

The Relationship between Human Resource Management Practices, Leader member exchange, Psychological contract Fulfillment, Trade Union and Employee Retention Behaviour

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Abstract

Employee retention is an issue facing most of corporate leaders due to high turnover rate. Many researchers have found that retaining employees is a significant challenge for organization as different employees are motivated by different retention strategies. A good human resource management practices would be one of the retention strategies. Human resource practices are also proposed as one of the most potent factors determining the nature and state of the psychological contract and leader member exchange. The purpose of this study is to form a conceptual model and seeking the literature review of relationship for Human Resource Management Practices, Leader member exchange, Psychological contract Fulfillment, Trade Union and Employee Retention Behaviour for the proposed model. This current study identified a gap exist such that it merits to conduct further studies on the mediating effect of leader member exchange between human resource management practice's towards psychological contract fulfillment and the moderating effect of trade Union on leader member exchange. The findings of this current research will contribute to leader member exchange theory as well as to social exchange theory.

Keywords: - Human Resource Management Practices, Leader member exchange, Psychological contract Fulfillment, Trade Union, Employee Retention Behaviour

1. Introduction

Employee retention was relevant to the cost of turnover in context of Human resource Management practices. This is because, Wille (1994) outlined that the beginning of the employee retention strategy is to understand the cost of turnover and it is not only associated with the cost of turnover but also involves non-monetary costs relevant with subjective perceptions of the organisation. Turnover defined as when an employee had leaved the organization and moved to others organization for a new employment relationship (March & Simon, 1958; Hancock, Allen, Bosco, McDaniel, & Pierce, 2013).

The psychological contract fulfillment degree was one of the main ideas to affect employee turnover. Any dissatisfaction on work place will encourage them to leave that organization to seek or other job (Portoghese, Galletta, Battistelli, & Leiter, 2014). Its mean that breach of psychological contract will affect the overall performance of an employee and their retention behaviour. There are several studies indicates that when the employee receive more inducements than expected from the organization, the satisfaction and fulfillment of individual will create feeling of being valued and trust by the organization. Hence, it may lead to a better positive outcome (Conway & Briner, 2002; Coyle-Shapiro & Kessler, 2002). Therefore, psychological contract is important studies in any industry and any organization (Mohamed & Nor, 2013; Kiazad, Seibert, & Kraimer, 2014).

The psychological contract can be breach if any of the parties did not fulfil their explicit or implicit promises and its may lead to psychological contract violation. Psychological contract violation define 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). As the literature confirm that psychological contract violation lead to employee turnover, Turnley Bolino, Lester & Bloodgood (2004) studies also reveal that psychological contract breach is low when union commitment is stronger because individuals perceive that their union is highly instrumental in protecting their rights and benefits.

The differences between unionize from non-union employee's workplaces is the collective agreement. The collective agreements give union workers rights and protections that are not available to other workers (Mohamed, Ramendran, & Yacob, 2012). In non-union workplaces, employees are often at the mercy of managers who play favourites and change terms and conditions of employment on their expectations. But in a unionized environment, workers have written and legally-binding guarantees covering things like wages and benefits.

As trade unions is to protect workers' rights, the possibility of employees retain in the organisation is very high compared to non-unionize workers who depends on the discretion of their manager. Managers usually make a decision depending on the reporting supervisors. Since the supervisor plays an important role in the relationship between management and employees as a middle man, a study need to conduct to determine whether the supervisors relationship give and impact on psychological contract fulfillment and retention behaviour of unionize and non unionize employee's. This is because, Cleyman, Jex & Love, (1995) study was hypothesized that employees who perceived a high quality information exchange relationship with their supervisors would be less likely to file grievances than employees who perceived a low quality information exchange relationship. Sequence from Cleyman, Jex & Love, (1995) study, questions arise whether unionize employee's fall in which group (in group or out

group). Wittmer, Martin and Tekleab (2010) study also reveal that leader-member exchange is related to actual turnover in among unionize employees. This is why leader member exchange take consider as an important studies in the relationship between Human Resource management practices, psychological contract fulfillment and employee's retention behaviour for this current study.

Base from the literature, a gap exist to conduct further studies on the moderating effect of trade Union between leader member exchange, psychological contract fulfillment and employee's retention behaviour. So, the nature of the impact of the predictor on the criterion varies according to the level or value of the moderator (Holmbeck, 1997). Thus this study will look at conceptual and seeking the literature review of relationship for the proposed model.

