Impact of organizational commitment on job satisfaction and employee retention in pharmaceutical industry

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The purpose of this study is to investigate the relationship between employee retention, job satisfaction, perceived supervisory support and compensation by considering the organizational commitment as mediating variable in pharmaceutical industry in Pakistan. For this purpose, primary data collection method was used. A total of four hundred and fifty (450) questionnaires were sent to employees of six pharmaceutical companies. Out of the total, three hundred and twenty (320) usable questionnaires were included for data analysis. Structural Equation Modeling (SEM) was carried out by the means of AMOS 18.0 for model testing purpose. The results signify that positive and significance relationship exists between compensation, Supervisory Support, and organizational commitment. The results further conclude that organizational commitment has strong and positive relationship with employee job satisfaction and employee retention.

Key words: Compensation, supervisory support, organizational commitment, employee satisfaction, employee retention.

INTRODUCTION

Resource based view (RBV) is now one of the most important concept for the organizations (Barney and Wright 1998; Holland, Sheehan and Cieri 2007). According to this concept there are three types of resources that work as pillar for the organization. These are organizational capital, human capital, and physical capital. The importance of human capital is increasing because it can give the competitive edge to the organizations due to its uniqueness (Holland et al., 2007). The importance of human capital is on the increase, so the importance of attracting and retaining the employees this argument is considered because of competitive advantage which a firm gets due to its employees (Holland et al., 2007). To retain the employees Human Resource (HR) department becomes active and make policies for employee betterment such that employee would be satisfied with the organization and stay with the firm for longer time. This shows that it is not just retention of employees but also retention of valued skills (Acton et al., 2003). If an organization retain its employees this will improve the communication among employees and improve their commitment and workforce support for organization.

The birth rate in the countries is decreasing therefore labour becomes the concern for the organizations in the near future. The number of employees leaving the organizations is more than the employees joining. The war of talent will start in the near future because of the shortage of labour (Ferguson and Brohaugh, 2009; Holland et al., 2007). The firms are trying to attract and retain the employees. The talented people always have options in their career so that this is the concern of firms to keep them (Ferguson and Brohaugh, 2009). It is the
primary apprehension of the firm to acquire and manage the human capital in the way that it supports the business plan that is necessary for the firm. As the human capital is the main component of any organization (Kennedy and Diam, 2010; Molina and Ortega, 2003; Acton et al., 2003; Chapman, 2009; Holland et al., 2007), therefore, the firm has to use its human capital in the way that they can perform the job efficiently by using their core skills. In this context, firm have two options; whether to hire new employees, train them and make them accustomed to the working conditions and the environment of the firm or try to retain the existing employees those who are aware with the company policies, environment and working conditions (Molina and Ortega, 2003). It is a strategy adopted by the organization to keep its high profile employees for longer period and for better performance (Gberevbie, 2010). If organization fails to keep competent employees and they have dissatisfied employees with them it will hamper their productivity and quality (Chiboiwa, Samuel and Chipunza 2010). Retention is crucial especially for those employees who are related with the operations. Organization must reduce the turnover of their employees because it put burden on the organization in terms of money and human resource (Samuel and Chipunza, 2009).

Employer has to bear the cost when an employee leaves the organization, because of loss of human capital and hiring of new employees (Lockwood, 1999). The cost of an organization has to bear in case of leaving of an employee is almost equal to more than one year salary and benefits of the employee. It means it has a significant impact on economic condition of the organization. It is not only the loss of money and resources also the loss of knowledge and experience for an organization which hampers the performance of the organization (Ramllal, 2004; Acton et al., 2003). The dissatisfaction with the job assigned is an important determinant of the employee’s failure rates to keep them intact with the present job. The work structure is major determinant of job satisfaction and commitment of employees with their jobs (Mulinge and Muller, 1998). The job satisfaction also affect the quality of the services employees are providing (Crossman and Abou-Zaki, 2003). It furthermore relates to the turnover and the position assigned to the employees on their return, as well as the accuracy of their expectations and influences their job satisfaction (Vidal et al., 2007).

