

# DO EMPLOYEES LOYAL TO YOU? EXAMINING THE MODERATING EFFECT OF ORGANIZATIONAL JUSTICE ON HRM PRACTICES AND EMPLOYEE LOYALTY LINKAGE

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## ABSTRACT

*The purpose of the present study is to empirically test the relationship between Human Resource Management Practices (HRM Practices) and Employee loyalty and to identify the moderating effect of Organizational justice on its linkage. A survey of 138 employees who were selected by using convenience sampling techniques in Sri Lankan apparel industries was conducted using a structured questionnaire to validate the proposed model. The study has used Statistical Package for Social Sciences (SPSS) for the empirical analysis and drawing conclusions. The empirical results of this study showed that HRM Practices are one of the major factors that make employees stay loyal to the organizations. Furthermore, Organizational justice significantly moderates the relationship between HRM Practices and Employee loyalty. Hence, organizations need to consider the Organizational justice at the top priority so that employees can stay in the organizations for a longer period. This finding confirms that the observed relationships hold true in different organizational settings and provides critical contributions to the research field of the apparel industry as well as suggests important recommendations for improving employee loyalty.*

**Keywords:** Human Resource Management Practices, Employee loyalty, organizational justice

## 1. Introduction

The world is undergoing significant transformations due to revolutionary technological advancements, rising competition, changing demographics, evolving societal expectations, and ongoing global crises. As a result, the nature of work is rapidly evolving. (Lim 2023). To meet the challenges posed by new realities, it is necessary for businesses organizations to rely on its employees (Drucker, 2007). Employee performance may be influenced by the method of conducting routine tasks of the organizations (Bontis *et al.*, 2000; Pena, 2002; Unger *et al.*, 2011). Contrarily to this perspective on the issue stands the view held by experts of organisational behaviour who consider employees' qualities as indispensable towards achieving organisational successes (Vroom, 1964; Schwab and Cummings, 1970; Griffin and Moorhead, 2011). Hence, an organization thrives or fails based on how talented and dedicated its employees are since they form the backbone of any establishment.

Loyalty from the employees have a growing influence on business success and independent of industry trends according to Boltanski and Chiapello's research in 1999.

Organizations are aware that employee loyalty is vital as several factors put pressure on psychological contracts within today's economy (Naus, Van Iterson, and Roe, 2007; Sverke and Goslinga, 2003) and closely linked to increased productivity, reduced turnover, and improved overall performance. For an organization to be successful, employees need to demonstrate a strong level of dedication along with consistent commitment (Bakker and Schaufeli 2008). Therefore, it is essential for the employees to remain loyal to the organization and avoid actively looking for alternative career options. The general definition of loyalty is the strong feeling of devotion and attachment towards any specific object like people or ideals. Therefore, the company's most paramount asset in achieving both success and sustainability are its loyal workers.

Contemporary business organizations are witnessing significant changes in the concept of employee loyalty due to evolving employer and employee relationships (Dhir *et al.*, 2020). The past thirty to forty years have seen important shifts occur within the industrial sphere. In earlier times whenever an employee was hired it automatically implied that they would stay with the organization forever and subsequently management insisted on unstinted loyalty. Such employees showed devotion towards their organization. But the globalization has brought about an alteration in loyalty of the employees in their employment due to changes such as manufacturing relocations or downsize initiatives. Hence, traditional workplace norms have changed in recent times with companies increasingly pushing boundaries by breaking rules and guidelines which were once sacrosanct. Mutual obligations within firms have been questioned leading to a decline in lifetime employment opportunities whereas job-hopping is seen these days as normal behaviour along with striving for higher salaries and better working environments.

Further, Aboobaker *et al.* in 2020 stated that the contemporary labour force is mainly made up of millennials (those born between the years of 1981-1996 as defined by Dimock in 2018) that causing human resource managers and business leaders face difficulties with employee retention and organizations face the challenge of retaining talented employees and studies reveal that millennials tend to be less attached towards organizations as compared with other generations. Further, the study of Adkins in 2016 (cited in Healy, 2018) revealed that only around one-third or less than the population surveyed of millennials showed positive engagement levels while others appeared as disengaged. Therefore, gaining and extending trustworthiness and dependability is no easy task in modern workplaces and the quality of workforce loyalty is becoming scarcer. Most of the organizations currently face lot of challenges in the concept of employee loyalty (Omar *et al.*, 2010). Hence, it is imperative to understand the factors that influence employee loyalty in this context.

