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## COVID-19 Human Resource Retrenchment Strategies and the Role of Transformational Leadership

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# **COVID-19 Human Resource Retrenchment Strategies and the Role of Transformational Leadership**

## **Introduction**

The purpose of this study is to examine the roles of transformational leadership and human resource management (HRM) cost retrenchment strategies on employee outcomes under COVID-19 related conditions. To fulfill this purpose, the study investigates the impact of transformational leadership and mediating role of HRM cost retrenchment on employee job satisfaction and trust in the employer as influenced by organizational ethical climate. The effects are examined in comparison between the tourism industry and other industries of a travel destination considerably suppressed by the COVID-19 global health pandemic.

## **Literature Review**

According to the contingency theory of leadership (Fiedler, 1978), leadership style is effective when it converges with a particular situation. In other words, a leader, depending on his or her style of management, can be effective or not under a set of specific circumstances. Transformational leadership is known as a style of management that allows both a leader and a follower to elevate mutual morality and motivation (Bass & Avolio, 1993). In the tourism industry, transformational leadership has the strongest impact on subordinates' relational perceptions, followed by their attitudinal and behavioral outcomes (Gui et al., 2020).

Ethical climate is defined as employees' shared perceptions of company ethical principles, practices, and procedures (Victor & Cullen, 1988). Ethical climate significantly influences employees' job satisfaction, organizational commitment, turnover intentions, and ethical behavior (Mulki et al. 2009). Research reveals two unique dimensions of ethical climate: self-focused moral reasoning and other-focused moral reasoning (Arnaud & Schminke, 2012). Ethical leadership affects company ethical climate (Shin, 2012). Since firm's chief executive officer institutes ethical norms and sets the tone for everyday ethical practices and activities (Schminke et al. 2005), it is predictable that transformational leadership will influence the organization's ethical climate.

The use of the HRM retrenchment strategies that involve re-examining organizational cost structures (e.g., layoffs, hiring freezes, benefits reduction), specifically in response to an economic crisis or downturn became a wide-spread practice that leads to stabilizing or even improving organizational performance (Datta et al., 2010). However, Tsao et al. (2012) shows that such a cost-focused employee retrenchment approach may have adverse effects on a firm's outcomes. The global economy in general and tourism industry in particular, have been severely affected by travel restrictions implemented in an attempt to manage the COVID-19 health pandemic (Breier et al., 2021). Tourism organizations responded by implementing a wide-range of HRM retrenchment strategies. The industry and researchers seek a better understanding of management mechanisms that may assist tourism firms to recover (Breier et al., 2021). Therefore, it is important to examine how HRM retrenchment strategies implemented by tourism versus other business organizations affected employee and organizational outcomes.

Employee job satisfaction is defined as "an attitudinal construct reflecting one's evaluation of his or her job" (Ilies and Judge, 2004, p. 368). Bajrami et al. (2020) find that for tourism employees, job insecurity and organization changes related to the COVID-19 pandemic negatively affect job

satisfaction. Employee trust in the employer, as a relational outcome, is defined as employee perception of trustworthiness of the employer, who can manage all aspects of organizational performance confidently with adequate safeguards of organizational assets including human resources (Weibel et al., 2016). Limited attention is given to employee trust in the employer in the tourism research.

Nonetheless, Nicolaides (2008) notes that for tourism organizations, conflict situations may decrease mutual trust between employees and their employers. Thus, based on the contingency theory of leadership, it is reasonable to predict that the COVID-19 related tourism HRM retrenchment strategies, when compared with other industries, will first be influenced by the CEO's leadership style and ethical climate present in the hospitality organization affecting employees' job satisfaction and trust in their employer. The following hypotheses are proposed:

H1: During pandemic-related HRM, transformational leadership has positive impact on cost retrenchment strategies.

H2. During pandemic-related HRM, transformational leadership has positive impact on ethical climate: (a) self-focused moral reasoning, and (b) other-focused moral reasoning.

