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# **Impact of Human Resource Management Practices on Employee Turnover Intentions: Moderating Role of Psychological Contract Breach**

## **Introduction**

Employee turnover remains as one of the most challenging issues for hospitality industry, worldwide. Consequences of employee turnover are related to financial implications including recruitment and training cost, talent attrition and decreased productivity (Loi *et al.*, 2006). According to the U.S. Bureau of Labor statistics report (2015) the total separations, or employee turnover in hospitality and tourism industry was at 6.3% in April 2015, which rose from 5.7% in May 2014. These include voluntary turnover, layoffs and discharges, and other separations. In India, employee turnover rate in four star and higher category hotels was between 11 and 12 % in 2011 (Ministry of Tourism, Government of India, 2012). Ministry of Tourism (2012) report predicted the total employment in hotels to increase up to 7,600,000 by March, 2022. Subsequently, the manpower demand – supply gap in hospitality sector has arisen owing to lack of adequate training infrastructure, substantial growth in number of hotels and significant employee turnover rate. Considering the prompt developments in India's hospitality industry and the growing demand for skilled employee, it is vital for the hotel employers to apprehend the employee's perceptions and concerns about organizational practices (Mohsin *et al.*, 2013). Employee turnover intention acts as a proxy for actual employee turnover, it is significant especially for labor-intensive industries to invest in proactive measures of employee retention rather than performing post-hoc check on employee turnover rates.

Frontline employees' are the face of service industry and their direct interaction with customers contribute immensely to determine the competitive advantage of the business. In hospitality industry, employee turnover is high across non-managerial jobs (Poulston, 2008). Hotel industry is the largest employer in tourism; on the other hand the high employee mobility or turnover rate experienced within the industry is a common problem, worldwide (Collins, 2007; Solnet and Hood, 2008). Budhwar and Debrah (2004) indicated that there has been a remarkable development in human resource management orientation and research but little has been written about challenges and perspectives of developing economies. Especially, human resource management challenges in service industries like hospitality industry is unique with diverse workforce and dominant requirement of non-technical skill base. Therefore, there is a dearth for systemic studies examining the human resource practices in the hospitality industry, despite of the high employee turnover in the industry.

Human resource management is one of the main organizational factors influencing employment relationship at the organization level (Lv and Xu, 2016; Restubog *et al.*, 2015). However, little attention has been paid to the organizational factors (Restubog *et al.*, 2015), which play a significant role in shaping and influencing employees reaction to psychological contract breach. Despite the fact that human resource management practices play an important role in influencing the psychological contract breach and several implications for such contract breach; the impact of these practices and psychological contract on employee/s attitude and behavior has not received much research attention. Therefore, this study focusses on the role of human resource management practices in the employment relationship. Consequently, recognizing how human resource management practices shape employee psychological contract will facilitate organizations to initiate more consistent communication and management of the contract. Moreover, psychological contract breach has been largely studied on student sample. In an attempt to bridge this void, this study highlights frontline employee's psychological contract with their organizations in the context of hospitality industry.

Human resource practices in any organization are highly interdependent and may not be construed as independent factors. In this study, some of the dominant human resource management practices have been pooled and their impact on employee turnover intention is examined. Given the research evidence that frontline employees play a vital role in determining the competitive edge of the business and the costs involved with high turnover, this study is set out to focus on the following objectives. First, to investigate the impact of human resource management practices, namely selection, training, career growth opportunities and compensation, on frontline employee turnover intentions; second, to examine how psychological contract breach moderates the relationship between human resource management practices and frontline employees' turnover intention.

### **Theoretical Background**

Effective human resource management augments employee's knowledge, skill and ability, empower and increase employee motivation (Becker and Gerhart, 1996; Rynes and Trank, 1996). These in turn have implications on increased employee's job satisfaction, reduced employee turnover, increased productivity and overall improvement in organizational performance (Becker and Gerhart, 1996). Employee's service relationship with the organization is shaped by the human resource practices such as recruiting, training, performance appraisal and benefits administration (Rousseau and Greller, 1994). In this

study, human resource management practices literature has been reviewed in the context of employee turnover intention and psychological contract.