The level of employee loyalty is the fundamental concerns in the apparel industry (Perry, Wood and Fernie, 2015). Currently the apparel industry in Sri Lanka faces a major challenge as factories have a high employee turnover rate and workers tend not to stay with a single organization in the long term (Perera *et al.*, 2014). Even though studies have established a positive relationship between HRM practices and employee loyalty (Hassan *et al.*, 2013; Nisar *et al.*, 2017; Khuong, Mai and Phuong, 2020; Nadeak and Naibaho, 2020), none of

the research has been done regarding the moderating effect of organizational justice on HRM Practices and employee loyalty linkage. The extent to which executive and managerial employees working within Sri Lanka's apparel sector located within its Northern Province are loyal remains an area where empirical knowledge is lacking, reflecting a contextual research gap at an industrial level. Also there exists an intellectual curiosity among executives and managers regarding the level of employee loyalty. Thus, the current study aims to investigate the moderating effect of the organizational justice on HRM Practices and employee loyalty linkage and provide insights into developing effective strategies to enhance employee loyalty in the contemporary work environment.

### *1.1. Research Questions and Objectives*

Based on the review of existing literature and the research gap, the researcher formulated following research questions that is to be answered through a systematic attempt of the study.

- Do HRM Practices positively and significantly relate to Employee loyalty in the organization under study?
- Does Organizational justice significantly moderate the HRM Practices and Employee loyalty linkage?

For being consistent with the aforementioned research questions, the researcher developed following objectives of the study.

- To identify the significant and positive relationship between HRM Practices and Employee loyalty.
- To investigate the moderating effect of Organizational justice on HRM Practices and Employee loyalty linkage.

## **2. Theoretical background and hypotheses development**

### *2.1. HRM Practices and Employee Loyalty*

Employee Loyalty can be defined in various ways by different people including professionals like experts or researchers for example, Hirschmann (1970), to him it's more about having an attitude that encourages workers to put forth their thoughts without fear also avoiding leaving now. Becker *et al.* (1995) defined loyalty as exhibiting strong fidelity towards being part of an organization; having an eagerness to persevere through laborious endeavours for its greater benefit; as well as having complete belief in and recognition of its beliefs and aims. Podsakff *et al.* (2000) tries defining employment Loyalty by looking at how one is able/willing enough not only help organisational goals but stick around through tough situations. On one hand, Wan in 2012 (as cited in Sihombing *et al.*, 2017), stated it's more about having personal attachment/commitment towards an organisation while on the other end, Gullion and Fezane (2014) describe it rather as a trustworthy relationship with a sense of belongingness. From several definition, the employee loyalty can be referred as the extent to which employees are committed, dedicated, and willing to stay with the organization for a longer duration.

Hiltrop (1995) suggested that every company tries different methods to foster employee loyalty including the HRM Practices which can generate more dedicated and loyal members

(Finney 1996 as cited in Darmawan *et al.*, 2020). HRM Practices encompass various activities and strategies designed to manage and develop human capital within an organization including “*job design, job analysis, human power planning, recruitment, selection, hiring, induction, performance evaluation, training and development, career management, pay management, welfare management, management of incentives, employee movements, health and safety management, discipline management, grievance handling and labour relations*” (Opatha, 2009).

Research has consistently shown that HRM practices can have a significant impact on employee loyalty (Hassan *et al.*, 2013; Nisar *et al.*, 2017; Khuong, Mai and Phuong, 2020; Nadeak and Naibaho, 2020). Here are some key findings from the literature: Recruitment and Selection: The way organizations attract, select, and onboard new employees can shape their commitment and loyalty (Ferris *et al.*, 2002; Taahir and Mohd Remie, 2020); Training and Development: Organizations that invest in the development of their employees through training and career development opportunities tend to have higher levels of employee loyalty (Montgomery 2006; Taahir and Mohd Remie, 2020); Performance Management: Fair and transparent performance management practices that provide regular feedback, recognition, and rewards for employee contributions have been associated with higher levels of loyalty (Clarke, 2015; Taahir and Mohd Remie, 2020); Compensation and Benefits: Competitive and equitable compensation and benefits packages are important for fostering employee loyalty (Anantadjaya *et al.*, 2015; Taahir and Mohd Remie, 2020); Employee Relations: Positive employee relations, characterized by open communication, trust, and supportive work environments, have a strong impact on loyalty (Bloemer and Odekerken-Schröder, 2006).

