study and union membership as a moderator.

High workers turnover rate is expected to be a prominent dilemma in the hotel industry. Hence, this investigation is conducted to determine the role of LMX and psychological contract fulfillment as mediator of the relationship between perceived HRM practices and employee retention in hotel industry, as well as the union membership as a moderator.
1.2 Problem Statement

Malaysia being unique and blessed with numerous holiday spots and industrial zones has grown to be a popular holiday and investment destination to a great extent due to the Malaysian government’s continuous promotion of the ‘Visit Malaysia’ campaign. According to World Tourism Organization Network (UNWTO) in Tourism Highlights (2012), Malaysia ranked at number nine in the world’s most picked holiday destination for the year 2011. This has resulted in abundance of opportunities for the hotel industry.

The hotel industry is a major catalyst for the development of accommodation services. Based on the report of the National Productivity Corporation (NPC) in 2011, there were 2,373 establishments operating in the accommodation service industry with a total of 168,844 hotel rooms available since 2009. The development of the tourism sector can be perceived by terms of development in ascendant numbers; clearly seen by the increase in the number of hotels where up to 2011, there are 841 hotels in Malaysia (Monil, & Tahir, 2011).

The increase in the number of hotels in Malaysia is a sign that Malaysia is the attractive point for holidays as well as for foreign direct investment. The hospitality industry has become an important catalyst to the development of the tourism industry in Malaysia as reported by Network World Tourism Organization (UNWTO) in Tourism Highlights 2012 report.

Despite the tremendous development of hotels industry in Malaysia, the issues of employee turnover still remains high in the industry (Hemdi, Nasurdirn, & Ramayah, 2003; Zahari, 2004, Hemdi & Nasurdirn, 2006; Hemdi & Abdul Rahman 2010; Hemdi & Abdul Rahim 2011; Hemdi, Hanafi, & Tamalee, 2013; Zainol, Rozali, Rahman, Nordin,
Tazijan, & Rashid, 2015; Sangaran, & Jeetesh, 2015). Worldwide, the turnover rate in the hotel industry has increased from 60% to 300% per annum. And the percentage is much more superior to the turnover rate in the manufacturing industry which stood at 34.7% per annum (Walker & Miller, 2010). Whereas in Malaysia albeit the turnover rate among hotel employees was not as high as compared to statistics from a world wide perspective, but it is still considered high with turnover rate of 32.40% as reported by Malaysia Employers Federation Report (2012).

Table 1.1

<table>
<thead>
<tr>
<th>No</th>
<th>Industry</th>
<th>Turnover Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IT/communication</td>
<td>75.72%</td>
</tr>
<tr>
<td>2</td>
<td>Associations/societies</td>
<td>33.00%</td>
</tr>
<tr>
<td>3</td>
<td><strong>Hotels/Restaurants</strong></td>
<td><strong>32.40%</strong></td>
</tr>
<tr>
<td>4</td>
<td>Fabricated metallic products Manufacturing</td>
<td>23.88%</td>
</tr>
<tr>
<td>5</td>
<td>Electrical and electronics Manufacturing</td>
<td>23.04%</td>
</tr>
<tr>
<td>6</td>
<td>Plastic/rubber Manufacturing</td>
<td>19.92%</td>
</tr>
</tbody>
</table>

*Source:* - Malaysian Employers Federation Reports 2012

Based on Table 1.1 above, even though IT/Communications sector has the highest employee turnover in terms of percentage being 75.72%, the seemingly lower turnover rate percentage of 32.40% is still higher in terms of total numbers or magnitude because the latter industry has a higher density of employees.

Investigation on workers’ retention is essential for the hotel industry as the problem of workers’ turnover is deemed to be a dilemma in Malaysia. Most corporate
leaders in hotel Industry are battling with the workers’ retention dilemma as the turnover rate is exceptionally high (Zainol et al., 2015).

If the hotel industry fails to retain their employees, the industry will have too many problems such as the cost of re-hiring workers (Del Boca, & Rota, 1998; AlBattat & Som 2013). Bersin (2013) underlines that, costs of recruitment and selection of employees is the key to the success of the practice of staffing. These costs usually reflect the quality of the selected employees. The cost of acquisition includes advertising the position, the interview process and all the efforts taken by the organization before employee selection is made. Below are the list of problems that could be faced by human resource managers pertaining to staffing as per listed by Bersin (2013).