H3. During pandemic-related HRM, transformational leadership has positive impact on employee job satisfaction.

H4. During pandemic-related HRM, cost retrenchment strategies have negative impact on employee job satisfaction.

H5. During pandemic-related HRM, employee job satisfaction has positive effect on trust in the employer.

H6. During pandemic-related HRM, ethical climate has a positive effect on cost retrenchment strategies for: (a) self-focused moral reasoning, and (b) other-focused moral reasoning.

H7. During pandemic-related HRM, ethical climate has a positive effect on employee job satisfaction: (a) self-focused moral reasoning, and (b) other-focused moral reasoning.

H8. During pandemic-related HRM, ethical climate has positive effect on trust in the employer: (a) self-focused moral reasoning, and (b) other-focused moral reasoning.

H9. During pandemic-related HRM, cost retrenchment strategies serve mediating role on employee satisfaction.

H10. There are significant differences between tourism and non-tourism industry companies in pandemic-related HRM.

## **Methodology**

### *Sample and data collection*

To test the proposed hypotheses, we undertook an empirical study with industry professionals who represented both tourism and non-tourism companies in the State of Hawaii, USA. Located on the islands in the mid-Pacific region, the state's economy is highly reliant on the tourism industry. From April to October, 2020 the state's governor issued a proclamation that required all arrivals to self-quarantine for 14 days. These requirements led to a significant weakening of tourism demand, followed by the temporary or permanent closure of a large share of tourism-related businesses across the state (Dbedt, 2020). According to the State's Department of Business,

Economic Development & Tourism the change in visitor arrivals in 2020 from the previous year was -73.7% and the change in visitor spending from previous year was -71.1% (Dbedt, 2021). Clearly, the state's economy was critically affected by the COVID-19 pandemic. The transient accommodation tax revenues decreased by \$236.4 million in the first three quarters of 2020 compared to 2019. The average unemployment rate in 2020 was 11.2%; the lodging and restaurant sectors of the state's economy accounted for 54.4% of the total job loss (Dbedt, 2021). The state re-opened for tourism arrivals with a 72-hour negative COVID-19 test result on October 15, 2020.

To collect the data, two state professional organizations membership lists were utilized (N=650). Only those who listed corporate email addresses were invited to participate in the study. As a result, 203 respondents started the survey with 161 completions (24.8% response rate). The majority of the respondents were women (66.5%), married (67.7%), with children (70.2%), and with annual family incomes above \$100,000 (65.9%). The larger share of participants had earned at least an undergraduate degree or associate's degree (68.9%). The largest ethnical group was Asians (40.4%), followed by the respondents who identified themselves as multiracial (24.3%) and white (21.1%). The average age was 50.5 years old.

From the overall sample, 44.1% of the participants were from the tourism industry (n=71); other industries, including medical, banking, retail, and manufacturing were represented by 90 respondents. The industry-related sample description is presented in Table 2. The majority of the respondents were managers or supervisors (82.6%), who worked in their organization for over 5 years (59.0%) (Table 1).

Table 1. Industry sample description.

		Total (N = 161)	
		N	Percentage (%)
Industry	Tourism	71	44.1
	Medical	16	9.9
	Other - services	45	28.0
	Other - non-services	29	18.0
Organization Type	Public	25	15.5
	Private	98	60.9
	Non-Profit	34	21.1
	Other	4	2.5
Years in Business	1 - 7 years	4	2.5
	8 years or more	157	97.5
Organization Size	1 - 99 employees	40	24.8
	100 - 249 employees	32	19.9
	250 - 499 employees	26	16.2
	500 - 999 employees	23	14.3
	1,000 + employees	40	24.8

Manager/Supervisor			
	Yes	133	82.6
	No	28	17.4
Length of Service			
	1-5 years	66	41.0
	5 -7 years	16	9.9
	7+ years	79	49.1
Department			
	Operations	20	12.4
	Human Resources	86	53.4
	Sales and Marketing	26	16.1
	Finance	3	1.9
	Other	26	16.1
Leadership (Gender)			
	Male	128	79.5
	Female	33	20.5