Moreover, the relationship between HRM Practices and employee loyalty can be explored from the perspective of social exchange theory of George Homans (Homans, 1958), which focuses on the exchange of resources and the mutual obligations that develop between individuals and organizations. Social exchange theory suggests that employees perceive HRM practices as organizational investments in them, and in return, they reciprocate with increased loyalty and commitment. Thus, the researcher postulate that when organizations adopt and implement effective HRM Practices, it leads to increased employee loyalty in the organization. Accordingly, it is hypothesized that:

*H<sub>1</sub>: There is a positive and significant between HRM Practices and employee loyalty linkage.*

## *2.2. Moderating effect of Organizational Justice on HRM Practices and Employee Loyalty Linkage*

Organizational justice and its impact on employee attitudes and behaviours have received significant attention in the field of organizational psychology and human resource management (Zhang and Agarwal, 2009). In particular, the relationship between HRM Practices and Employee loyalty has been explored extensively. This literature review aims to examine the moderating effect of organizational justice on the relationship between HRM Practices and Employee loyalty.

Organizational justice refers to employees' perceptions of fairness in the workplace (Rupp and Thornton, 2012). It comprises three dimensions (Yean, 2016) namely distributive justice (fairness in resource allocation), procedural justice (fairness in decision-making procedures), and interactional justice (fairness in interpersonal treatment). Research suggests that organizational justice is a crucial factor in shaping employees' attitudes and behaviours, including their loyalty to the organization. The moderating effect of organizational justice suggests that the relationship between HRM practices and employee loyalty may be contingent upon the perceived fairness of organizational processes and treatment. When employees perceive high levels of organizational justice, the positive impact of HRM practices on loyalty is enhanced. Conversely, low levels of organizational justice may weaken the relationship between HRM practices and employee loyalty.

Several theoretical frameworks support the moderating effect of organizational justice. Social exchange theory posits that employees reciprocate favourable treatment from the organization with increased loyalty. When HRM practices are perceived as fair, employees are more likely to engage in positive work behaviours (Mithulan and Opatha, 2023) and exhibit loyalty. Additionally, equity theory suggests that perceived fairness in resource distribution and decision-making processes influences employees' perceptions of fairness in the organizational practices, which, in turn, impact their loyalty. Hence, it can be argued that even though there is a positive and significant relationship between HRM Practices and employee loyalty, if there is no justice in the other organizational activities such hypothesized relationship become vain. Therefore, organizations should maintain organizational justice to maintain the strong relationship between HRM Practices and employee loyalty. With the above theoretical evidence and logical argument, the following hypothesis was developed:

*H<sub>2</sub>: Organizational Justice significantly moderates the HRM Practices and employee loyalty linkage.*

### **3. Methodology**

#### *3.1. Sample*

The target population of this study consists of executives and managerial level employees from apparel industries in Northern Province, Sri Lanka. A self-administrative questionnaire was directly delivered to those executives and managerial level employees who work in the apparel industries with directions to increase the response rate. Out of 150 questionnaires were distributed 138 elements were valid for later analysis and resulting in an effective response rate of 92%. Our survey on the relationship between HRM Practices and Employee loyalty can only be valid if respondents have at least three years of experience which enables them to accurately perceive their level of loyalty (Dhir *et al.*, 2020). Controls used in our data analysis included obtaining data on age and gender demographics along with marital status and education qualifications.

#### *3.2. Measurement scales and structure of the questionnaire*

In order to confirm the validity of the proposed model, the researcher administered a survey utilizing a structured questionnaire which includes four main parts: the demographic profile and the three key variables in accordance with the conceptual framework (HRM Practices, employee loyalty and organizational justice). To ensure the validity of the content, the measurement items for all variables were employed from previous studies and reassessed for this study and the concepts and variables were appropriately developed and defined according to the existing literature. Determining reliability is essential for assessing whether an instrument can consistently measure a concept accurately over time as noted by Sekaran and Bougie (2016), highlighting its importance.