Rousseau, (1990) defined psychological contracts as an individual's belief regarding the terms and conditions of a reciprocal exchange agreement between an employee and the organization (Rousseau, 1990). From the definition, it is evident that psychological contract perspective shifts from a bilateral relationship (between employee and employer) to a unilateral relationship at individual level (Anderson and Schalk, 1998). Psychological contracts can be of two types. First, transactional contracts which refers to specific monetary exchanges such as rapid advancement, high pay and merit pay. Second, relational contracts that encompass long-term job security, career development and support with personal problems (Rousseau, 1990). The terms psychological contract breach and violation are used interchangeably in psychological contract research, however, Morrison and Robinson (1997) defined psychological contract breach as employee's cognition that organization has failed to meet its obligation and psychological contract violation as emotional or affective state which follows the breach.

#### *Human resource practices to employee turnover intention*

Conventionally, it is believed that human resource practices play a crucial role in influencing employee attitudes and behaviour. Human resource management practices specifically employee promotions, labour-management participation teams that contribute to employee development would enhance employee retention and these practices had a negative relationship with employee turnover (Huselid, 1995). Similarly, Tang and Tang (2011) noted that human resource practices invest on improving service capacity of employees through selection policies, training practices, integrated performance appraisal, competitive rewards and empowering employees in decision-making. Subsequently, it would provide sufficient support to employees so that they can perform better to satisfy customers and to perform their tasks successfully. Allen *et al.* (2003) indicated organizational practices, which signal development opportunities and investment on employees ought to decrease employee turnover.

Turnover intentions reveal the subjective probability that an individual will quit the organization and thus reflect one's attitude towards the organization. It is a scaled measure with better statistical properties than actual employee turnover measure, which is dichotomous. Apprehensions regarding employment in hospitality industry typically ranges

from low wages, poor working conditions, lack of job security, uncertain growth opportunities, demanding work, low status, long and disruptive work hours (Getz, 1994; Kong and Baum, 2006). In the hospitality industry, following concepts were identified as determinants of employee turnover intention, such as salary and fringe benefits, working hours, workload, work pressure, training and development, leadership, career plans and family factors (Yang *et al.*, 2012); lack of training and career growth opportunities (Bagri *et al.*, 2010), internal recruitment and poor training (Cho *et al.*, 2006). Considering the increase in employee turnover rates and exponential growth in Indian hospitality industry there is a need to examine the determinants of employee turnover intentions from human resource management practices perspectives. Based on the preceding discussion, we propose the following hypotheses,

*Hypothesis 1a:* Selection practices will be significantly related to employee turnover intention.

*Hypothesis 1b:* Training practices will be significantly related to employee turnover intention.

*Hypothesis 1c:* Career growth opportunities will be significantly related to employee turnover intention.

*Hypothesis 1d:* Compensation practices will be significantly related to employee turnover intention.

#### *Psychological contract breach – as a moderator*

Blomme *et al.* (2010) observes that psychological contracts develop through an interactive process between employee and employer, which is influenced by a number of human resource practices beginning from recruitment, training, compensation and growth opportunities. There exist vast literature on the implications of psychological contract breach on employee attitude and behaviour (Rousseau, 1990; Rousseau and Greller, 1994; Robinson and Morrison, 1995; Turnley and Feldman, 1999; Coyle-Shapiro and Kessler, 2000; Guest, 2004; Derry *et al.*, 2006; Suazo *et al.*, 2005; Aggarwal and Bhargava, 2008). Contract fulfilment by the employer will lead to positive organizational outcomes such as organizational citizenship behaviour (Robinson and Morrison, 1995; Coyle-Shapiro and Kessler, 2000) and organizational commitment (Guest, 2004). On the other hand, psychological contract breach will result in employee turnover, decreased in-role and extra-role performance and reduced organizational identification (Turnley and Feldman, 1999); absenteeism (Derry *et al.*, 2006); low organizational trust (Derry *et al.*, 2006; Rousseau,

1990); diminishing commitment levels (Rousseau and Greller, 1994) and employee turnover intention (Suazo *et al.*, 2005; Aggarwal and Bhargava, 2008).

Employees who believe that their organization has breached the psychological contract are likely to display higher levels of intent to leave, fatigue or apathy and absenteeism (Guchait *et al.*, 2015; Manxhari, 2015). We intended to examine how perception about human resource management practices and breach together affects employee's intention to quit. Therefore, in this study we examine the interaction effect between human resource management practice and employee turnover intentions. Here, the following hypotheses have been proposed to test the role of psychological contract breach as a moderator.

