

**THE EFFECTS OF PSYCHOLOGICAL CONTRACT ON  
EMPLOYEES PERFORMANCE IN SARAWAK HOTEL INDUSTRY**

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Fulfilment of the Requirements for the  
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## **Abstract**

This study investigates the effects of psychological contract on the employees' performance and the influence of generation affiliation on the relationship between psychological contract and employees' performance. Specifically, selected social-psychological and human care factors were analyzed. This was accomplished after a concise review of relevant literature which resulted in the development of research objectives and a general conceptual framework with hypotheses to guide the study.

Data were collected from a sample of 320 full-time hoteliers in Sarawak's Five Star Hotels through a survey questionnaire. Structural equation modeling analyses were used to test the impact of the psychological contract on employees' performance. The impact of the psychological contract on employees' performance was moderated by generational affiliation.

Furthermore, results indicated that different aspects of psychological contract such as employer-employee mutual understanding, perspective relationship, level of interaction, and employees' perception respond differently toward employees' performance.

The study had presented evidence that different aspects of psychological contract impact on the employees' performance. The result from this study suggests that there was a significant effect of employers to employee perspective relationship, level of interaction and employees' perception toward employees' performance. Results from this study suggest that relationship, communication, group cohesiveness, participation, and involvement improved employees' performance. Employer-employees' mutual understanding seem mostly unrelated to employees' performance.

Keywords: psychological contract; generational affiliation; employees' performance

**APPROVAL PAGE**

I certify that I have supervised read this study and that in my opinion it conforms to acceptable standards of scholarly presentation and is fully adequate, in quality and scope, as a thesis for the fulfillment of the requirements for the degree of Doctor of Business Administration

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## DECLARATION

I hereby declare that the thesis submitted in fulfillment of the DBA degree is my own work and that all contributions from any other persons or sources are properly and duly cited. I further declare that the material has not been submitted either in whole or in part, for a degree at this or any other university. In making this declaration, I understand and acknowledge any breaches of this declaration constitute academic misconduct, which may result in my expulsion from the programme and/or exclusion from the award of the degree.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

The purpose of this study is to investigate the relationship between employees and their employers which has been conceived as involving in ‘psychological contract’ in the hotel industry. In this dissertation, the researcher focused on the investigation of the effects of psychological contract on the employees’ performance in the literature review. In conjunction with this, the researcher expanded the research to investigate the influence of generation affiliation on the relationship between psychological contract and employee’s performance in the Sarawak’s hotel industry.

Employees are the most valuable asset in the organization. In making organization’s operations sustainable and effective, therefore, people in the organization must be in a very good condition; physically and psychologically. In the organizational level, human resource research, the relationship between human resource management and organizational performance has increasingly become a matter of interest, as can be seen in the numerous articles and books on High- performance Work system and the rising interest in “HR scorecards”. However, the research focus on the human resource management influences on organizational performance. We know little about the psychological contract which contributed to the human resource management which influences on the employee’s performance. Therefore, in this study, the author has identified several variables which consist of independent and dependent variables that are essential in overseeing the completion of this research in the context of the hospitality industry in Sarawak.

For the study, the dependent variable is the employee performance. If there seems a slight negligence on the employees’ performance, it will cost the organizations in the long run (Becker,

2002). Therefore, immediate action should be taken before the matters become worse. Employees will breach the contract when they perceive that the organization might fail to oblige what they have promised or fulfillment in psychological contract. (Conway & Briner, 2007).