Table 1: Reliability Test for the Variables

Variable	Cronbach's $\alpha$ (reliability coefficient)
HRM Practices	0.874
Employee Loyalty	0.889
Organizational Justice	0.885

By computing the Cronbach's coefficient Alpha for each variable (Table No 1), it was determined that there is a high degree of internal consistency in all three variables with Cronbach's alpha exceeding 0.70 indicating coherence amongst survey questions related to an underlying construct which range from 0.874 to 0.889 with highest value belonging to Employee Loyalty ( $\alpha = 0.889$ ) followed by Organizational Justice ( $\alpha = 0.885$ ) and HRM practices ( $\alpha = 0.874$ ). Hence, all three dimensions were kept intact due to the reliability measurements.

Accordingly, HRM Practices had five dimensions: Employment Planning, Staffing, Human Resource Development, Rewards Management and Employee and Labour Relations. Employee loyalty was measured under four dimensions namely intention to stay, willingness to perform extra work, sense of belonging, and willingness to take up more responsibility while the construct organizational justice had three dimensions which are distributive justice, procedural justice, and interactional justice. Moreover, to measure the HRM Practices, the researcher has adopted the eighteen items which were developed by Opatha and Uresha (2020), for Organizational Justice, nine items were adopted from Moorman (1991) and for Employee Loyalty, researcher used six items developed by Yee et al. (2010). A five-point Likert scale ranging from 1, indicating "Strongly disagree," to 5, representing "Strongly agree," was used to measure all items pertaining to the mentioned dimensions.

### 3.3. Data analysis technique

The use of Statistical Package for Social Sciences (SPSS) enabled effective analysis of primary data gathered from respondents, and it is common to encounter missing values and outliers when collecting data (Schlomer *et al.*, 2010). To pursue raw data for errors and manage missing data, data cleansing is performed and thus it is showed the presence of complete information without any missing value or outlier. The focus of first hypothesis ( $H_1$ ) in this investigation was to determine the correlations between different variables

(HRM Practices and Employee loyalty). For that reason, we chose to use the Pearson Product Moment Correlation Technique, and then the Baron and Kenny's (1986) recommended procedures were used to test whether there is any moderation effect of Organizational justice on the relationship between HRM Practices and Employee loyalty which is another hypothesis of this study.

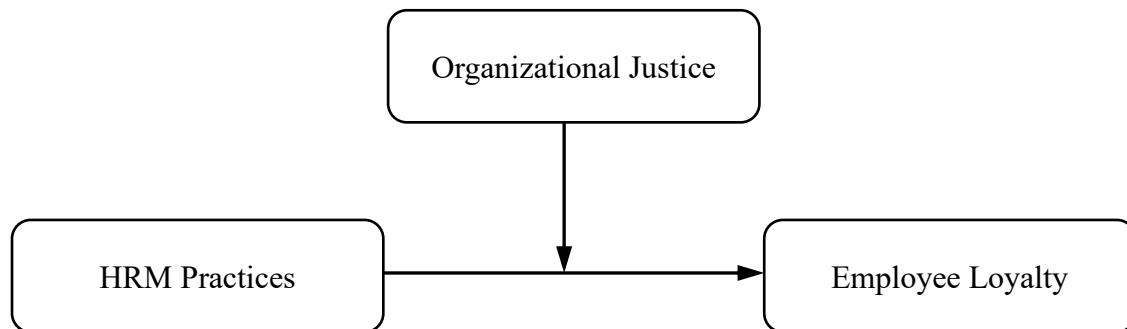


Figure 1: Conceptual Framework

#### 4. Results and analysis

The final data analysis was conducted using the 138 valid responses obtained from the sample. The sample had an average of 5 years of work experience and was predominantly male (53%). The highest representatives (71%) are married, followed by 54% of employees are with the undergraduate degree and 36% of employees are in the age of below 30 years. The demographics of our respondents were found to be diverse, which should help us understand the expected relationships and generalize our results. Respondent occupational diversity was maintained to increase the generalizability of results in the Sri Lankan context. Table 2 represents the correlations for all variables of the present study. As appeared in the table, the result shown that the independent variable (HRM Practices) is positively correlated to the dependent variable (employee loyalty).