2. Literature Review & Hypothesis development

2.1 The relationship between Human Resource Management Practices and Employee Retention Behaviour

Employee retention is an issue facing by most of an organization due to high turnover rate and become a significant challenge as different employees are motivated by different retention strategies (Moncarz, Zhao, & Kay, 2009; Milman, & Dickson, 2014). One of the strategies found by Hong, Hao, Kumar, Ramendran, & Kadiresan, (2012) is, training and development, appraisal system and compensation which are critical to employee retention. It's mean that Human Resource Management playing an important role in organization as a retention strategy of an employees. Therefore this current study proposed that a good human resource management practices will be result in positive employee retention behaviour.

H₁: There is positive significant relationship between Human Resource Management Practices and Employee Retention Behaviour

2.2 The relationship between Human Resource Management Practices and Leader member exchange

The way how HR practices are implemented is in the responsibility of line managers (Stoker & de Korte, 2000). Line managers frequently interact with employees, for example to give them performance feedback or necessary information (Verburg & den Hartog, 2001). Therefore, the leadership style which is used by line managers is also likely to affect employees' attitudes of the leader as well of the HR practices (Purcell & Hutchinson, 2007). These leaders are referring to the supervisors who need to give reports on employee to the line manager.

Satisfaction with HR practices or how different practices are perceived by employees may play an important part in the relationship between Leadership, HR practices and employee behaviors. Therefore, recruiting right supervisors in an organizational is an important factor that can contribute to employee's behaviour in relation to the line manager. Giving proper leadership training for supervisors would help in the retention strategy of an organization. In other words the supervisor should have good leadership skills to flow with the Human

resource Management practices by an organization. Therefore this current study proposed that a good human resource management practices will be result in positive leader member exchange.

H₂: There is positive significant relationship between Human Resource Management practices and Leader Member Exchange

2.3 The relationship between Human Resource Management Practices and Psychological contract Fulfillment

HR practices have been discussed as having signaling influences on employees' psychological contracts with organizations (e.g., Rousseau, 1995), and a recent literature review concluded that HR practices substantially determine such contracts (Guzzo & Noonan, 1994; Upasana & Bhargaya, 2009; Suazo, Martinez, & Sandoval, 2009 ; Mossholder, Richardson, & Settoon, 2011).

Recruitment and selection is one of the most significant variables that will affect psychological contract fulfillment. The HR manager has to consider whether the job is suitable for the particular interviewee or not. When an individual is happy with his or her current job, it will help to boost up their psychological contract fulfillment. So it is very important for HR personnel to inform them regarding the job requirements before request the applicant to enter the organization. Re-evaluating the process of recruitment and selection may help to find out that what the weak areas to recruit employees are (Upasana & Bhargaya, 2009).

The impartial of performance appraisal system help to improve employees' morale, besides those employees are willing to improve their performance after appraisal (Crawshaw, 2006). If the manager gives unclear information and fail to give guidance then the performance appraisal also will not meet the purpose or primary objective (Crawshaw, 2006). Further more Suazo et al. (2009) said that the feedbacks received by employees from the performance appraisal process whether it is positive or negative will have impact on psychological contract of employees since it is relevance to the employment's terms and conditions. Thus, failure of employer to provide an annual performance appraisal and provide feedback and provide feedback will consider as fulfillment of psychological contract (Suazo, Martínez , & Sandoval, 2009).

Suazo et al. (2009) argued that HRM practices is like employee resourcing, rewards, development, and relations affect psychological contracts by determining employer and employee promises fulfillment (Suazo, Martinez, & Sandoval, 2009). Emphasis on employee training and development to show the view that an organization take into account of employees as being parts of its perpetual employment (Gomez-Mejia, Balkin & Cardy, 2004). Thus, training and development are likely to affect psychological contracts due to correct use of HR practices can build a positive working environment which will affect the degree of promises fulfillment's employer and employee (Suazo, M., G., Sandoval, & R, 2009). Danish & Usman, (2010) stated that a total reward strategy can helps to achieve the needs of employees even it is a psychological needs as well as motivate them to contribute extra effort

on their job. This definitely developing a psychological contract which has a wide range of issues regarding to rewards in order to shifting the worker's values.

Claydon & Beardwell (2007) stated that the significant of the rewards system that will affect the performance of an employee. When a psychological contract establish between an employer and employee, the expectation to receive a reward will push the employee to work hard because he/she believe that in return will get something as reciprocal as agreed in the psychological contract. At the end of the day, psychological contract fulfillment will be achieved because the employee get what the organization have promise to them for their hard work. Therefore this current study proposed that a good human resource management practices will be result in positive *psychological contract fulfillment*.