Research on compensation evidently shows a relation between the rewards a firm offers and those individuals that are fascinated by the compensation into working for the firm, and those employees who will continue to work for the industry. In recent years, the compensation got the importance due to the economic conditions of employees as well as the organization. The compensation is very crucial component for retaining of employees and for job satisfaction. It comprises on the largest part of the employee retention procedures. Organizational commitment is loyalty to the organization and mobilization of all employees in the development of its goals, purposes, and infrastructure (Kim et al., 2005). It is discussed under three heads affective commitment, normative commitment and continuance commitment (Aube, Rousseau and Morin, 2007). Affective commitment describes the emotional attachment and involvement of an individual with an organization, continuance means perceived cost of leaving organization and normative is perceived cost to remain in the organization (Meyer et al. 2002). The organizational commitment is correlated with the job satisfaction and both are important factors for employees leaving their job (Hussami, 2008).

This study analyzes the impact of supervisory support and compensation on the job satisfaction and employee retention while using the organizational commitment as a mediating variable in medicine industry in Pakistan. This study also shows the relationship between dependent variables, job satisfaction and employee retention. This study also depicts that how much the job satisfaction influence the employee retention. Previous researchers describe the relationship between organizational commitment and employee retention or job satisfaction but no study covers the relationship with both as dependent variables.

LITERATURE REVIEW

Job satisfaction

Job satisfaction is a topic which is concerned by both the people, those who are working in organizations and for the people who study them. It is the variable which is studied most frequently in organizational behaviour research, and it is also a fundamental variable in both research and theory of organizational experience range from job design to supervision (Hong et al., 2005). As Job satisfaction is a major concern for the organizational research. On the other hand organizational performance and employee satisfaction are also the key components which are affected by this (Willem et al., 2007). What employee feels and perceived about its job and what are their experiences on work, does they feel positive or negative about job, this all relates to job satisfaction (Kim et al., 2005; Willem et al., 2007). Job satisfaction is the extent to which the employee is satisfied with his present work due to how many his needs and wants satisfied (Finn, 2001). Job satisfaction can also be explained as “the agreeable emotional condition resulting from the assessment of one’s job as attainment or facilitating the accomplishment of one’s job values” (Yang, 2009).

Job satisfaction in traditional model mainly focuses on what an individual feels about his/her job or pleasure feeling about job (Hussami, 2008; Crossman and Abou-Zaki, 2003). Job satisfaction and dissatisfaction not only depends on the nature of the job, it also depend on the
satisfaction (Yang, 2009). Wong et al. (2001) concluded that the job satisfaction influence organizational commitment (Schwepker, 2001; Namasivayama and Zhaob, 2007) than job satisfaction because on the other hand job satisfaction is associated with immediate work environment (Reed et al., 1994).

Compensation

Different people interpret compensation differently. In this paper compensation, reward, recognition, and wages are used in different situations (Zobal, 1998). The compensation is defined by American Association is "cash and non-cash remuneration provided by the employer for services rendered" (ACA, p. 9). In organization's point of view, the retention of employees is the major concern and compensation and benefits is one of the best initiatives which a company can acquire to retain employees. The compensation includes salary and wages, bonuses, benefits, prerequisites, stock options, bonuses, vacations, etc. While setting up the packages, the following components should be kept in mind. This compensation and reward system also increases employee performance (Deckop et al., 2006; Moncarz et al., 2009; Zsidisin et al., 2003). The financial and non-financial compensation are given to employees for accomplishment of desired goals and against their behaviour. Reward can be spontaneous and formal. The pay for performance is the form of reward which is given on performance based (Zobal, 1998).