Table 2: Correlations

	Gender	Age	Marital Status	Edu. Qual	Exp	HRM	EL	OJ
Gender	1							
Age	-.091	1						
Marital Status	-.138	.376**	1					
Edu. Qual.	.026	.328**	.269**	1				
Experience	.064	.726**	.559**	.308**	1			
HRM	-.194*	-.031	.084	.003	-.036	1		
EL	-.137	-.076	.066	.019	-.036	.822**	1	
OJ	-.151	-.004	.135	-.045	.013	.804**	.803**	1

\* Correlation is significant at the 0.05 level, \*\* Correlation is significant at the 0.01 level.

The following table (Table No 3) demonstrates the developed two hypotheses of this study and the hypothesized relationships.

Table 3: Hypotheses (H<sub>1</sub> and H<sub>2</sub>) of the Study

Hypotheses	Hypothesized Relationship	Alternative Hypotheses
1	HRM Practices and Employee Loyalty	H <sub>1</sub>
2	HRM Practices and Employee Loyalty by the moderation of Organizational Justice	H <sub>2</sub>

Table 4 summarizes the outcomes of correlation analysis which was utilized to inspect the null hypothesis of H<sub>1</sub>. The statistical test resulted in a significance level of 0.01.

Table 4: Testing H<sub>1</sub> through correlation analysis

Description	Variables	Values
	Pearson Correlation Coefficients	0.822**
HRM Practices and Employee Loyalty (H <sub>1</sub> )	Significance (one tailed)	0.000
	N	138

\*\*p < 0.01 (HRM Practices are highly correlated with a coefficient of 0.822)

The statistical calculations of the above Table No 4 indicate that there is a significant relationship between HRM Practices and employee loyalty at  $p < 0.01$  (0.000). Hence, rejecting null hypothesis pertaining to alternative hypothesis framed for this research, acceptance of H<sub>1</sub> was greatly due to the findings of the correlation analysis. The relationship between HRM Practices and Employee loyalty has been empirically shown to be positive and significant.

In accordance with the second hypothesis of this research, a moderation effect is proposed wherein organizational justice substantially moderates the relationship between HRM Practices and Employee loyalty. To determine if there is an impact on a dependent variable's level (Holmbeck, 1997), the moderation model tests for interactions between moderators and predictors. When we say 'impact', it means there has been a shift in either the strength or direction of linkage between predictor and outcome variables based on Baron and Kenny's description in 1986. Baron and Kenny's method is utilized to explore if organizational justice moderates any potential correlations between HRM Practices and Employee loyalty within our research model. Adopting Baron and Kenny's approach for identifying a moderator's role between predictor variables and outcome variables results in performing three specific steps according to Frazier *et al.* (2004). The first phase (Path a) involves proving that predictor variables have an impact on outcome variable; second stage (Path b) is to show the impact of moderator variable (Organizational justice) on outcome variable (Employee loyalty); and third and the final step (Path c) is to show the interaction or product of predictor (HRM Practices) and moderator variable (Organizational justice) has an impact on outcome variable (Employee loyalty).

To examine moderating hypothesis while having continuous dependent as well as independent variables it is suggested to modify regression equation through addition of



product between moderator and independent variable based on recommendations provided by Baron and Kenny (1986). Hence, the researcher calculated a moderating effect variable by multiplying predictor (HRM Practices) with a moderator (Organizational Justice). The statistical significance of the found effect in ‘path c’ can be attributed to its p value of 0.001 ( $P < 0.01$ ) as per Table 5. Further, R square associated with the interaction term is 0.754.

Table 5: Organizational Justice as a Moderator

Path	Coefficient	Significant
HRM Practices → Employee Loyalty	0.822	0.000
Organizational Justice → Employee Loyalty	0.803	0.000
HRM Practices x Organizational Justice → Employee Loyalty	0.451	0.001

The influence of HRM Practices on Employee loyalty can be observed in the results of the Table 5 for ‘path a’, while moderation by Organizational justice can be seen through ‘path b’. Finally, ‘path c’ highlights how the interaction of both factors (HRM Practices and Organizational justice) with Employee loyalty. The observation reveals that both constructs have a substantial impact on employee loyalty; HRM Practices = 0.000, organizational justice = 0.000, and interaction of both HRM Practices and Organizational justice = 0.001.

