

# CHAPTER ONE

## INTRODUCTION

### 1.1 Overview of the Hotel Industry in Malaysia

The Malaysian economy depended highly on trading of commodities such as rubber, cocoa, palm oil and timber until mid 1990s, where the country gradually experienced the emergence of the manufacturing sector. During this period, the service industry, including tourism was also booming. Significantly, major expansion in the tourism industry was enjoyed since 1970 in which a sharp increase was reported in foreign exchange revenue, employment opportunities and potential tourism attractions (Goldsmith & Mohd Zahari, 1994).

Tourists arrival was recognized as a leading source of income for our country because the growth in this industry contributed to the development in other related fields, for example hospitality, food and leisure. By 1990, with the launching of “Visit Malaysia Year” campaign, the tourism industry had become the third largest source of income in foreign exchange revenue (Poon & Low, 2005). These facts are consistent with an analysis report of the World Tourism Organization (WTO) which reported that tourism has been the significant source of foreign exchange reserves in a country (Chang, 2006). The revenue from tourism ballooned from US\$6,867 billion in 1960 to US\$454,553 billion in 1999, a 6,620 percent increase. The WTO estimates that tourism populations will increase to 1,620 billion and the revenue will increase to US\$2 quadrillion (million-million) in 2020.

Throughout the years, the Malaysian government has been taking bold and continual efforts in making the country an attractive destination for foreign tourists. The Ministry of Tourism Malaysia played a major role in making the Visit Malaysia

Year 2007 a success. By end of 2007, Malaysia played host to almost 20.9 million foreign tourists who contributed greatly to the economic development with receipts of RM46.1 billion (USD 14.3 billion) in tourism revenue (Table 1.1). This figure continued to rise in 2008. The Minister of Tourism, YB Dato Sri Azalina Othman in January 2009 proudly announced an increase of 5.1% in tourists arrival, translating into 22.052 million tourists to our country (Mustafa, 2009). This indicated that the government's allocation of RM858 million for tourism initiatives in 2008 had really paid off. This continual increase in tourists arrival poses new expectations as well as challenges, especially to hoteliers. This is well reflected in the increase of average occupancy rates of hotels by locality and the increase in hotels and rooms supply to meet demand (Malaysia Association of Hotels, 2008).

Table 1.1 Tourist Arrivals and Receipts to Malaysia from 1998 – 2009

<b>Tourist Arrivals and Receipts To Malaysia</b>		
<b>Year</b>	<b>Arrivals</b>	<b>Receipts (RM)</b>
2009	23.6million	53,367.7million
2008	22.0million	49,561.2 million
2007	20.9 million	46,070.0 million
2006	17.45 million	36,271.1 million
2005	16.4 million	31,954.1 million
2004	15.7 million	29,651.4 million
2003	10.5 million	21,291.1 million
2002	13.2 million	25,781.1 million
2001	12.7 million	24,221.5 million
2000	10.2 million	17,335.4 million
1999	7.9 million	12,321.2 million
1998	5.5 million	8,580.5 million

Source: Ministry of Tourism Malaysia, 2010

Accessible online <http://www.tourism.gov.my/corporate/research.asp>

In view of the increasing influx of tourists visiting Malaysia, the hospitality industry competes aggressively and struggles hard not only to earn survival profit but to maintain its competitive advantage. Hoteliers in the country constantly update and improve their services because travelers are highly knowledgeable and hoteliers face stiff competition not only from local players but also neighbouring countries. Since

severe competition results in little variations among product offerings and facilities in hotels, the service quality by frontline employees becomes the main factor determining the customers' patronage. It is a synthetic service industry. A survey from Lundberg & Walker (1993) indicated that customers are dissatisfied most with the service quality of hotels; parking, lodging and price are the secondary items they care about. Heskett (1987) studied the factors influencing service quality and found the problem centered around the employees. Thus, good service quality from staff creates sustainable competitive advantage.

One of the competitive advantages within the hospitality industry can be induced from the behaviour of its employees, or rather, the organizational citizenship behaviour (OCB) of its employees, who are willing to make an extra effort to help colleagues and serve customers beyond what is prescribed in their employment contract, and thus improving organizational image and performance. Performing duties above what is stipulated in the employment contract or beyond what is required in the job description, without getting any reward in return, is termed "organizational citizenship behaviour" (OCB) (Organ, 1988).