1. Cost of hiring a new person (advertising, interviewing, screening, hiring)
2. Cost of on boarding a new person (training, time management)
3. Lost productivity (a new person may take 1-2 years to reach the productivity of an existing person)
4. Lost engagement (other employees who see high turnover disengage and lose productivity)
5. Customer service and errors (new employees often take longer and are less adopt at solving problems). In healthcare this may result in much higher error rates, illness, and other very expensive costs (which are not seen by HR)
6. Training cost for new recruitment (over 2-3 years and employer likely investing 10-20% of an employee's salary or more in training of new staff)
7. Cultural impact (whenever someone leaves, others take the time to ask "why?").
High employee turnover rate is a threat for the hotel industry to retain their employees (Davidson, Timo, & Wang, 2010). They have to pay high costs for failing to retain employees (Griffeth, & Hom, 2001). These threats can affect the efficiency of recruitment and selection of employees as it involves time, cost and effort. The problem of serious employee turnover can be worsened by the existence of strong competition from other hotels for a scarce pool of experienced employees (Kiany, 2013). The issue of high employee turnover and the need to retain employees is quite a significant agenda for hotel management. This is because, the said issue will affect the hotel's operations if the situation is not controlled, giving a bad image to the hotel itself (Bersin, 2013; AlBattat & Som 2013).

The lap time is also a challenge to the practice of re-recruitment and selection of employees by the hotel industry. Lap times in terms of recruitment and selection of employees refers to the efficiency of the personnel in carrying out the recruitment process. Lap time starts from the moment the employee and department apply until the vacancy is filled. Lap time stops when individuals selected to fill vacancies and to report to a given task. The time range is known as turnaround time. Turnaround time usually reflects the efficiency of the department that manages the recruitment and selection of employees (Bersin, 2013).

Moreover, various researchers have also concluded it is challenging for corporation to retain workers as diverse individuals are induced by diverse factors. Previous studies have consistently shown that employee turnover is very much related to psychological contract violation. It is one of the most problematic issues and particularly

According to Hemdi and Abdul Rahman (2010), HRM strategy could be used as an imperative function in averting the psychological contract violation. The psychological contract variables can be employed as a foundation to develop and implement HRM practices in the hotel industry. Furthermore Hemdi and Abdul Rahim (2011) submit that employers fall short with regard to fulfilment of psychological contract in relation to the employees’ job content, promotion prospect, and remunerations augmentation that leads to the high turnover in the hotel industry. The researcher concluded that, the hotel management needs to understand that they are operating as prime convention creators where they unswervingly persuade not only guidelines and processes, but also the development of the psychological contract of their workers through managers and supervisors who are the management agents (Liden et al., 1993).

Lub, Nije Bijvank, Matthijs Bal, Blomme, and Schalk (2012), found that the younger generations of hospitality workers value psychological contract very highly and they suggested improvement in management style and enhance human resource guiding principle to address adolescent workers anticipations. In alignment with Lub et al. (2012) and Liden et al. (1993) study proposal; this study investigates the LMX as a mediator of the relationship between perceived HRM practices to the employee’s psychological contract fulfilment in the hotel industry. Furthermore, Şahin (2012) study suggested that leader member trade may well be a potential mediator and hence this study had adopted it.
Apart from retention issues, the trade union movement in Malaysia is markedly declined due to the increased management resistance to new unionism and reduced worker interest in unions (Ramendran, Mohamed, Nadarajan, & Rajadurai, 2013). According to Department of Statistics Malaysia (2016), the Service Statistics Accommodation (2015) reports stated that the number of employees were engaged in 2014 was 112,670, of which 104,770 persons (93%) full time paid employees. Part time paid employees comprised (5.2%) 5,860 persons and active proprietors, active business partners, and unpaid family employees amounted to 2,040 persons (1.8%). For full time employees, technical and supervisory recorded the highest total number of persons engaged of 51,246 (45.5%) followed by category of clerical and related occupation (17.6%), general workers (16.5%) and managerial, professional and executive (13.4%). Therefore the lower level employees population is estimated to be about 35,727 in 2015. However, based on the information obtained from the Peninsular Malaysia National Union of Hotel, Bar and Restaurant Workers, their members have reached 10,114 in the year 2010. Thus, the number of employees in this sector covered by the workers' union is miniscule, at only approximately 1.3 percent of the total number (Mohamed et al., 2012). One could possibly imagine the impact of having a sustainably high number of unionized employees that would positively effect or increase employee retention in the hotel industry; there being good evidence that retention is high in unionized organizations, thus union membership can be seen as a moderator (Delery, et al., 2000).