### *Measures*

A self-administered online questionnaire by Qualtrics was distributed in November 2020 through January 2021. The 9-item scale of the cost retrenchment bundle was adapted from Tsao et al. (2016) and measured on a 7-point Likert-type scale from “not at all” to “a very large extent.” Respondents were asked to evaluate to what extent their organizations deployed HRM cost-centered retrenchment strategies in response to COVID-19 pandemic between March and October 2020 (Table 2).

Table 2. HRM cost retrenchment strategies (min 1 – max 7)

	Total		Tourism		Other Industries	
	N=161		N=71		N=90	
	Mean	SD	Mean	SD	Mean	SD
Hiring freezes	4.1	2.7	5.8	2.1	2.7	2.2
Reduced workweek	3.1	2.5	4.8	2.4	1.8	1.7
Layoffs	3.1	2.4	4.5	2.4	1.9	1.8
Salary reductions	2.6	2.4	3.9	2.6	1.6	1.5
Unpaid leave	2.5	2.2	3.7	2.5	1.6	1.3
Mandatory leave	2.4	2.2	3.6	2.5	1.5	1.3
Reduction in Benefits	1.9	1.7	2.8	2.1	1.2	0.8
Voluntary sabbaticals	1.7	1.5	2.2	1.9	1.2	0.8
Outsourcing	1.6	1.3	1.7	1.5	1.5	1.1

Carless et al. (2001) 7-item scale was used to measure transformational leadership. Ethical climate scale was adapted from Arnaud and Schminke (2012) and consisted of two dimensions: self-focused moral reasoning (5-items) and other-focused moral reasoning (5-items). Employee job satisfaction was measured using 4-item scale (Brayfield and Rothe, 1951). Trust in the employer was adapted from Alfes et al. (2012) (7-items). Respondents assessed these items on a 7-point Likert-type scale from “strongly disagree” to “strongly agree.” The assessment of common method bias (CMB) using Harman’s single-factor test revealed 36.64% variance explained, thus, showed CMB was not a significant factor in this study.

## Results

The research model was tested by partial-least squares structural-equation modeling procedures (PLS-SEM) and multi-group analysis (PLS-MGA) using SmartPLS 3.2.8 software. This methodology is appropriate when used for exploratory and predictive purposes with smaller sample sizes, as well as when categorical variables are analyzed (Hair et al., 2016). The two-step PLS-SEM procedure including inner and outer model assessment, and criteria recommended by Hair et al. (2016) was utilized.

In the first step, the outer model was evaluated for variables reliability, convergent and discriminant validity (Table 3). Using Cronbach’s alpha, all measures demonstrated acceptable reliability above 0.7 (Hair et al., 2016). Convergent validity using average variance extracted (AVE) above 0.5 was also acceptable. To confirm discriminant validity the Fornell-Larcker’s criterion showed that square-roots of constructs’ AVEs were above variable correlations. The collinearity statistics were reviewed using VIFs which ranged from 1.00 to 1.34, thus, displaying no concerns of multi-collinearity. Overall, the measurement model was deemed acceptable for further analysis.

Table 3. Model’s reliability, convergent and discriminant validity results.