For example, the extra effort contributed by a front desk receptionist who not only registers newly arrived customers or checks out leaving customers, but also orientates and assists new colleagues who have just reported to work, is very much desired by the organization. Similarly, a bellboy who does not only open doors or carry luggage for his customers, but also refrains from complaining over trivial matter, can be a great asset because his behaviour reduces friction among colleagues and this enhances organizational efficiency. These examples reflect how frontline employees' behaviour can make an impact on improving organizational performance and subsequently increasing customer satisfaction. All these extra-role behaviour are highly

needed since employees exhibit them willingly without expecting any reward. In view of the current global economic condition, this discretionary behaviour which brings about organizational effectiveness without incurring additional costs is very much sought after. The very next question follows, “How can we induce such behaviour?”

While the hotels continue to strive hard in improving the facilities and intensifying marketing strategies, advancing and retaining the service quality of frontline employees through the promotion of OCB are the key points of this research. These frontline employees play a very important both in product and services (Rafaeli, 1989) because they are the direct contacts of the internal and external customers. By offering service quality which touches the heart of external customers, consumer values increase and this ensures return patronage (Rafaeli & Sutton, 1989). Nonetheless, the service quality rendered by frontline employees increases only with job satisfaction which centers around their contentment towards administration at work, relationship with colleagues and supervisor.

Hence, this study proposes a promotion of OCB among hotel frontline employees through the continual practice of high involvement HR practices, driven by HR philosophy, coupled with administration of organizational justice. While HR practices and organizational justice are the necessary ingredients to increase employees’ motivation and retain employees at work, relational structure formed between subordinate and supervisor should not be overlooked. As shown in Figure 1.1, this is the best time for hoteliers to revolutionize its strategies on human capital, by tapping new employees besides retaining its current pool of workforce amounting to almost 768,000 employees.

Figure 1.1 Employment in Hotels and Restaurants



Source: Labour Force Survey, Department of Statistics, Malaysia, 2009

## 1.2 Research Background

Voluntary turnover has always been a major concern for companies in many Asian countries such as Hong Kong, South Korea, Malaysia, Singapore and Taiwan (Syrett, 1994; Barnett, 1995; Chang, 1996). Job hopping is so prevalent that it had become a culture in these countries (Asia Pacific Management News, 1997). Annual surveys conducted by the Malaysian Employer Federation (MEF) in 2004 and 2005 recorded that the annual labour turnover rates for the year 2003 and 2004 were as high as 17 and 16 percent respectively. Lim (2001) reported that Malaysians were only willing to work for the same organization for less than three years. According to the data collected in Hewitt's 2007 Total Compensation Management survey, the average employee turnover is 18 percent. Apparently, turnover among Generations X and Y employees appears to be the highest. This implies that company loyalty among these younger generations is weak and deteriorating, as compared to baby boomers who hardly job hop (Hewitt Associates, 2008).

On average, the hotels staff turnover rate was as high as 50 percent (Baidura, 2003). This may be attributed to the low-wage and low-investment equilibrium dominating this industry. In the eyes of most frontline employees, hotel jobs are often defined as boring, routine, low-wage with irregular hours, and little training with no lights on career advancement. And as seen through the eyes of managers or hotel runners, the high turnover in this industry signifies a non-reliable workforce, thus investments on recruitment, training, decisions on promotion based on fair performance evaluation are somehow omitted or deemed as not necessary.

Often, these managers aim only to keep the hotel fully staffed, placing very little effort on careful recruitment and selection because these low-wage earners are often perceived as easily expendable and replaceable. Easy entry into this hotel industry with very low wage further demotivates these workers. Lack of time, insufficient financial resources and lack of organizational support are the most popularly cited reasons by managers for not training and developing their frontline employees. In their opinion, the risk of training or promoting group of employees who intend to leave the organization could be too high. Plagued by a high turnover, many hotels fail to implement effective performance appraisal and hence, this affects performance-based pay that employees desire (Bernhardt, Dresser & Hatton, 2003). This managerial perception of “low-job-quality therefore low-investment”, often drives an implementation of poor HR practices, which subsequently hastens frontline employees to leave the workplace, feeling unappreciated.