H₃: There is positive significant relationship between Human Resource Management Practices and psychological contract fulfillment

2.4 The relationship between Leader Member Exchange and Psychological Contract Fulfillment

The employees in this system will be likely to be more productive under passive leadership, and if the employees agree and satisfy with it, a relationship may be developing between the employees and the employers, a "psychological work contract" will form. The employee will be productivity, fewer complaints, etc, if the employer respect the norms of the employee informal culture (example, have secure jobs and suitable working environment). This is what an employee need said by Argyris (1960). Its mean that when employees perceive that their supervisors have high expectations of them, giving them better tasks, respect, and training, they are more likely to develop favorable feelings towards their supervisor. As a result, employees will more willing to develop close interpersonal relationships with their supervisor. This is the point where the psychological contract will form. Therefore this current study proposed that a positive Leader Member exchange will be result in positive psychological contract fulfillment.

H₄: There is positive significant relationship between Leader Member exchange and psychological contract Fulfillment

2.5 The relationship between Leader Member Exchange and Employee Retention Behaviour

Employees believed their expectations on leader are fulfilled in the psychological contracts may give rise to the increased interpersonal trust that are fundamental to the employment experiences (Robinson, 1996). As a result, employees are more willing have a higher-quality exchange relationship with their leaders. Thus, employees may be more able to capture potential benefits if they interact closely with their leader (Graen, Uhl-Bien, 1995; Wayne et al., 1997). When employees perceive themselves to have been treated well, they may develop a strong need to reciprocate the benefits they have received from their supervisors. Consequently, employees may put more effort into their work (Witt, Kacmar & Andrews, 2001). They may also reciprocate by staying to work under their supervisor. This may be because such employees have higher level of attachment to their supervisor. Besides,

the increased expectancy that their performance may be rewarded may also make employees more motivated to capture the benefits that may come from their supervisor, resulting in less of an intention to leave the organization. Therefore this current study proposed that a positive Leader Member exchange will be result in positive employee retention behaviour.

H₅: There is positive significant relationship between Leader Member exchange and Employee retention behaviour

2.6 The relationship between Psychological Contract Fulfillment and Employee Retention behaviour

There were many research study found that psychological contract violation may lead to an increase in employee have intention to quit (Robinson and Rousseau,1994; Hemdi & Abdul Rahman 2010 and Hemdi & Abdul Rahim 2011). This psychological contract violation occur when organization fail to fulfill the employee expectation whether it's implicit or explicit (Morrison & Robinson, 1997). Due to this, organization may face problems to retain the employee in many ways such as reduce of trust ,low Organizational Citizenship Behavior (OCB), low job performance, low job satisfaction, low organization commitment, increase cynicism which are the consequences of psychological contract breach. Therefore the retention behaviour of employees to stay in organization is depending on the Fulfillment of psychological contract.

H₆: There is positive significant relationship between psychological contract Fulfillment and Employee retention behaviour

2.7 The relationship between Leader Member Exchange, unionize employees, Psychological contract Fulfillment and Employee Retention behaviour

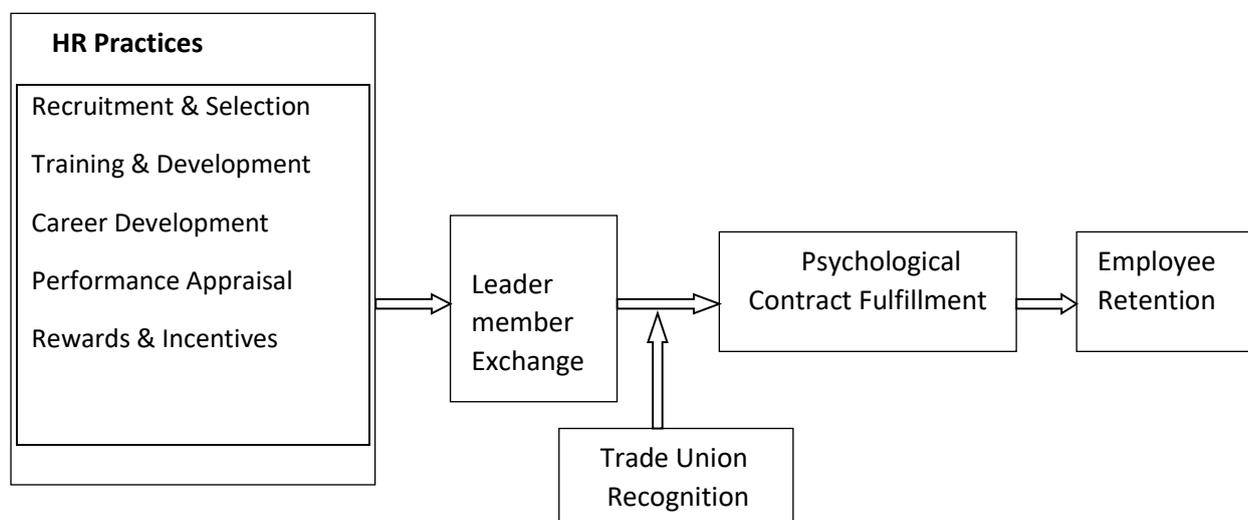
LMX suggests that managers do not use the same style in dealing with all subordinates. Rather, different relationships can range from strictly based on employment contracts, so called out-groups, to those that are characterized by mutual trust, respect, liking and reciprocal influence, so called in-groups (Liden & Maselyn, 1998). Based on this statement, leaders establish more special and higher quality relationships (exchanges) with some of their employees (in group) than with others (out group). Higher quality means that employees might have more autonomy, get more task-relevant information and probably might be more included in decision making (Basu & Green, 1997).

