

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

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by

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## TABLE OF CONTENTS

<b>ACKNOWLEDGEMENT</b>	<b>ii</b>
<b>TABLE OF CONTENTS</b>	<b>iii</b>
<b>LIST OF TABLES</b>	<b>xii</b>
<b>LIST OF FIGURES</b>	<b>xiii</b>
<b>LIST OF APPENDICES</b>	<b>xiv</b>
<b>LIST OF ABBREVIATION</b>	<b>xv</b>
<b>ABSTRAK</b>	<b>xvi</b>
<b>ABSTRACT</b>	<b>xviii</b>

### **CHAPTER 1- INTRODUCTION**

1.1	Background of the Study	1
1.2	Problem Statement	6
1.3	Empirical Gaps	13
1.4	Research Questions	14
1.5	Research Objectives	15
1.6	Significant of the Study	17
1.7	Scope of the Study	19
1.8	Definition of Key Terms	20
1.9	Organization of Remaining Chapters	26
1.10	Chapter Summary	27

### **CHAPTER 2- LITERATURE REVIEW**

2.1	Chapter Overview	28
2.2	Employee Retention	28
	2.2.1 Employee Retention in Hotel Industry	30
2.3	Psychological Contract	31
2.4	Fulfillment or Breach of the Psychological Contract	32
2.5	Leader Member Exchange	35
2.6	The Concept of Unionized and Non-unionized	38

2.7	Recruitment and Selection	39
2.8	Rewards and Incentive	40
2.9	Career Development	42
2.10	Performance Appraisal System	45
2.11	Training and Development	47
2.12	The Underlying Theories	
	2.12.1 Social Exchange Theory	48
	2.12.2 Leader Member Exchange Theory	49
2.13	Gaps in the Literature	50
2.14	Chapter Summary	52

### **CHAPTER 3- THEORITICAL FRAMEWORK AND HYPOTHESES**

3.1	Chapter Overview	53
3.2	Relevant of Theoretical Models	53
	3.2.1 Model of HRM practices with Psychological Contract	54
	3.2.2 Model of HRM practices with Employee Retention	55
	3.2.3 Model of HRM practices with LMX	56
3.3	Proposed Research Framework	58
3.4	Hypotheses Development	60
	3.4.1 The relationship between Recruitment and Selection and Employee Retention	62
	3.4.2 The relationship between Rewards and Incentives and Employee Retention	63
	3.4.3 The relationship between Career Development and Employee Retention	64
	3.4.4 The relationship between Performance Appraisal System and Employee Retention	65
	3.4.5 The relationship between Training and Development and Employee Retention	66

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**

5.1	Chapter Overview	123
5.2	Preliminary Analysis	
	5.2.1 Data Processing	123
	5.2.2 Outliers Detection	125
	5.2.3 Normality Analysis	126
	5.2.4 Multicoreality 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

5.5	Structural Model	147
5.5.1	T-Statistic	149
5.5.2	Mediation Analysis	150
5.5.3	Moderation Analysis	153
5.6	Chapter Summary	156

## **CHAPTER 6 DISCUSSION AND CONCLUSION**

6.1	Chapter Overview	157
6.2	Summary of Statistical Analysis	
6.2.1	Summary of Descriptive Analysis	157
6.2.1(a)	Summary of Demographic Analysis	157
6.2.1(b)	Summary of Study Variables	158
6.2.2	Summary Discriminant Validity	159
6.2.3	Summary of Convergent Validity	159
6.3	Discussion of Major Findings	160
6.3.1	Relationship between Recruitment and Selection and Employee Retention	170
6.3.2	Relationship between Reward and Incentives and Employee Retention	171
6.3.3	Relationship between Career Development and Employee Retention	171
6.3.4	Relationship between Performance Appraisal and Employee Retention	172
6.3.5	Relationship between Training and Development and Employee Retention	173
6.3.6	Relationship between Recruitment and Selection and Psychological Contract Fulfillment	175
6.3.7	Relationship between Reward and Incentives and Psychological Contract Fulfillment	176

6.3.8	Relationship between Career Developments and Psychological Contract Fulfillment	177
6.3.9	Relationship between Performance Appraisal and Psychological Contract Fulfillment	178
6.3.10	Relationship between Training and Development and Psychological Contract fulfillment	179
6.3.11	Relationship between Recruitment and Selection and Leader Member Exchange	179
6.3.12	Relationship between Reward and Incentives and Leader Member Exchange	181
6.3.13	Relationship between Career Development and Leader Member Exchange	181
6.3.14	Relationship between Performance Appraisal and Leader Member Exchange	182
6.3.15	Relationship between Training and Development and Leader Member Exchange	183
6.3.16	Relationship between Leader Member Exchange and Employee Retention	184
6.3.17	Relationship between Psychological Contract and Employee Retention	185
6.3.18	Relationship between Leader Member Exchange and Psychological Contract Fulfillment	185
6.3.19	Leader Member Exchange mediate the relationship between Recruitment and Selection and Psychological Contract Fulfillment	186
6.3.20	Leader Member Exchange mediate the relationship between Reward and Incentives and Psychological Contract Fulfillment	187
6.3.21	Leader Member Exchange mediate the relationship between Career Development and Psychological Contract Fulfillment	188