Based on these worrying facts and figures quoted from the above studies, the objective of this study is well justified because the outcome of this research will definitely shed some lights on the possibility of lowering an employee’s turnover intention through the promotion of OCB. Significantly, employee retention can lead to

organizational effectiveness because more experienced employees could have greater knowledge of organizational and customer goals (Schneider & Bowen, 1995). Costs would be lower because a low turnover rate means less hiring and training activities. Many studies have shown that employee turnover does have a negative correlation with organizational effectiveness. For example, a study at Sears showed that as voluntary turnover decreased, financial performance (i.e., return on controllable assets) increased (Ulrich, Halbrook, Meder, Stuchlik & Thorpe, 1991). Ostroff (1992) reported negative relationships between high school teacher turnover and student academic achievement, students' satisfaction, administrative performance and the percentage of students who dropped out of high school.

In hospitality industry, without the frontline employees serving and leaving their footprints in the hearts of customers under a healthy organizational climate, complying to rules and regulations at work, contributing sound ideas, avoiding conflicts with co-workers, being accommodating by not complaining over trivial matters; it is impossible for the hotels to be financially sound, meeting diverse visitors' growing performance demands in this highly competitive, intense and borderless industry. The implication of "frontline equals bottom line" remains true.

Hence, hotel operators operating should strive to remain competitive by changing their perception on the operational workforce and revamping strategies in handling frontline employees. Initiatives could be taken from the management side to mould a reliable workforce by inducing OCB among frontline employees, driven by a strong belief in HR philosophy which binds the formulation of high involvement HR practices and the administration of organizational justice. Managers need to keep their costs low by establishing a lean workforce consisting of productive employees who are

willing to walk the extra mile for the organization, who are satisfied with the way they are treated by the management, and have no thoughts of leaving the workplace.

In view of this, the researcher proposed an integrated model, attempting to reduce employees' turnover intention by inducing discretionary, helping behaviour on the part of employees, through organizational variables including HR philosophy embraced by the organization, high involvement HR practices, justice in the organization as well as individual attributes encompassing leader-member exchange (LMX) and trust in the supervisor.

The output of this study should be timely and useful for organizations operating in the current cheerless economic climate, especially five-star hotels operating in Malaysia. The researcher chooses to study the frontline employees working in five-star hotels, registered under Malaysian Association of Hotels (MAH) whereby financial resources are believed to be equivalent among these hotels and considered beyond adequate to implement high involvement HR practices.

### **1.3 Research Objectives**

The main purpose of this study is to highlight the importance of cultivating social capital in building human capital in the light of employees' retention strategy. Specifically, in an attempt to reduce employees' turnover intention among frontline employees in the five-star hotels of Malaysia, this study addresses the following questions:

1. How can OCBI and OCBO be induced through HR philosophy, high involvement HR practices and organizational justice?



2. Does leader-member exchange (LMX) and mediate the effects of high involvement HR practices and both OCBI and OCBO?
3. Does subordinates' trust in supervisor mediate the effects of organizational justice on both OCBI and OCBO?
4. Having been induced through the above mechanisms, can OCBI and OCBO lower employees' turnover intention?

In other words, this study aims to fully examine an integrated model on how HR philosophy, high involvement HR practices and perception of organizational justice can influence OCB, surpassing the relationship between supervisor and subordinate (leader-member exchange) as well as trust in the supervisor. And, subsequently how this link contributes to minimizing turnover intention among employees, which is the very main concern for any hotels in the hospitality industry. While management may be able and willing to invest in various HR strategies in building long-term relationship with the employees, it is the relationship that employees have with supervisors that often go unnoticed which may affect their willingness in displaying OCB and thus determining their intention to leave the organization. Hence, the output of this research further poses challenges to managers to create a harmonious workplace whereby both subordinates and supervisors share perceptions not only in achieving goals but also mutual trust as well as a high quality of exchanges. In short, this study seeks to accomplish the following objectives:

- a) To identify the bundles of high involvement HR practices which can affect citizenship behaviour of the hotel frontline employees in Malaysia;
- b) To reinforce HR philosophy as the main driver binding bundles of high involvement HR practices;

- c) To promote OCBI and OCBO through HR philosophy and bundles of high involvement HR practices;
- d) To strengthen OCBI and OCBO through administration of distributive, procedural and interactional justice;
- e) To examine the influence of leader-member exchange on subordinate's willingness in exhibiting OCBI and OCBO;
- f) To examine the influence of subordinate's trust in supervisor on his willingness in exhibiting OCBI and OCBO;
- g) To ascertain leader-member exchange and subordinate's trust in supervisor as potential mediators; and
- h) To lower the subordinate's turnover intention through OCBI and OCBO.