The psychological contract is defined as: “an individual’s belief, shaped by the organization, regarding reciprocal obligation”. Different people might have a different perspective toward psychological contract, therefore it is challenging to reach the “zone of acceptance” between both parties which consist of employer and employees (Oneill, 2007). He emphasizes that in order to reach the mutual acceptance level, it is an ongoing process towards understanding the needs and wants of both parties

Guest (2014) added by mentioning that it is very challenging to identify the criteria in psychological contract negotiation as this problem is viewed as some form of the ongoing process from time to time (Herriot & Manning, 1997). He added by explaining the implicit encounters the implicit, the result may be two strangers passing blindfold and in the dark, disappointed at their failure to meet (Guest, 2014). Atkinson (2007) showed that violation fully mediated the effects of the breach on employees’ affective commitment and trust. Contract breach leads to reduced psychological well-being (Conway & Briner, 2007), increased intentions to leave the organization (Taylor & Tekleab, 2004), reduced job satisfaction (Taklead et al, 2001), trust in the organization (Robinson, 1996), organizational commitment (Coyle & Kessler, 2003), lower employee obligations to the organization (Robin et al, 1994), and more cynical attitudes toward the organization (Katou, 2008).

For the international perspective, the hotel industry is faced with the challenge personnel shortage. For instance, Ghiselli (2016) reported that the employees’ turnover rate in the United States ranges from 35 percent to 47 percent as compared to about 8 to 15 percent in the non-service

industries. Beside this, past studies regarding the turnover rate of hotel employees in Asian countries indicated that the turnover rate is increasing rapidly. For instance, 86 % in Hong Kong, 57.7 % in Japan and 54 % in Singapore. Additionally, Mohamad & Rahim (2016) in their study on turnover discovered that the turnover rate in Malaysia was significantly higher in the hotel industry with 66% as opposed to the other service-oriented industries.

Therefore, it is important to understand the important aspects of psychological contract in order to improve employees' performance. The concept of the psychological contract connects organizational level and individual level because of its focus on the exchange relationship between organization and individual. The psychological contract is of interest because of its effects on attitudes and behavior of organizational members. For the hotel industry to achieve desired performance goals, violations and fulfillment of employee's psychological contracts are important factors. Violation indicated a situation in which employees perceive the obligations of the employer as not being completely fulfilled. Violation of the psychological contract has been empirically linked to individual's attitudes and behaviors, such as for instance trust, loyalty, commitment and intention to leave (Robinson & Morrison, 2004).

## **1.2 Problem Statement**

Employees spent more than eight hours per day in the organization. Thus, the employees play an important role in the success of service organization as people are the major assets in the service industry. It is important to ensure the level of productivity and performance of employees constantly in the ultimate stage by fulfilling the psychological contract (Li, 2014).

If employees' performance is a vehicle for an organization's growth, then it is essential to have more understanding of the different types of psychological contract impact on employees' performance.

In fact, most psychological contract research has focused on the outcomes of psychological contract breach (Lambert et al, 2013). However, the focus has yet specifically directed towards the effects of psychological contract in Sarawak Five Star hotel though past studies have discussed on psychological contract fulfillment or psychological contract breach in other industry. The effects of psychological contract in Sarawak Five Star hotel remain unexplored. It is significant to study the psychological contract in Sarawak Five Star hotel as the five-star hotel provides meetings, incentives, conference and exhibition (MICE). The Sarawak government established Sarawak Convention Bureau in 2006 in order to pivotal in facilitating the organization, development, and marketing of conventions, conferences and corporate events in Sarawak. The MICE industry grew exponentially with the industry contribution of RM 203.25 million (193 Convention bids) and estimated RM 789 million economic impact value (Sarawak Convention Bureau, 2016).

The hotel industry is experiencing fast growth in the most part of the world. Studies show that the growth of hotel industry can be due to the globalization process and improves in the standard of living. However, Go (2014) discovered that human resource management has traditionally been a weak link in the hotel and tourism industry. The hotel industry is faced with the challenge of personnel shortage. Globally, the turnover rate in the hotel industry is estimated to range from 60 percent to 300 percent annually (Walker & Miller, 2015). Nevertheless, this high turnover rate is not only confined to the operational employees alone. It has been discovered that a high turnover rate also existed among managerial employees within the hotel industry. This situation has come to a bad impact on the industry as the hotel industry is one of the labor-intensive

industries, which requires the investment of enormous human resource. In order to acquire operation performance, hotels need to depend on the investment of enormous service manpower (Li, 2014).