Therefore this study propose that, Trade Union recognition moderates the relationship between leader-member exchange, psychological contract and employee retention behaviour, such that for those are out group in the leader member exchange, the effect is negative (i.e., employee have low fulfillment of psychological contract and not remain in the organisation), and for those with a in group, the effect is positive (i.e., employee have High fulfillment of psychological contract and remain in the organisation)

H₇: The positive relationship between Leader-member exchange would be stronger for unionized employee's compared to non unionize employee's

3. Proposed Conceptual Research framework

Figure 1: The Research framework



Source: Developed for the research

4. Implication

Human resource management is a practice that is very important because it determines the behavior of an employee whether they will continue to serve the organization or quit the job and find another job . Literature review shows clearly that each dimension in human resource management practices such as , recruitment and selection, training and development, career development, performance appraisal and rewards system influencing the retention behavior in organizations . This may be different from every other individual who may be concerned with one dimension more than others because of the expectations and needs of the organisation. But overall all dimensions of human resource management will influence the retention behavior in an organisation.

Each different needs and expectations of each individual depends on good human resource practices. If employees feel the human resource management practices are poor, it means that the employee feel their expectations and needs are not met. This expectation is referring to the psychological contract as it is a reference to the employment relationship. Psychological contracts are believed to represent a deeper construct that goes beyond what a new employee expects as they enter an organization. Although the expectations employees have before entering the organization may influence their perceptions of the contract that exists between themselves and the organization, this does not mean that the psychological contract is equivalent to expectations. The psychological contract will represent the employee’s interpretation of the information conveyed to them during recruitment and selection, and their initial socialization period.

This socialization period is important because, in this time where the employee psychological contract will be formed when employees feel their supervisor had a good relationship. These supervisors are the agent of the line managers/organizations. Supervisor's behavior indirectly may affect employee retention behavior when he was influenced by human resource management practices in the organization. Human resource management are in accordance

definitely will influence the behavior of supervisors in various forms. For example, the recruitment and selection of the best supervisors will affect the management of employees in an organization. Consequently, the provision of appropriate training and development for supervisors will also influence the management of employees in the organization. Not only that, the organization expects supervisors to report correct and robust in evaluating the performance of employees so that the organization can provide appropriate rewards to them. However, the supervisor relationship may be influenced by other elements because they will only have a good relationship to a handful of employees but not to all. Literature has defined the path that those who are considered are out group in the leader member exchange, the effect is negative and for those with in group, the effect is positive. The question now is, is there a possibility of workers with union membership classified as out group or in group. This is because employees who fall within this in group is likely to have a positive influence on psychological contract fulfillment and employee retention behavior.

5. Conclusion

This current study identified a gap exist such that it merits to conduct further studies on the mediating effect of leader member exchange between human resource management practice's towards psychological contract fulfillment and the moderating effect of trade Union on leader member exchange. The moderating effect will explain that, those who are considered out group in the leader member exchange, the effect is negative (i.e., employee have low fulfillment of psychological contract will not remain in the organisation), and for those with a in group, the effect is positive (i.e., employee have High fulfillment of psychological contract will remain in the organisation). The conclusion of my study is this current research it will contribute to leader member exchange theory as well as to social exchange theory.

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