*Hypothesis 2a:* Psychological contract breach will moderate the relationship between selection practices and employee turnover intention

*Hypothesis 2b:* Psychological contract breach will moderate the relationship between training practices and employee turnover intention.

*Hypothesis 2c:* Psychological contract breach will moderate the relationship between career growth opportunities and employee turnover intention.

*Hypothesis 2d:* Psychological contract breach will moderate the relationship between compensation practices and employee turnover intention.

## **Methodology**

### *Instrumentation*

Measures for the study were adapted from the established scales. Human resource management practices were measured with a 26 item, 5-point Likert type scale. We have adapted the scales developed by Khatri (2000) to assess three aspects of human resource management practices – selection practices (six items), training practices (six items) and compensation practices (eight items). Career growth opportunity was measured with six items adapted from Ganesan and Weitz (1996) and Sumathi *et al.* (2011).

Psychological contract was measured using scales reported by Rousseau (1990). This scale comprises two elements: employee perceptions of employer obligations (10 items) and actual fulfillment of such provisions (10 items). Respondents were asked to indicate the extent to which they perceive their employer promised to provide the list of items (on a 5-point Likert scale ranging from 'not at all' to 'a very large extent'). Subsequently,

respondents were asked to specify the extent to which they in practice had been provided with the list of employer obligations (with a 5- point Likert ranging from 'not at all' to 'a very large extent'). Deducting the degree to which each item was delivered in practice from the degree to which each item was perceived to be promised, created the measure of psychological contract breach.

Employee turnover intention was measured with five items, three items from the scale developed by Landau and Hammer (1986) and two items from Lum *et al.* (1998). Basic demographic information including age, gender, relevant educational qualification and tenure in the hotel were sought and their effects were controlled.

### *Sample*

Butcher *et al.* (2009) observes that smaller organizations will have little capacity to specialize in human resource practices and policies when compared to large organizations. Hence, the data were collected from four and five star hotels, India. Frontline employees' (front-office and food & beverage service) were considered as the sample for this study. Data were collected using purposive sampling technique as this study is intended to examine the perception of specific work group (frontline employees) in hospitality industry. Survey questionnaire were hand delivered to the 294 frontline employees' of hotels; 236 usable questionnaires were returned yielding a response rate of 80 percent.

### *Sample Characteristics*

The sample constitutes 76% males and 24% females. This result shows that female employees have low representation in the hospitality industry in India. In terms of educational qualification, 40.7% of the respondents possess diploma in hotel management, 36.9% hold bachelor's degree in hotel management and only 3.8% employees have post-graduation in hotel management, and rest of the respondents hold diploma/degree in other fields. The sample has respondents from diverse age groups with the mean age of 27 years. Most of the frontline employees (52.5%) have 1-5 years of work experience, 36% of the respondents possess less than 1 year of work experience and 13.7% of the respondents have greater than 6 years of work experience in their currently employed hotel.

### *Analyses and Results*

Psychometric properties of the instrument including issues of reliability, convergent validity and discriminating validity were tested. Reliability of scales was tested using Cronbach's alpha internal consistency method. Table I provides the reliability results and all the values were above 0.60, which is considered to be acceptable (Hair *et al.*, 2006). In order to measure the convergent validity, corrected item-total correlation were computed. As per the recommendations of Clark and Watson (1995), corrected item-total correlation within the range of 0.15-0.20 for scales measuring broad characteristics is considered to be acceptable. In this study, the results of the corrected item-total correlation exceeds 0.20, ensuing convergent validity of the scales.

Correlation analysis among the constructs was performed and the results were depicted in Table I. One of the concerns from the correlation results remains as strong relationship among the independent constructs. Prior research has exhibited that these constructs predict different measures, suggesting that they are independent constructs (Sumathi *et al.*, 2015; Tzafrir, 2005; Khatri, 2000). Moreover, Fong *et al.* (2011) results have shown sizable correlation among the human resource management practices. For example, Fong *et al.* found the correlation between selection practices and training practices as 0.63. Results of the correlation analysis provides support for discriminant validity of the study, when correlation coefficient matrix between constructs is examined, no correlation coefficient is above 0.90 (Refer to Table I). Therefore, all the constructs are distinct from each other (Amick and Walberg, 1975; Nadiri and Tanova, 2010).