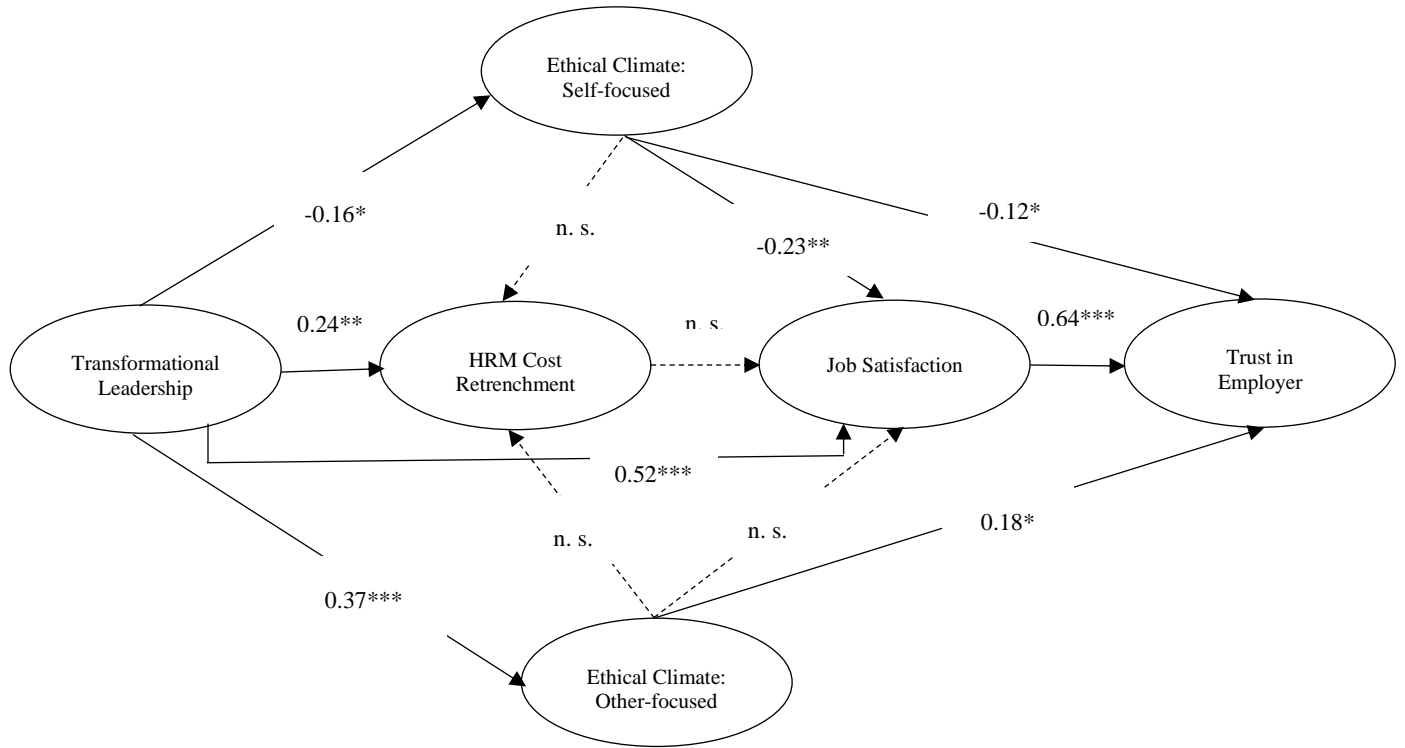
	Cronbach's Alpha	AVE	EC- Other	EC-Self	Retrenchment	Satisfaction	TL	Trust
EC-Other	0.85	0.63	<b>0.79</b>					
EC-Self	0.95	0.83	-0.39	<b>0.91</b>				
Retrenchment	0.85	0.51	0.14	0.07	<b>0.72</b>			
Satisfaction	0.93	0.83	0.43	-0.37	0.21	<b>0.91</b>		
TL	0.96	0.80	0.37	-0.16	0.26	0.63	<b>0.89</b>	
Trust	0.96	0.81	0.50	-0.42	0.14	0.76	0.68	<b>0.90</b>

Note. AVE-average variance extracted. Square root of AVE on the diagonal in bold, followed by construct correlations. TL-transformational leadership, EC-ethical climate.