In addition, this research will also examine whether any discrimination exist among unionized employees in the hotel industry by looking at the LMX; because by doing so, we can determine whether unionized employees fall under ‘out-group’ or ‘in-
group’ (Liden et al., 1993). In the case of unionized employees, the current analysis shows that they are in the ‘out group’ of the LMX, this will clearly explain that some elements of unfair labor practices may exist in the Malaysian hotel industry, the reason being Wittmer, Martin, and Tekleab, (2010) suggested that unionized workers are lacking closeness to managers or supervisors in their workplace. At the same time unionized workers have high psychological contract fulfillment eventhough their LMX is low compared to nonunionized workers as stated by Turnley, et al. (2004), thus union membership can be seen as a moderator between LMX and Psychological Contract.

According to Industrial Relations Act 1967 section 4, 5 and 7, unfair labor practices is defined as any failure to act or an unfair act of an employer towards a worker concerning their promotion, demotion, trial periods, training or benefits; suspending a worker or disciplinary action; refusing to re-employ a worker, as agreed; and an employer making circumstances difficult for a worker who was forced to make a protected disclosure.

Previous researchers have demonstrated that psychological contract is one of the important attitudinal construct that affects employees’ behaviour, attitude and work outcome such as employee job performance, job commitment, retention, intention to leave and turnover. This study attempts to establish the task of LMX as a mediator along with Union membership as moderator of the perceived HRM practices and psychological contract fulfilment and the impact on employee retention.
1.3 Empirical Gaps

Studies has consistently showed that excessive turnover rate of employee is deemed to be generally a challenging concern to the worldwide hotel business, which is concerning 60% per annum (Birdir, 2002). Hemdi and Nasurdin (2003) and Zahari (2004), the employee turnover issue remains high in the hotel industry in Malaysia similar with the global hotel industry. Specifically, there are limited studies conducted on perceived HRM practices and psychological contract of frontline hotel employees as their turnover is highest in the hotel industry (Abdullah, Karim, Patah, Zahari, Nair, & Jusoff, 2009; AlBattat & Som 2013; Mohamed, Mohamad Nor, Hasan, Olaganthan & Gunasekaran, 2013).

Previous studies on hotel frontline employees have covered performance productivity (Singh, 2000), employee attitudes and behaviour (Kusluvan, 2003), employee characteristics (Shariff, Zainal, & Hashim, 2010), job performance (Monir & Tahir, 2011), organization culture and job performance (Mohamed et al., 2013) and turnover and job satisfaction (Al Battat et al., 2013) but such studies have very limited focus on perceived HRM practices and psychological contract fulfilment of frontline hotel employees. Furthermore, no studies have been conducted to investigate the difference between unionized and non-unionized employees in the Malaysian Hotel industry in their perceived psychological contract and retention.

Additionally preceding studies in Malaysian hotel industry were centered on turnover objective and job contentment but there were no studies carried out to ascertain the LMX as mediator in the relationship between perceived HRM practices and psychological contract fulfilment, as well as union membership as a moderator. Up to
now there are no preceding studies observing HRM practices and psychological contract fulfilment of frontline workers in Malaysian hotel industry; similarly there are no preceding studies investigating unionized and non-unionized employees psychological contract fulfilment and retention.

1.4 Research Questions

Based on the problem statement, below are the questions that need to be answered.

1. Do human resource management practices positively influence employee retention in Malaysian hotel industry?
2. Do human resource management practices positively influence psychological contract fulfilment in Malaysian hotel industry?
3. Do human resource management practices positively influence leader member exchange in Malaysian hotel industry?
4. Does leader member exchange positively affect the employee retention in Malaysian hotel industry?
5. Does the psychological contract fulfilment positively affect employee retention in Malaysian hotel industry?
6. Does leader member exchange positively affect the psychological contract fulfilment in Malaysian hotel industry?
7. Does leader member exchange mediate the relationship between human resource management practices and psychological contract fulfilment?
8. Does leader member exchange mediate the relationship between human resource management practices and employee retention?
9 Does psychological contract fulfilment mediate the relationship between human resource management practices and employee retention?

10 Does Union membership have a moderating effect on the relationship between leader member exchange and psychological contract fulfilment such that union members experiencing higher level of leader member exchange will report higher psychological contract fulfilment as compared to non union employees?

11 Does Union membership have a moderating effect on the relationship between psychological contract fulfilment and employee retention such that union members experiencing higher level of psychological contract fulfilment will report higher retention as compared to non union employees.

1.5 Objective of the Study

The objectives of this study are:-

1. To determine whether human resource management practices have a positive impact on employee retention in Malaysian hotel industry.

2. To investigate whether human resource management practices have a positive impact on psychological contract fulfilment in Malaysian hotel industry.

3. To identify whether human resource management practices have a positive impact on leader member exchange in Malaysian hotel industry.