Multiple regression analysis has been conducted to examine the hypotheses. Hypothesis 1 examines the significant impact of human resource practices on employee turnover intentions. Results are exhibited in the Table 2. Demographic factors were considered as control variables and they were entered at step 1. At step 2, human resource management practices were introduced into regression equation. Selection, training and compensation practices exhibit significant relationship with turnover intention. Therefore, the hypothesis 1a, 1b and 1d remains supported. The moderation effects examined through hierarchical linear regression analyses, conducted as per recommendation of Aiken and West (1991). Data were mean centered by creating new centered independent and moderator variable after deducting the mean values from the respective independent and moderator variable terms. Table 3 exhibits the results of moderation analysis (Hypothesis 2).

**Table 1 Correlation analysis and reliability scores of measures (in parentheses)**



## Discussion and Implications

It is critical to notice that, of the four human resource management practices, only selection, training and compensation practices had a significant effect on employees' intention to quit while career growth opportunities remains constant (Table 2). Selection practice was negatively related to employee turnover intention. These findings are in line with the existing literature (Bonn and Forbringer 1992; Paraskevas 2000; Boselie *et al.*, 2005). This study empirically demonstrates that employees, who perceive fairness in selection process, would tend to stay with their organization for a longer tenure. Training practices were found to exhibit significant positive influence on employee's turnover intention. Therefore, in the hospitality industry even with better training provided to the frontline employees, they intend to leave their job. Hypothesis 1d reveals significant negative relationship between compensation practices and employee turnover intentions. This result is consistent with studies conducted by Nankervis and Debrah (1995); Namasivayam *et al.* (2007) and Bagri *et al.*, (2010). Pay and benefits in the hospitality industry is considered to be very low compared to other service sectors, which may act as a major reason for employee turnover intention. However, in Indian hospitality industry employees possess positive perception of compensation practices; as a consequence they have low turnover intention. We also proposed that psychological contract breach is likely to have a pervasive negative impact on employee attitudes and behaviors.

### Table 2 Regression analysis for employee turnover intentions

Moderating effects of psychological contract breach in the relationship between human resource management practices and employee turnover intention has been explored in this study. Moderating analysis results showed that psychological contract breach moderates the relationship between the practices of human resource management practices such as selection and training practices, and intention to quit. Career growth opportunity also shows significant moderation, though it does not have significant direct effect on employee turnover intention. Interaction effects between selection practices and psychological contract breach on turnover intentions (see figure 1) exhibits that higher the perception of the breach and positive perception of selection practices together leads to higher intention to quit. In figure 2, despite of better perception of training practices, high breach of psychological contract leads to increased turnover intentions. Though employers provide adequate training to their employees, the consequences of breach negatively affects their attitudes and behavior, and further stimulated their intention to leave the job. Similarly, higher the perception of breach

along better growth opportunities in the hotels, leads to increased turnover intention (see figure 3).

Empirical evidences from this study describes that despite of better perception of human resource management practices, breach of psychological contract has greater influence on employees attitudes and behaviors. Adapting the social exchange theory perspective, employees receiving economic and socio-emotional resources from the organization tend to be obliged to recompense the organization through positive job and organizational outcomes (Cropanzano and Mitchell, 2005 and Karatepe, 2013). Considering the volatile nature of employment relationship within the hospitality industry, employers should focus on reducing the perception-expectation gap among the employees in order to reduce to perceived psychological contract breach and its effect on employee turnover intention. This unique human resource management practices - psychological contract breach – turnover intention relationship suggested that employee’s perception of high psychological contract breach would enhance their turnover intention.

### **Table 3 Moderated regression analysis**

Additionally, the results of this study put forward that the positive perception of human resource management practices lower employees’ turnover intention. Human resource management practices actually impede the breach of psychological contract between the employer and employee, and this lowers their turnover intention. When employees perceive that their organization fail to provide what was promised, employees will develop undesirable attitude and behaviour largely in terms of intent to quit the organization. Therefore, the findings of this study confirms suggestions from Guzzo and Noonan (1994) that human resource practices acts as tool for communication between employer and employee in order to enhance strong employment relationship.