#### **1.4 Justifications and Contributions**

Although high involvement HR practices have been reported to be related to turnover and employee retention (Arthur, 1994; Huselid, 1995; Guthrie, 2001; Batt, 2002), very few studies have linked OCB with turnover (Sun, Aryee & Law, 2007) and employee's turnover intention (Chen, Hui & Segoo, 1998; Ishak & Ahmad, 2004). Additionally, this study departed from previous literature where the researcher attempted to align employees' attribution on HR practices with management humanistic goals by incorporating "HR philosophy" into the model. To ensure investments spent on high involvement HR practices are not wasted and that such practices can successfully accomplish the intended goals, the researcher proposed embracing HR philosophy as the main source binding high involvement HR practices and an additional force promoting OCB among employees.

Secondly, the question of which people-oriented management practices make up the set of ‘high involvement HR practices’ remains unanswered. Although researchers have been working in the same field, confirming the importance of applying high involvement HR practices, there is very little consensus regarding the specific practices to be included in the configuration of high involvement HR practices (Becker & Gerhart, 1996; Huselid, 1995; Ferris, Hochwater, Buckley, Harrel-Cook & Frink, 1999; Delery & Shaw, 2001; Datta, Guthrie & Wright, 2005; Collins & Smith, 2006). Specifically, Delaney & Huselid (1996) identified the theoretical and methodological limitations facing this configuration by stating “...virtually no two studies measure HRM practices the same way...” Hence, the issue of what actually constitutes a “high involvement HR practices” remains a question.

Furthermore, numerous studies investigating high involvement HR practices have been conducted in the context of the manufacturing industry (Bowen & Schneider, 1988). Literature webbing around the usefulness and application of high involvement HR practices is compiled based on the data collected from manufacturing companies. Since the service industry such as hospitality has emerged as a major contributor to the tourism sector and the country’s economy as a whole, the researcher is interested to identify a set of HR practices which should be considered by hoteliers, a set which symbolizes mutual investment approach in harmonizing employee-organization relationship.

Thirdly, by having identified the right set of high involvement HR practices, this study aims to fill the research gap by reaffirming the effectiveness of such practices on inducing OCB. Borman & Motowildo (1993), Podsakoff, Mackenzie & Hui (1993), Murphy & Shiarella (1997) contented that a single HR practice such as training, performance appraisal, personnel selection, communication, empowerment and such

can have an effect on an employee's willingness in performing OCB but very few examined the effect of HR bundles on OCB.

Fourthly, due to the culture of collectivism in Malaysia, individuals tend to relate to one another rather than to the organization (Hofstede, 2001; Abdullah, 1996). Thus, employees are more inclined to relate their relationship with supervisors and not the organization directly. Often, the immediate leader for the subordinate is the representation of the organization who plays a significant role in influencing citizenship behaviour (Podsakoff, Mackenzie, Paine & Bachrach, 2000). Hence, the researcher hypothesizes that regardless of how well HR practices are executed, the quality of interaction between a subordinate and his or her supervisor may mediate his or her willingness in performing OCB. Also, even if a subordinate sees himself as being treated in a justified manner but the level of trust that he has in a supervisor is lacking, he is less likely to exhibit this discretionary behaviour. Lepine, Erez & Johnson (2002) confirmed that leader support is the strongest predictor for OCB. Although the influence of leader-member exchange and trust on OCB may have been extensively researched but they have never been identified as mediators which may have impact on the inducement of OCB through high involvement HR practices and organizational justice simultaneously.

Furthermore, this study has chosen to sample frontline employees from the five-star hotels in Malaysia registered under the umbrella of Malaysian Association Hotels (MAH). Although these hotels are located in different states throughout Malaysia and their operation management may differ, these hotels are subjected to meeting star-rating requirements set by the association to facilitate their annual membership renewal. To gain recognition as a five-star hotel, MAH and Ministry of Tourism Malaysia jointly spell out six major criteria ranging from qualitative and aesthetic aspects; common area

requirements such as reception desk, banquet, restaurant, lift and so on; bedroom requirements; list of services; safety standard and hygiene to staff requirements (Appendix A). For example, one of the criteria relating to staff requires the main staff (management, receptionist, head waiter and housekeeper) to be bilingual and all staff to be medically examined, professionally qualified, be trained continuously, provided with necessary facilities and culturally uniformed. This implies that frontline employees selected for the study work in a somewhat similar organizational climate and therefore, it is a justified decision that they evaluate current HR practices and organizational justice in hotels. Should the outcome of this research be positive in reporting possible inducement of discretionary behaviour through high involvement HR practices, these hotels, having fulfilled the five-star rating criteria yearly, are deemed to qualify and be able to sustain any financial resources incurred in managing frontline employees accordingly.