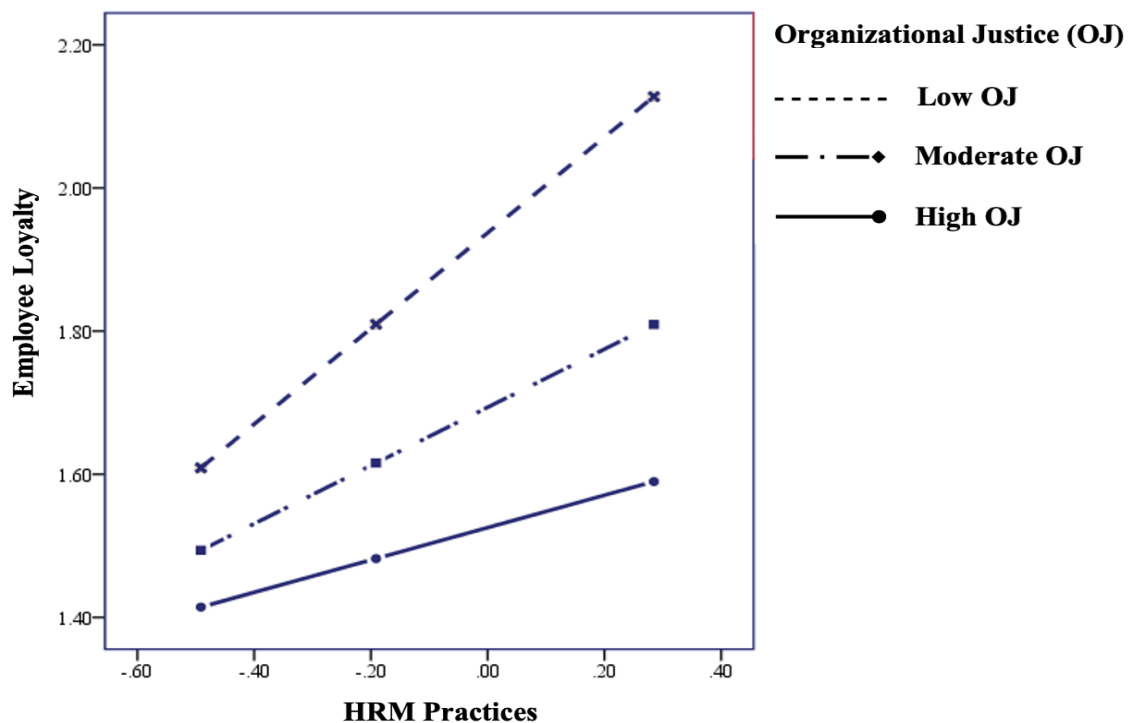


Figure 2: Moderation effect of the organizational justice

Hence, the researcher justified the acceptance of the second hypothesis based on variable interactions that hold significant values with  $p = 0.001$ . Moreover, the following figure (Figure No 02) illustrates the interaction effect of the organizational justice on the

relationship between HRM Practices and employee loyalty. It elucidates the slopes showing how this study's variables interacted by estimating mean values of moderating variable that was plotted at high/low ( $\pm 1$  SD), and a slope analysis was conducted to make sense of it. Hence, it explicates that higher the HRM Practices lower the employee loyalty with the interaction of lower organizational justice in the organization and higher the HRM Practices higher the employee loyalty with the interaction of higher organizational justice in the organization. Hence, the difference in the slopes for the organizations with high or less organizational justice shows that organizational justice moderates the relationship between HRM Practices and employee loyalty which can be understood through the following interaction graph.