Despite the better perception about human resource management practices namely selection, training and compensation, perceived psychological contract breach influences the employee’s turnover intention. Therefore, it is evident that psychological contract breach enhances the turnover intention among frontline employees in hospitality industry. Lv and Xu (2016) found that better perception of high-performance work system increases the employees feelings of being exploited by the organization, which further affects the physical and psychological well-being of employees (Oppenauer and Van De Veorde, 2016) and thus aggravate the negative effects of psychological contract breach on turnover intention. The

hospitality industry and future research studies should consider the consequences of employee's turnover intention, as they disrupt the quality of service delivery to customers, possess low morale, sends negative signal to their co-workers related to the nature of work and organization, and also deteriorate the business reputation (Magnini *et al.*, 2011).

In the process of service delivery, organization should focus more on preventing the occurrences of psychological contract breach among the frontline employees during high job demands and/or low resource scenarios in order to avoid the detrimental effects of psychological contract breach (Vantilborgh *et al.*, 2016). To minimize the negative consequences of psychological contract breach, managers should pay more emphasis on understanding the organizational factors that influence the employees' reaction to psychological contract breach (Restubog *et al.*, 2015). Solinger *et al.* (2015) found that organizational commitment and post-breach organizational support would pave way to resolve the negative consequences of psychological contract breach. Enhancing the organizational commitment and providing organization support to employees will pave way to impede the development of turnover intention.

While the hotel and hospitality industry in India is reeling under a severe manpower shortage, this work provides key insights into understanding how employees perceive human resource practices, the role of psychological contract breach and how such attribution affects employee turnover intention. The findings of this study paves way for hospitality industry in general and also in particular to India for understanding which practices of human resource management have significant impact on employees intention to quit the job and to examine the role the psychological contract. As frontline employees' are the core group of employees in hospitality industry, they play a vital role in achieving the sustainable competitive advantage of the business, by delivering quality service to the customers. Therefore, unless serious attempts are made towards retaining such core group of employees, it will be challenging for the organization to focus on external customers and their loyalty. Most of the existing research in this area has been done in the countries like U.S (Choi and Dickson, 2010), U.K (Price 1994), Australia (Nankervis and Deborah, 1995), and Taiwan (Tsaor and Lin, 2005) and therefore findings of this study may be important for hospitality firms operating in India. Moreover, India is emerging as one of the most potential markets for investments by international hotel groups like Marriot, Accor, Novotel, Holiday Inn, Hyatt, Hilton, etc.,

This study has certain limitations. First, the data were collected only from one service industry in India. Therefore, the findings may not be generalizable to other industries. In order to validate the study results, future research studies should focus on diverse samples across nations and industries. Second, due to inaccessibility of objective data on employee turnover, this study uses only subjective data. Availability of objective data might have further strengthened the generalization of results. Third, psychological contract breach has been examined using composite measure through difference scores. However, difference score measures adversely affect validity of the scale. Therefore, future studies should consider using other measures for examining psychological contract such as global measures, weighted measures or combination all three measures.

Our findings hold several implications for the hospitality industry and future research. This study highlights the prerequisite for hospitality organizations to focus on their practices of human resource management in order to retain their employees and increase their psychological bonding. It is important for employers to consider employee's perception of human resource practices in formulating and executing those practices. This study contributes to explain the moderating role of psychological contract breach in the turnover intention process. This study paves way for the human resource researchers to explore the relationship between human resource management practices and turnover intention through psychological contract breach in cross-national context and diverse industry settings in order to generalize the findings and suggest the industry about the growing need to focus on human resource management practices and sustain the employment relationship.

## **Conclusion**

This study has examined the effect of four human resource management practices on psychological contract breach and employee turnover intention. However, most of the prior studies have studied the effect of individual human resource management practices. Examining the effect of bundle of human resource management practices add more value than considering the effect of single human resource management practices. In practice, organizations' execute several human resource management practices which are inter-related and play a vital role in attaining efficiency and effectiveness in the functions of human resources. Future studies should focus on the role of several other human resource management practices and contextualize those practices based on the national/industry/work group. In order to reduce employee turnover intention, human resource practices and

psychological contract should be monitored periodically and addressed proactively to fulfill the needs of employees. Additionally, this study results would clearly indicate the organizations and academicians about which human resource management practices has to be focused in order to enhance employee retention. Future studies may consider the role of environmental factors and employees' demographic factors on psychological contract breach and its impact on employee turnover intention in hospitality industry context.