Essentially, the frontline employees are specifically chosen to be studied because they are often the first and only representation of a service firm, and since they impact the satisfaction of customers, they are a key part of creating competitive advantage. In this context, employee effort, or the amount of time and energy expended, affects customers' perceptions of service and buying behaviour (Borucki & Burke, 1999). Indeed, employee effort is critical to the overall performance of the service organization because customers take part in the production process and are therefore sensitive to cues indirectly related to service (Podsakoff & Mackenzie, 1997). For example, in a series of studies on critical incidents of service encounters (Bitner, Booms, & Mohr, 1994; Bitner, Booms, & Tetreault, 1990), instances in which customers experienced the greatest satisfaction were explained by employee effort such as unprompted and unsolicited employee action. Customers are aware of how committed employees are to providing service and since customers influence firm

production and performance, these firms need to encourage employees to exert effort in order to affect customer satisfaction and buying behaviour (Susskind, Aryee & Law, 2003). Therefore, employee effort in service firms affects customer experiences and ultimately firm performance; however, various organizational factors can affect employee effort (Schneider et al., 2004).

Since most of the studies relating to OCB have been widely conducted in Western countries (Organ & Konovsky, 1989; Organ, 1990; Konovsky & Pugh, 1994; Organ & Ryan, 1995; Williams, Pitre & Zainuba, 2002; Connell, Ferres & Travaglione 2003; Bhal, 2006; Erturk, 2007) and some other Asian countries like Taiwan (Liang, Ling & Hsieh, 2007), Hong Kong (Wat & Shaffer, 2005) and China (Chen et al., 1998; Sun et al., 1998; Wong, Ngo & Wong, 2006) but rarely in our country, this study should be particularly vital in explaining the existence of OCB among Malaysians, which is common but not given any weight due to limited research published in this area (Nasurdin, 2001; Tan 2001). It is disheartening to know that management often appraised an employee's performance based on measurable and observable outputs only and not based on attitudinal and behavioural dimensions which are significant in a service industry requiring human touch.

## **1.5 Outline of the Report**

The main contents are divided into five major chapters. Chapter One covers the "Introduction". This chapter illustrates the issues of concern being studied and undertaken by the researcher. It provides the background for research leading to the focus of investigation, formulation of research objectives as well as justification of

research leading to contributions this study may bring about, in terms of both theory and practice.

Chapter Two covers “Literature Review”. This chapter provides a critical review of the literature and past research related to the topic under investigation. It outlines the periodical development of high involvement HR management, empirical evidence webbing organizational justice, OCB as well as past research compilation on leader-member exchange, subordinates’ trust in supervisor and employees’ turnover intention. Formulation of hypotheses is based on a research framework projected out of logical inference and careful interpretation on the part of the researcher, on the relationship linking the major variables.

Chapter Three entails the research methods adopted in this study. Detailed explanations are reiterated on the formulation of theoretical frameworks, with each constructs, dimensions and the respective measurement items thoroughly discussed. Specifically, this chapter sets forth the theoretical basis leading to the proposition of hypotheses to be tested besides describing various research methods involved in collecting data and statistical techniques used in compiling, analyzing and modeling data.

Chapter Four is devoted to the reporting of results of the survey research. It presents a complete account of the findings on raw data of the study. The descriptive statistics on the target respondents are presented in tables and figures. Also, analyses relating to hypotheses testing and various model fit indices plus refinement on models are discussed in this chapter, with each decision made on modification justified.

The last chapter, Chapter Five, includes a complete discussion on the findings relating it to the literature review in Chapter 2. This chapter sums up the findings in

relation to the research objectives besides rounding up the implications of the research findings in terms of theory and practice. Finally, some limitations and insights for future research as well as practical recommendations end the presentation of this thesis.

## **1.6 Chapter Summary**

This chapter serves well as an introduction, exposing readers to a brief but complete, limited but adequate, information about the study undertaken by the researcher. By reading this first chapter, readers or examiners would know what to expect in the coming chapters and may attribute the ‘why’ for every inferences made and seek the justifications while reading the subsequent chapters. This chapter introduces the background of research, research problem or symptoms of the problem leading to the focus of investigation, justifications for research and its respective contributions. Laying these foundations, readers may proceed to the next chapter entailing a detailed description of literature supporting the drawn-up research framework, justifying the formulation of hypotheses as proposed by the researcher.