Compensation is very valuable tool for retention and turnover. It is also a motivator for an employee in commitment with the organization which in result enhances attraction and retention (Zobal, 1998; Moncarz et al., 2009; Chiu et al., 2002). It also works as communicator when it is given to employee against his services which shows how much an employee is valuable for its organization (Zobal, 1998). As the important components of compensation are base salary, merit pays, discretionary rewards or bonuses, which attract best employees (Chiu et al., 2002). Top employees are motivated by doing high-quality work. Actually, all employees are motivated to do good work. No one awaken in the morning and thinks, “I want to be unsuccessful at my job today.” However, top performers in any organization have a tendency to have the talents you’re looking for and are basically motivated (Carroll, 2009). Compensation also shapes the culture of an organization. Culture may be individualistic or collectivistic; it depends upon the organizational characteristics and members of the organization (Kuhun, 2009; Zobal, 1998). Compensation is one of the most important tools for attracting and retaining their affect on turnover intention. This study mainly focuses on the organizational commitment impact on job satisfaction and employee retention. Both the organizational commitment and the job satisfaction are interrelated, but of discernible, attitudes. Organizational commitment is supposed to provide the people with constancy, thoughts of belonging and durable (Lane et al., 2010; Reed et al., 1994) than job satisfaction because on the other hand job satisfaction is associated with immediate work environment (Reed et al., 1994).
employees. It is used to attract the potential candidates, because applicants want to be aware of it while applying for vacancy (Kuhun, 2009; Boyd, 2000; Zobal, 1998; Chiu et al., 2002; Moncarz et al., 2009; Lawler, 1994). Those organizations which have a high-wage system will have better recruitment and retention of employees as compared to others. Efficient wage system influences the employees for longer retention, because if an employee gets better reward internally he would like to stay until his self-interest fulfilled there. Employee can switch if gets better opportunity in the external environment (Moncarz et al., 2009; Shaw et al., 1998).

Organizational commitment

Organizational commitment is a “psychological stabilizing or helpful force that binds individuals to courses of action relevant” to the organization (Carrie’m and Bourque, 2009). Individuals with higher levels of organizational commitment have a sense of belonging and identification with the organization that increases their desire to pursue the organization's goals and activities, and their willingness to remain a part of the organization (Meyer and Allen, 1991). Moreover, organizationally committed individuals are far less likely to engage in absenteeism and turnover (Golden and Veiga, 2008).

Initially conceptualized as a one-dimensional construct, organizational commitment is now known to be multidimensional in nature. The most common forms of organizational commitment studied and reported on in the academic literature are affective (emotional attachment to the organization), continuance (perceived costs associated with leaving the organization) and normative (feelings of obligation towards the organization) (Carrie’m and Bourque, 2009; Rego and Cunha, 2008). Each of these components contributes to strengthening the likelihood that the employee will remain in the organization, but the nature of each mind-set differs from the others. Employees with a strong affective bond remain because they want to do so. Those with strong continuance commitment stay because they feel they have to. Normatively committed employees remain because they feel they ought to (Rego and Cunha, 2008; Parish Cadwallader, Busch, 2008). This means that a given employee can be affectively, normatively and instrumentally committed to the organization.

According to Meyer and Allen (1991) the affective commitment (AC) “refers to the employee’s emotional relationship to, recognition with, and participation in the organization” (employees stay with a firm because they want to), continuance commitment (CC) “refers to a consciousness of the costs connected with leaving the organization” (employees stay with a firm because they need to), and normative commitment “reflects a feeling of obligation to continue employment” (employees stay with a firm because they ought to). These three components of commitment help to define the overall organizational commitment.

Supervisory support

The mentoring is used for development-orientation (Scandura and Williams, 2004). When a supervisor provides mentoring, the relationship affects the protégés skill development and intentions to remain with the employer (McManus and Russell, 1997). On the other hand non-supervisory mentor may increase mentee's confidence by providing access to outside organization (Scanduraa and Williams, 2004). The immediate supervisor support is very important in organizational change. Although the support of supervisor is not very crucial in satisfaction but it has positive impact on satisfaction (Griffin, Patterson and West, 2001). According to Chakrabarty, Oubre, and Brown (2008) “perhaps the finest way in which supervisors can portray himself as a role model is to personally demonstrate proper techniques so that employee could understand how job should be done.” Through this way, the skills of subordinate can be enhanced. The supervisor has positive impact on developing skills on-the-job performance work attitudes and career expectation of protégés. He/she also has control on work assignments (Scanduraa and Williams, 2004). In case of lower quality of relationships between subordinate and supervisors may exert pressure on individual which decreases his efficiency for work and enhances unwillingness to work hard because of extra control or simply marginalize and ignore the subordinate (Golden and Veiga, 2008).