In this dynamic competitive era, there is a growing demand for competent employees for enhancing organizational performance and maintain sustainable development. Frontline employees are the core group of employees in hospitality services therefore loss of those employees might have adverse effects on the process of service delivery. Therefore, in order to retain competent employees and enhance sustainable growth, hospitality industry should focus on reducing the breach of psychological contract by fulfilling the obligations made to their employees. In addition, focus on human resource management practices will pave way for the organizations to retain their employees for long term.

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**Table 1 Correlation analysis and reliabilities of measures (in parentheses)**

Constructs	Mean	SD	1	2	3	4	5	6
1. Selection	3.80	0.57	(0.65)					
2. Training	3.61	0.53	.62**	(0.79)				
3. Career growth opportunity	3.90	0.66	.66**	.65**	(0.75)			
4. Compensation	3.70	0.67	.58**	.58**	.73**	(0.80)		
5. Turnover Intention	2.92	0.94	-.05	.22**	.05	-.05	(0.78)	
6. PCB	.02	0.44	-.10	-.06	-.05	-.07	.12*	(0.60)

Notes: \*p<.05; \*\*p<.01

**Table 2 Regression analysis for employee turnover intentions**

Predictors	Employee Turnover Intentions					
	$\beta$	$\Delta R^2$	F value	$\beta$	$\Delta R^2$	F value
<b>Step 1</b>						
Gender	-.14*			-.14*		
Age	-.13	.07	5.43***	-.10		
Educational Qualification	-.12			-.14*		
Work Experience	-.14*			-.13*	0.17	7.34***
<b>Step 2</b>						
Selection				-.20*		
Training				.47***		
Career Growth Opportunities				-.02		
Compensation				-.20*		

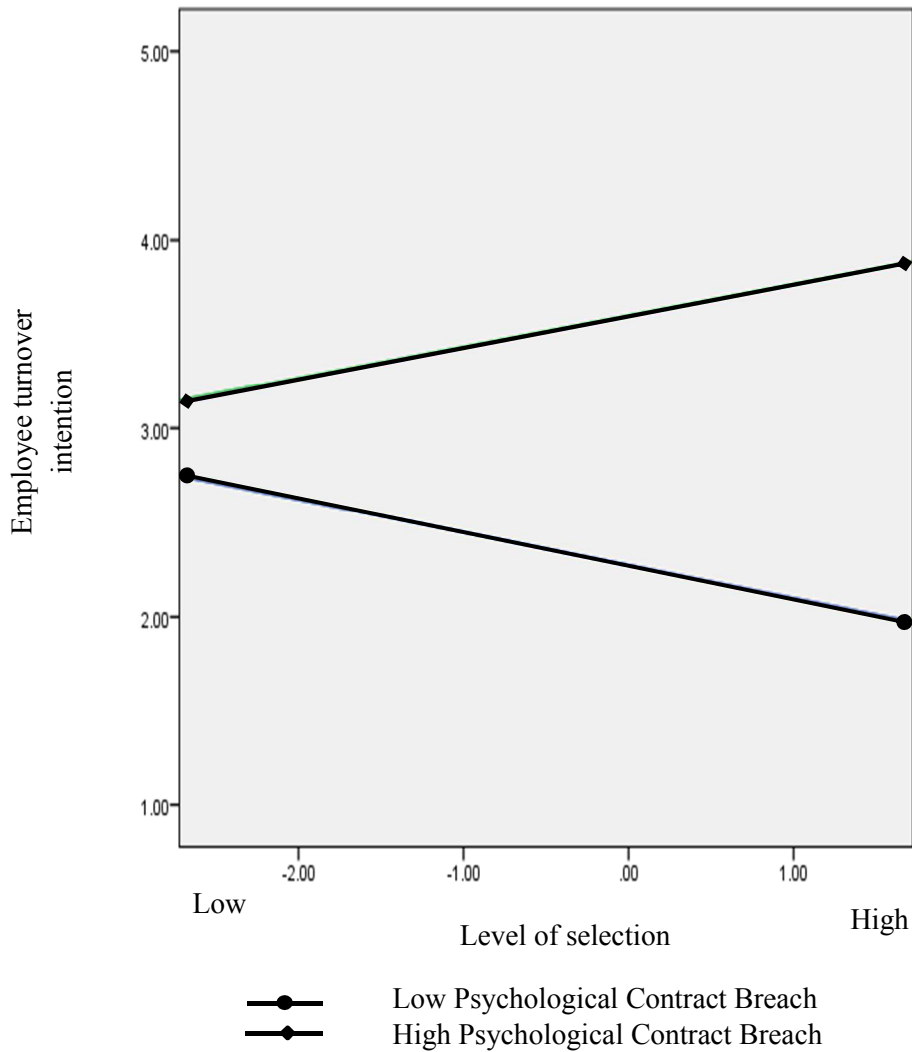
Notes: \*p<.05; \*\*\*p<.001.