In the second step, the inner structural model was assessed to test the relationships among the constructs (Figure 1). The model explained 49.1% of variance in job satisfaction and 61.8% of variance in the trust in the employer. The predictive relevance of the model for trust was evaluated using the Stone-Geisser test revealing  $Q^2=0.42$ . In line with this finding, H1, H2(b), H3, H5, H7(b), H8(b) were supported. H2(a), H7(a), and H8(a) were partially supported. The effect of self-focused moral reasoning was significant but negative. H6 was fully rejected. When mediating the effect of

cost retrenchment from transformational leadership on job satisfaction was examined, it was non-significant ( $p=0.20$ ), thus, rejecting H9.

Figure 1. Summary of the direct path coefficients of the structural model.



Note.  $*p<0.05$ ,  $**p<0.01$ ,  $***p<0.001$ .

Table 4. Results of multi-group analysis: tourism versus other industries

	$\beta$ - Tourism	$\beta$ - Other Industries
EC-Other -> Retrenchment	0.18	-0.06
EC-Other -> Satisfaction	0.20	0.10
EC-Other -> Trust	0.37***	0.06
EC_Self -> Retrenchment	0.13	-0.26
EC_Self -> Satisfaction	-0.12	-0.29**
EC_Self -> Trust	-0.14	-0.10
Retrenchment -> Satisfaction	0.09	0.09
Satisfaction -> Trust	0.51***	0.70***
TL -> EC-Other	0.43***	0.33***
TL -> EC_Self	-0.12	-0.27**
TL -> Retrenchment	0.29	-0.21
TL -> Satisfaction	0.51***	0.53***

Note: TL – transformational leadership.

To examine H10, MGA-PLS was performed (Table 4) to test differences between tourism (n=71) and other industries (n=90) pandemic-related HRM. Using Welch-Satterthwait test (Hair et al., 2016), the significant difference between tourism and other industries was found on the path from EC-other to trust in employer (diff=0.30, t=2.26, p<0.05). Both groups showed significant paths from transformational leadership on satisfaction, transformational leadership on EC-other, and satisfaction on trust. For other industries, transformational leadership had significant and negative effect on EC-self, and EC-self had significant and negative effect on job satisfaction. For tourism companies, these paths were non-significant. Thus, H10 was partially supported.

## **Conclusion and Discussion**

The study results demonstrate the importance of transformational leadership when managing organizations through the crisis and economic downturn related to the global health pandemic. The findings reveal that transformational leaders influence organizational ethical climate and HRM retrenchment strategies and also completely suppress the impact of retrenchment on employee job satisfaction. Furthermore, having a transformational leader indicates that organizational ethical climate may be more moral-focused towards others. The self-oriented type of moral reasoning established in the organization, as the prevailing ethical climate, negatively affects not only employee job satisfaction but also trust in the employer as the organization manages the health pandemic related HRM retrenchment strategies. The others-oriented type of moral reasoning supports trust in the employer. Furthermore, the others-oriented ethical climate (Arnaud & Schminke, 2012) has a greater meaning for tourism organizations when compared to other industries. For tourism organizations, the leadership dedicated to establish a climate benefitting everyone in the organization and society and encourages employees to have a strong sense of responsibility for colleagues, peers, customers, society and humanity, is an important and necessary factor to succeed during a crisis.

The theoretical contribution of this study is three-fold. First, it extends the contingency theory of leadership (Fiedler, 1978) by deepening our understanding of transformational leadership role in crisis management. Second, the results provide further knowledge about the differences in self-focused moral reasoning and other-focused moral reasoning dimensions of ethical climate (Arnaud & Schminke, 2012) and the impact the two factors have on HRM and employee outcomes. Finally, the study findings bring forward differences between tourism organizations and other industries in their approaches to crisis management styles and employee-related attitudinal and behavioral outcomes.

From a practical standpoint, tourism organizations should assist, train, and support managers in developing a transformational leadership style. Transformational leadership may improve employee perceptions of HRM retrenchment steps organizations take when managing a crisis and economic downturn. Establishing other-focused ethical climate may help with employers' continuous trust in tourism organizations through challenging economic environments.

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