Supervisors and subordinates share valuable information, while they are interacting with each other. Supervisor may engage in supervising or other socio-emotional relations on the other hand subordinate by making extra effort with greater dedication and completing supervisor's goals and by displaying organizational commitment. The exchanges of valued resources will payback both of them in the form of benefits (Golden and Veiga, 2008). In organizing the working environment supervisor is a crucial component of an organization it is also the key component to pass on the information to the employees (Patterson, Griffin, West, 2001). Supervisors also exchange the positional resources with the subordinate, which include material and non-material things (Golden and Veiga, 2008). Theory recommends that, as philosophy of reciprocal relation affect employees’ observation of their organization, thinking of reciprocal relation will also relate the interpersonal relationships that employees develop with their supervisors (Smith, 2005). Employee will be more committed to the organization and also more committed with the supervisor if he/she perceives that the supervisor will be supportive (Shanock and Eisenberger, 2006; Smith, 2005). Literature that supports social and organizational culture indicate that whenever subordinate is properly supported by supervisor this will generate positive outcomes both for organization and employee.
Hypotheses:

H1: Compensation has positive relationship with the organizational commitment.
H2: Supervisory support has positive relationship with the organizational commitment.
H3: Organizational commitment has positive relationship with the job satisfaction.
H4: Organizational commitment has positive relationship with employee retention.
H5: Job satisfaction has a positive relationship with employee retention.

The methodology section follows, including details on sample and data collection, measurement scales, and results.
Figure 2. Estimated Path Diagram of Research Model.
COM = Compensation; SS = Supervisory Support; OC = Organizational Commitment SAT = Job Satisfaction; ER = Employee Retention

modeling techniques. The path diagram of the estimated research model is shown in Figure 2. Structural equation modeling is a very useful technique in social sciences for analysis. This modeling is also known as causal modeling, or path analysis, which hypothesizes causal relationships among variables and tests the causal models with a linear equation system. Causal models can involve either manifest variables, latent variables, or both. It is close to casual relationship that is common in social sciences theorizing.

The results of above hypotheses test of the relationship between constructs including compensation, supervisory support (independent variables), organizational commitment (mediating variable), and job satisfaction and employee retention (dependent variables) are shown in Table 1. Table 1 shows the Beta value is 0.144 between COM and OC and the relationship is evident from the analysis if there is one degree change in COM there would be 14.4% change in OC. The value of Beta between SS and OC is 0.184 which shows that if there is one degree change in SS it brings 18.4% change in OC. The value of Beta between OC and SAT is 0.727 which shows that if there is one degree change in OC it brings 72.7% change in SAT. The results in Table 2 further signifies that Beta value between OC and ER is 0.3854 that's depicts that if there is one degree change in OC it brings 38.54 change in ER whereas, employee satisfaction (SAT) accounts 20.16% change in employee retention The analysis highlights the relationships between COM, SS, OC, SAT, ER are positive and statistically significant (P<0.05).

The aforementioned results in Table 2 indicate fit indices of the model. The indices includes Chi-square, Chi- Square over degree of freedom (DF), Goodness of fit index (GFI), Adjusted goodness of fit index (AGFI), Root mean square error of approximation (RMSEA) and Non-Normed fit index Tucker–Lewis index (TLI). The significant value of chi-square depicts that this criteria does not fit the model, however another measure like Chi-square /df suggested by Tabachnick and Fidell (2007) to as low as 2.0 and Wheaton et al. (1977) as high as 5.0 indicates that there are discrepancy factors in the model that affect the value of Chi- Square. Chi- square lack of it might be one of the possible reasons indicated by (Bentler and Bonnet, 1980; Joreskog and Sorbom, 1993) that Chi Square is sensitive to sample size and nearly always reject model when sample size is large. The GFI value greater than 0.90 (Schumacker and Lomax, 2004) and AGFI is variant of goodness of fit which adjusted goodness of Fit index for degree of freedom and RMSEA value below 0.08 (MacCallum et al., 1996) and value of TLI greater than .95 (Hooper et al. 2008) indicates good fit of the model. The above results indicate that model is acceptable and fit according to the four criteria namely, GFI, AGFI, RMSEA, and TLI. The previous studies that are focusing on the organizational commitment mostly use different kinds of commitment of employee with the organization (Wasti and Can, 2008; Vandenberge et al., 2004) but here in this study all the three types of commitment affective, normative and continuance commitment are discussed and current paper shows the more rigorous relationship with satisfaction.
and employee retention. Most of the previous studies focusing on the job satisfaction on organizational commitment but here emphasize is on organizational commitment impact on job satisfaction. This study explains that there is stronger relationship exist between job satisfaction and organizational commitment than previous studies and more than the relationship with employee retention.