**Table 3 Moderated regression analysis**

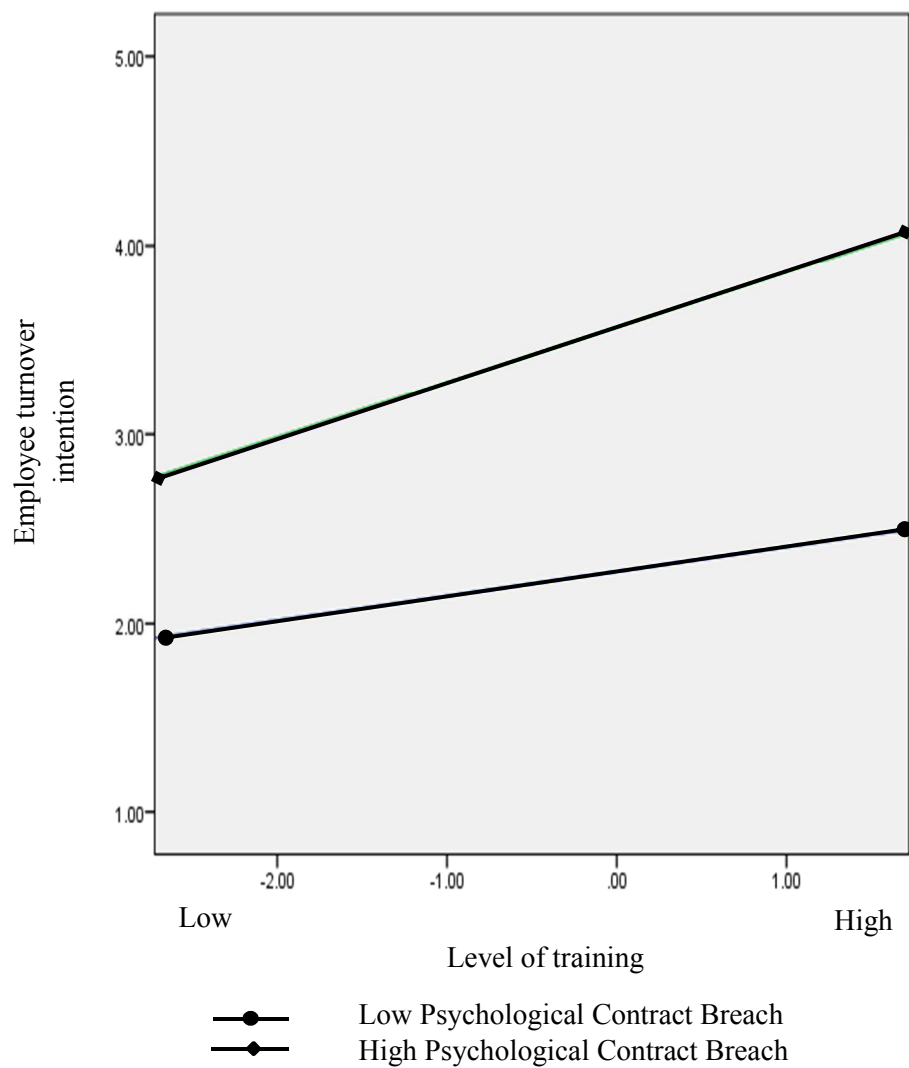
Predictors	Employee Turnover Intention		
	Model 1	Model2	Model3
<b>Step 1</b>			
Gender	-0.13	-0.15*	-0.15***
Age	-0.14*	-0.10	-0.16**
Educational Qualification	-0.12	-0.12*	-0.09
Work Experience	-0.14*	-0.13*	-0.10
<b>Step2</b>			
Selection		-0.19*	-0.06
Training		0.46***	0.54***
Career Growth Opportunities		-0.01	-0.03
Compensation		-0.19*	-0.11
Psychological Contract Breach		0.12*	1.87***
<b>Step 3</b>			
Selection * PCB			-0.84***
Training * PCB			-1.29***
Career Growth Opportunities* PCB			0.64*
Compensation* PCB			0.03
<b>Adjusted R<sup>2</sup></b>	.071	.191	0.36
<b>F value</b>	5.477***	7.151***	11.22***