4. To ascertain whether leader member exchange contributes positively to employee retention in Malaysian hotel industry.

5. To examine whether psychological contract fulfilment contributes positively to employee retention in Malaysian hotel industry.
6. To ascertain whether leader member exchange contributes positively to psychological contract fulfilment in Malaysian hotel industry.

7. To know whether the leader member exchange mediates the relationship between human resource management practices and psychological contract fulfilment.

8. To determine whether the leader member exchange mediates the relationship between human resource management practices and employee retention.

9. To determine whether psychological contract fulfilment mediate the relationship between human resource management practices and employee retention.

10. To determine whether union membership will have a moderating effect on the relationship between leader member exchange and psychological contract fulfilment such as union members experiencing higher level of leader member exchange will report higher psychological contract fulfilment as compared to non-unionized employees.

11. To determine whether union membership will have a moderating effect on the relationship between psychological contract fulfilment and employee retention behaviour such as union members experiencing higher level of psychological contract fulfilment will report higher retention as compared to non-unionized employees.
1.6 Significance of Study

Practically, these findings could support Hotel Top management and HRM directors and practitioners to devise their HRM practices and policies to address employees' psychological contract as a retention strategy. Furthermore, the outcome of the study will determine the important of leadership and the manager’s role to address employees' psychological contract and suggestion for further improvement in the hotel industry. Due to the decline of trade union membership in Malaysian National Union of Hotel, Bar and Restaurant Workers, this study could evaluate the relevancy of the trade union in the hotel industry and its role to protect the members and provide further proposition to the government, MAH and trade unions on new policy making for employees protection and rights. This study also could benefit and help researchers to form a platform for future studies in this issue.

Theoretically this investigation intends to fill the body of knowledge in the practices of HRM in Malaysian hotel industry by addressing some pertinent issues; of which several are being considered for this investigation. First, the investigation is conducted to explore the function of LMX that correlates with HRM practices principally on recruitment and selection, training and development, career development, performance appraisal, and reward and incentives, that leads to psychological contacts fulfillment and employee retention.

HRM practices are very crucial because it sets the path as to whether the employee continues to serve the organization or quits work to find another job. The literature review shows that, particularly HRM practices, recruitment and selection, training and development, career development, performance appraisal and rewards and
incentives are important for the maintenance of the organizational needs. This may be different for every other individual who may be concerned with one dimension more than others because of the expectations and needs of the organization. So this current study could identify the frontline hotel employee’s expectation and needs in the context of HRM practices and psychological contract. Although employees have expectations about the future of their work before entering an organization, but it can influence the perception of their psychological contract that exists between themselves and the organization. In other words, the psychological contract is not necessarily the same as expectation. Psychological contract is the interpretation of the information by an employee on the information presented to them during the recruitment and selection. At present, this is the beginning of their socialization period with the organization. The period of socialization is important because at this moment the employee’s psychological contract is formed. These managers are the agent of the top management/organizations. The manager’s behavior may indirectly affect employee retention with the influence of HRM practices in the organization.

HRM policy and practices will definitely affect the performance of the organization. For example, the recruitment and selection of the best managers will affect the management of employees in an organization. Consequently, the provision of appropriate training and development for managers will also influence the management of employees in the organization. A set of good HRM practices will provide the manager with a true and precise employees’ appraisal so that the organization can adequately compensate and appropriately reward the employees. However, the managers’ relationship may be influenced by other factors such as good relationship with certain
selective number of employees. Literature has defined those who are not in good relations with their superiors as those in the ‘out group’ in the leader member exchange. The effect is positive for those who are within the ‘in group’ and negative for those who are in the ‘out group’. The question now is should unionized employees be classified as ‘out group’ or ‘in group’? This is because employees within the ‘in group’ are likely to have positive influence on psychological contract fulfilment and high employee retention.

Therefore, this study also investigates whether trade union memberships moderate the relationship between, leader member exchange, employee’s psychological contract fulfilment and employee retention. This research examines the role of unionization and its effect on the relationship between LMX and psychological contract fulfilment among employees in the hotel industry.

Lastly, this study serves as a furtherance to the previous research in HRM practices using the structural equation modeling (SEM) with SMART PLS 2.0 to produce a new framework for further research related to the relationship between HRM practices, LMX, psychological contract fulfillment, employee retention and the trade union.

1.7 Scope of the Study

Data for this study was obtained from frontline hotel employees working in four and five star hotels affiliated with the MAH. These large hotels were selected because, larger organizations have more incidences of psychological contract fulfilment/non fulfillment compared to smaller organizations and, the availability of an existing Human