Walker & Miller (2015) indicated one of the major challenges for the hospitality industry is to retain managers who are termed as highly skilled employees. From an international perspective, Walsh and Taylor (2016) also suggest that retaining highly skilled staff is becoming a primary challenge for the hospitality industry. In addition, Hoque (2013) emphasizes the importance of the understanding psychological contract between employer and employees for the retention and development of the highly skilled employee.

Given the need to understand the psychological contract in the hotel industry as employees play an important role for the growth of hotel businesses, there is a need to investigate different types of psychological factors impact toward employees' performance. This study seeks to explore the psychological factors and generation affiliation moderating relationship on employees' performance. The dependent variables in this study are employees' performance which measures the organizational commitment and job dedication. The independent variables are employer-employees' mutual understanding, employer-employees' perspective relationship, interaction level between employer-employees and employees' perception on psychological contract. Generation affiliation acts as a moderator in this study to measure the moderating relationship between psychological contract factors and employees' performance.

### **1.3 Research Questions**

This research was conducted to find the relationship between the independent variables, which is behavioral environments with the dependent variable, which is the performance level of

employees. This research intends to answer the following questions:

1. What is the relationship between demographic characteristics on employees' performance?
2. What is the influence of generation affiliation on the relationship between psychological contract and employees' performance?
3. What is the impact of the psychological contract on the employees' performance?
4. What is the impact of generation affiliation towards employees' performance?

#### **1.4 Research Objectives**

The main objective is to examine which are the variables that contribute to the level of performance of hospitality industry employees and which attributes psychological contract.

Especially, the objectives of this study are listed below:

1. To investigate the relationship between demographic characteristics on employees' performance.
2. To study the influence of generation affiliation on the relationship between psychological contract and employees' performance.
3. To investigate the impact of the psychological contract on employees' performance.
4. To investigate the impact of generation affiliation towards employees' performance.

#### **1.5 Scope of the Study**

The present study is a pioneering attempt to examine the effect of psychological contact on employees' performance. The study measured the effects of psychological contract on four variables associated with employees' performance. These include; the employer-employees' mutual understanding, employer-employees' perspective relationship, interaction level between

employer-employee, and the employees' perception of the psychological contract. Generation affiliation acts as a moderating variable between psychological contract and employees' performance.

This study yielded up-to-date information on the psychological contract factors on employees' performance. These add to the limited empirical literature concerning hotel industry to engage with a psychological contract which beyond the traditional mandates of the written contract.

In Sarawak hotel industry, the quality of an organization's service delivery hinges in part upon its people, in which the human resource department gives a backup support for the frontline staff (Go et.al, 1996). However, as a result of changes, Bearwell & Claydon (2015) suggest that certain employers might have difficulty in providing for their employees' needs.

The application of an initial exploratory study has enabled the researcher to adapt the extant survey instruments to the context of the different level of hotel in Malaysia and to record the various theoretical constructs with a higher level of accuracy.

Overall, the present study contributes valuable information to academic, industry and policymakers on how to support and manage psychological contract between employer-employees that sustain long-term competitiveness in an increasingly turbulent environment.

## **1.6 Significant of the Study**

The findings of this study set out to enhance knowledge and management practices required for supporting and improving the employees' performance involved in the psychological contract. These findings could create evidence establish the effect of the psychological contract and the influence of generational affiliation toward employees' performance. For the organization or

Human Resource (HR) practitioners, the study provides insights inform policymakers on the effectiveness of HR politics to influence employee improved in performance and involvement in organization's activities. For the researcher, the study will help them to explore the different aspects of psychological contract impact and the influence of generation affiliation toward employees' performance that many researchers were not able to explore. Thus, a new theory of psychological contract may arrive it.

### **1.7 The Definition of Key Terms**

The following were the key terms used in present study and were operationalized in the following manner.

**Psychological Contract-** refers psychological contract as an implied understanding between the individual and the organization regarding what each is to give and receive (Kotter, 1973).

**Employer-** refers a person or institution that hires employees or workers. Employers offer wages or a salary to the workers in exchange for the worker's work or labor.

**Employees-** refers to an individual who works part-time or full-time under a contract of employment, whether oral or written, express or implied, and has recognized rights and duties.