Table 6: Results of the Hypotheses

Hypotheses	Coefficient	Result
HRM Practices and Employee Loyalty	0.822 ( $p=0.000$ )	Supported
HRM Practices and Employee Loyalty by the moderation of Organizational Justice	0.451 ( $p=0.001$ )	Supported

## 5. Discussion

Considering theories, logical beliefs of researchers and existing empirical evidence, the conceptual model of this study was formulated. The Sri Lankan apparel sector's executive and managerial employees were studied to test two formulated hypotheses. The focus of this investigation was to discover a noteworthy and the connection between HRM practices and the loyalty of employees is characterized by a positive and beneficial association. Based on the statistical analysis performed in this study, we can confidently conclude that there is a noteworthy and favourable relationship between HRM practices and employee loyalty. The degree to which employee loyalty is affected by HRM Practices can be determined by noting that one increases as much as the other. Research findings have indicated that HRM practices possess the ability to forecast employee loyalty. Accordingly, it can be deduced that organizations should give due consideration to their HRM Practices to keep loyal employees within the organization. Appropriate HRM Practices play a crucial role in building and maintaining employee loyalty within organizations particularly those operating within the apparel industry.

This study further aims to bridge the gap in empirical knowledge by exploring how Organizational Justice affects the relationship between HRM Practices and Employee loyalty. Based on their research into existing literature, it was determined that this topic has yet to be studied. To analyse how organizational justice influences the relationship between HRM Practices and Employee loyalty was one of the key objectives of this study.

According to statistical results of the moderation analysis, it is revealed that Organizational justice significantly moderates the HRM Practices and Employee loyalty linkage. Hence, the significant link between HRM Practices and Employee Loyalty is influenced by Organizational Justice moderation. In this regard, if organizations want to increase the

loyalty of their employees, they must ensure transparency and fairness in every aspect of their organizational practices through proper rules and procedures.

## **6. Implications and Recommendations**

Understanding the moderating effect of organizational justice on HRM Practices and Employee loyalty linkage has practical implications for organizations. It highlights the importance of fostering a fair and just work environment to maximize the effectiveness of HRM Practices in promoting Employee loyalty. The findings suggest that HRM Practices should be aligned with principles of fairness and justice. Organizations should strive to ensure that HRM Practices are implemented in a transparent and equitable manner, with clear procedures and consistent decision-making. This alignment will reinforce employees' perceptions of fairness and strengthen the positive impact of HRM Practices on Employee loyalty.

The study also emphasises the critical role of organizational justice in shaping employee loyalty. Organizations need to recognize that fairness perceptions are essential for fostering positive employee attitudes and behaviours. By prioritizing and promoting organizational justice, organizations can create a supportive and trusting work environment that enhances employee loyalty. Further, organizational leaders play a pivotal role in shaping perceptions of organizational justice. Leaders should model fairness, transparency, and respectful treatment in their interactions with employees. By consistently demonstrating these behaviours and emphasizing the importance of organizational justice, leaders can positively influence employee perceptions and strengthen their loyalty.

Moreover, this study recommends the organizations to conduct organizational justice assessments to generate insights on the strengths and weaknesses of existing HRM Practices and other organizational activities and identify areas for improvement. Besides organizations should review and revise their policies and practices to ensure fairness and consistency. Such regular monitoring and evaluation of organizational practices can help identify any biases or inequities and allow for timely corrective actions. Further, organizations can foster a culture of open and transparent communication, where employees feel comfortable expressing their opinions and concerns. By implementing these implications and recommendations, organizations can successfully utilize the moderating influence of organizational justice to enhance the connection between HRM practices and employee loyalty. This, in turn, can contribute to higher levels of employee engagement, satisfaction, and commitment, leading to improved organizational performance and success.

## **7. Conclusion**

The underlying mechanisms through which HRM Practices influence Employee loyalty include increased job satisfaction, organizational commitment, perceived organizational support, and trust in management. When employees perceive that the organization values and supports them through effective HRM Practices, they are more likely to develop a sense of loyalty. Moreover, it's worth noting that the relationship between HRM Practices and Employee loyalty can be influenced by a contextual factor of organizational justice. Hence,

this study reveals that organizational justice plays a crucial role in moderating the relationship between HRM Practices and Employee loyalty. Perceived fairness in organizational processes and treatment strengthens the positive relationship between the HRM Practices and Employee loyalty. This understanding underscores the significance of cultivating a just work environment to enhance employee loyalty and overall organizational effectiveness. Further research is warranted to explore additional factors that may influence these relationships and to investigate the mechanisms through which it operates.

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