6.3.22	Leader Member Exchange mediate the relationship between Performance Appraisal and Psychological Contract Fulfillment	189
6.3.23	Leader Member Exchange mediate the relationship between Training and Development and Psychological Contract Fulfillment	190
6.3.24	Leader Member Exchange mediate the relationship between Recruitment and Selection and Employee retention	191
6.3.25	Leader Member Exchange mediate the relationship between Reward and Incentives and Employee Retention	192
6.3.26	Leader Member Exchange mediate the relationship between Career Development and Employee Retention	194
6.3.27	Leader Member Exchange mediate the relationship between Performance Appraisal and Employee Retention	195
6.3.28	Leader Member Exchange mediate the relationship between Training and Development and Employee Retention	196
6.3.29	Psychological Contract Fulfillment mediate the relationship between Recruitment and Selection and Employee Retention	197
6.3.30	Psychological Contract Fulfillment mediate the relationship between Reward and Incentives and Employee Retention	199
6.3.31	Psychological Contract Fulfillment mediate the relationship between Career Development and Employee Retention	200
6.3.32	Psychological Contract Fulfillment mediate the relationship between Performance Appraisal and Employee Retention	202
6.3.33	Psychological Contract Fulfillment mediate the relationship between Training and Development and Employee Retention	203
6.3.34	The Moderating Effect of Union Membership between LMX and Psychological Contract Fulfillment	205
6.3.35	The Moderating Effect of Union Membership between Psychological Contract Fulfillment and Employee Retention	206

6.4	Implication of the Study	207
6.4.1	Theoretical Implications	207
6.4.2	Practical Implication	208
6.4.3	Policy/Governmental Implication	209
6.4.4	Association Implication	211
6.4.5	Managerial Implication	211
6.4.6	Trade Union Implication	214
6.5	Limitation of the Study	215
6.6	Recommendations for Future Research	216
6.6	Conclusion	218
	<b>REFERENCES</b>	220
	<b>APPENDICES</b>	254

## LIST OF TABLES

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

## LIST OF FIGURES

		<b>Page</b>
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	<i>t</i> -values among Exogenous Variables and Endogenous Variables	148
Figure 5.3	<i>t</i> -values among Exogenous Variables and Endogenous Variables for Unionized Employees	154
Figure 5.4	<i>t</i> -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 Correlations
- 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

## **LIST OF ABBREVIATION**

HRM	HUMAN RESOURCE MANAGEMENT
LMX	LEADER MEMBER EXCHANGE
MAH	MALAYSIAN HOTEL ASSOCIATION
OCB	ORGANISATIONAL CITIZENSHIP BEHAVIOUR
POS	PERCEIVED ORGANISATIONAL SUPPORT
NURHB	NATIONAL UNION OF RESTAURANT HOTEL AND BAR
MTUC	MALAYSIAN TRADE UNION CONGRESS

**KESAN AMALAN PENGURUSAN SUMBER MANUSIA KEPADA  
PENGKALAN 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 pengkalan 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 pengkalan 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

psikologi dan pengekalan pekerja. Pemenuhan kontrak psikologi mempunyai hubungan terus dengan pengekalan pekerja. Pembangunan kerjaya dan penilaian prestasi dimediasi oleh LMX kepada kontrak psikologi manakala hanya pembangunan kerjaya dimediasi oleh kontrak psikologi kepada pengekalan pekerja. Akhir sekali keahlian kesatuan sekerja memoderasi hubungan antara pemenuhan kontrak psikologi dengan pengekalan pekerja tetapi tidak memoderasi antara LMX dengan pemenuhan kontrak psikologi. Ini menunjukkan bahawa tahap pengekalan pekerja dalam kalangan pekerja yang berkesatuan adalah tinggi berbanding dengan pekerja tanpa kesatuan sekerja. Hasil kajian ini memberikan arah baru untuk penyelidikan masa hadapan dan menyerlahkan implikasi penting kajian kepada pihak pengurusan hotel, persatuan hotel dan kerajaan berkaitan impak amalan pengurusan sumber manusia, pemenuhan kontrak psikologi, LMX serta peranan kesatuan sekerja terhadap pengekalan pekerja dalam industri perhotelan.

**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 work force. 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, Nasurdin, & Ramayah, 2003; Zahari, 2004, Hemdi & Nasurdin, 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

*Employee Turnover rate according to Industry*

No	Industry	Turnover Rate
1	IT/communication	75.72%
2	Associations/societies	33.00%
<b>3</b>	<b>Hotels/Restaurants</b>	<b>32.40%</b>
4	Fabricated metallic products Manufacturing	23.88%
5	Electrical and electronics Manufacturing	23.04%
6	Plastic/rubber Manufacturing	19.92%.

*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 adept 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

detrimental to the global hotel industry (Hemdi & Abdul Rahman 2010; Hemdi & Abdul Rahim 2011 & Zainol, Rahman, Nordin, Tazijan, & Rashid, 2015).

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 104770 persons (93%) full time paid employees. Part time paid employees comprised (5.2%) 5860 persons and active proprietors, active business partners, and unpaid family employees amounted to 2040 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 Nasuridin (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