**Hotel industry-** refers to an institution which provides travelers with shelter, food, refreshment, and similar services and goods, offering on commercial basis things that are customarily furnished

within households but unavailable to people on a journey away from home (MAH, 2015). Hotel in this study is defined as Five Star Hotel.

**Mutual understanding-** refers to the sympathy of each person for the other. It is a relation of affinity or harmony between people; whatever affects one correspondingly affects the other; "the two of them were in close sympathy" (Hui & Lee, 2004). Mutual understanding in this study is defined as the understanding between superior and employees.

**Perspective relationship-** perspective is the way that one looks at something. It is the relationship or proportion of the parts of a whole, regarded from a particular standpoint or point in time. The perspective relationship in this study is defined as the relationship between superior and employees.

**Interaction level-** employees' interaction at workplace means the communication (two ways) that can help to build the psychological contract, in which implicit in this helping person to work together by means of share information (CIPS, 2010). Interaction in this study defined at the interaction that influences the employee's working performance.

**Perception-** Perception is the organization, identification, and interpretation of sensory information in order to represent and understand the environment (Holtzhausen & Fourie, 2009).

**Employees' performance-** performance is defined as the act of performing (Hornby & Ruse, 1989). Employees' performance in this study is defined as the measurable employees' working performance that influenced by the psychological contract.

**Generation Affiliation-** refers to the generation or year grouping in which people are born. In this study, generational groupings serve as a model for understanding how group members may behave, think, or feel as a function of their generational affiliation (Delcampo, Haggerty, Haney & Knippel, 2010).

## **1.8 Organisation of the Thesis Chapters**

This thesis consists of six chapter. The introductory chapter is followed by the second chapter which reviews the relevant psychological contract literature. The third chapter exemplifies the research methodology. The fourth chapter reports the findings from the analysis of data, while the fifth chapters present implications of this study. Finally, this chapter draws the conclusions of the study.

The following sections of this chapter briefly outline the content of each of the above-mentioned chapters.

Chapter 2 presents a concise review of the literature that is relevant for understanding and exploring psychological contract. This is organized around three themes: the theoretical foundation of the psychological contract, the relationship of psychological contract's variables on employees' performance and the influence of generation affiliation on the relationship between psychological contract and employees' performance.

Chapter 3 discuss the quantitative research methodology adopted in this study. It initially

the choice of the research philosophy, and subsequently, discusses sampling, data collection, and data analysis, together with methodological and philosophical justifications.

Chapter 4 reports the findings from the analysis of data, using structural equation modeling analysis method. Hypotheses concerning the relationships between the constructs under are tested and implications of the outcomes are discussed, with reference to the extant literature reviewed in Chapter 2.

Chapter 5 discusses the finding of the study in relation to the research objectives and hypotheses. Beside this, it presents the implications of the study in terms of the theoretical and practical aspects, its strengths and potential limitation, and direction for future research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Chapter 1 gives an overview of the research while Chapter 2 demonstrates the context of the research. This chapter presents a concise review of the literature that is relevant for understanding and exploring psychological contract between employees' performance. Relevant theoretical frameworks such Social exchange theory and equity theory will be used to build the foundation in this research. The literature review will first examine the dependent variable which is the employees' performance. Followed by the debates surrounding the definition and conceptualization of the psychological contract. Then, the chapter introduces the psychological contract variables between employees' performance. The four variables are: (a) employer-employees' mutual understanding, (b) employer-employees' perspective relationship, (c) interaction level between employer and employees, (d) employees' perception on psychological contact. The researcher further expands to review the impact of the psychological contract on the employees' performance. Consequently, the literature of generation affiliation on employees' performance is reviewed and analyzed accordingly.

#### **2.2 Employee Performance**

The performance of employees determines the output of the organization, which affects survival and development of the organization, and the importance of the organization cannot be underestimated. The organization has development target in a competitive environment, employees also have their goal in work, and the measurement of completion degree of employees for organization's goal is called performance (Ali & Yuen, 2015).