Notes: \*p<.05; p<.01; \*\*\*p<.001.

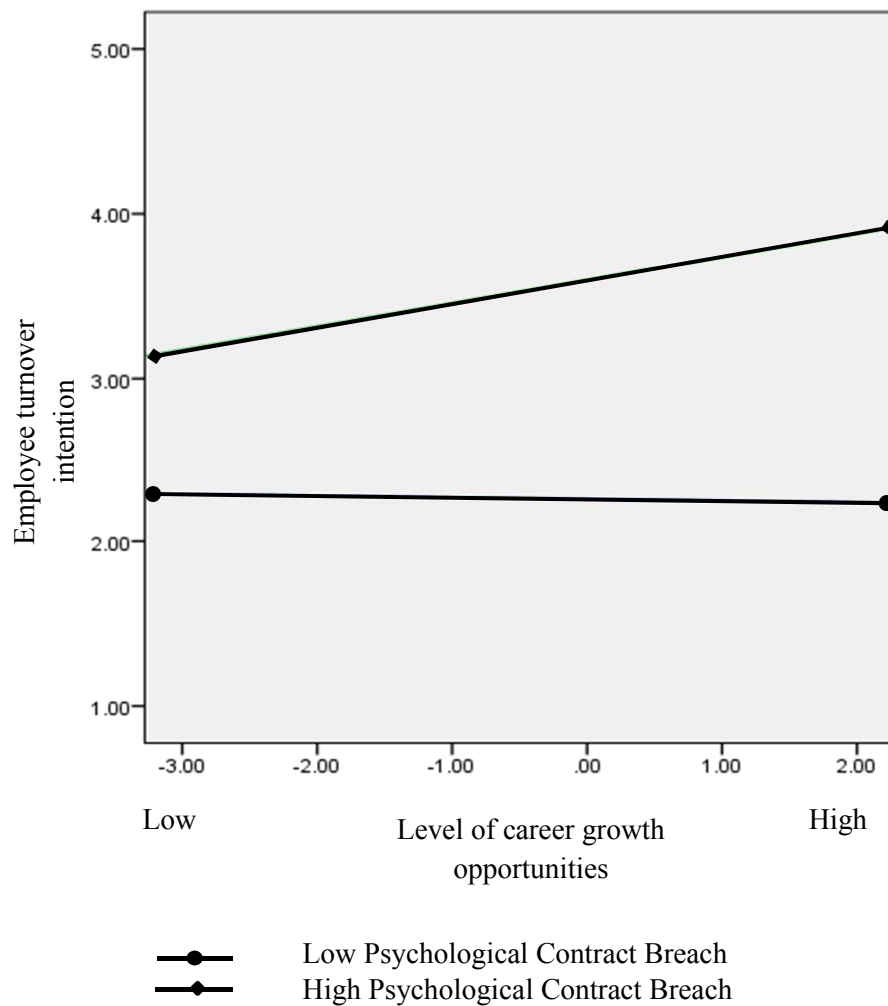
## Appendix 1



**Figure 1 Moderating effect of Psychological Contract Breach on the relationship between Selection Practices and Employee Turnover Intentions**



**Figure 2 Moderating effect of Psychological Contract Breach on the relationship between Training Practices and Employee Turnover Intentions**



**Figure 3 Moderating effect of Psychological Contract Breach on the relationship between Career Growth Opportunities and Employee Turnover Intentions**