**DISCUSSION**

This study emphasize on the maintaining and retaining of key resource which works as a source of competitive advantage for every organization. It is the aim of every organization to retain there most proficient and efficient employees. That is a matter of concern especially in this era when organizations are trying to cut down their expenses due to recession in the world economy and organizations are concentrating their competent employees. The reason behind this is that recruitment and selection is a time taking and expensive process. On the other hand when they higher new employees they need training and take time to accustomed with the environment. In this whole process organization has to suffer in the form of resources. To achieve their goals organization tries at its best to use its existing resources and mainly focus on their human capital. They try to develop the commitment of its employees with the organization because committed employees are willing to put their maximum effort. It is also discussed in the prior literatures that organizational commitment and job satisfaction are important variables for the retention of employees. But to enhance the organizational commitment this study concentrate on compensation, which is an important matter for every employee, and the other is the support of the supervisor who create the opportunity for the employee to interact and communicate and feel relaxed at work place.

In the time of recession when organizations are downsizing the support from supervisor is very crucial to feel employee relaxed and keep him busy in his task, because while organizations are passing through the downsizing process employees are conscious about the security of their job.

This study explain the relationships between compensation, supervisory support with organizational commitment which are also discussed in previous literatures like Chew and Chan (2008), and Murry, Sivasubramaniam, and Jacques (2001), these two variables impact on organizational commitment is not stronger as compared to other studies but the relationship is clearly very strong between commitment and job satisfaction. This shows that great commitment of employee with the organization has strong impact on satisfaction and both these variables lead to retention of employees.

**CONCLUSION AND RECOMMENDATIONS**

This study analyzes the main issues in the pharmaceutical industry which are employee retention and their job satisfaction. This study describes that employee retention and job satisfaction of employees can be enhanced if employees have strong organizational commitment. If employees are committed with their organization they are reluctant to exit from their current job. Increased commitment will also increase their efficiency. But to increase the organizational commitment the compensation and supervisory support plays critical role, as the results show that these two are core variables in increasing commitment in pharmaceutical industry. This study also specifies the relationship between dependent variables job satisfaction and its impact on other dependent variable employee retention. There strong positive relationship also indicates that more the employee is satisfied with his job more he is willing to intact with the

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**Table 1. Hypotheses testing based on Regression weights.**

<table>
<thead>
<tr>
<th>Paths</th>
<th>Estimate</th>
<th>S.E.</th>
<th>C.R.</th>
<th>P</th>
<th>Label</th>
</tr>
</thead>
<tbody>
<tr>
<td>OC</td>
<td>Com</td>
<td>0.1445</td>
<td>0.0255</td>
<td>5.6568</td>
<td>0.000</td>
</tr>
<tr>
<td>OC</td>
<td>SS</td>
<td>0.1841</td>
<td>0.0238</td>
<td>7.7216</td>
<td>0.000</td>
</tr>
<tr>
<td>SAT</td>
<td>OC</td>
<td>0.7275</td>
<td>0.1327</td>
<td>13.018</td>
<td>0.000</td>
</tr>
<tr>
<td>ER</td>
<td>OC</td>
<td>0.3854</td>
<td>0.1741</td>
<td>2.2133</td>
<td>0.026</td>
</tr>
<tr>
<td>ER</td>
<td>SAT</td>
<td>0.2016</td>
<td>0.0724</td>
<td>16.594</td>
<td>0.000</td>
</tr>
</tbody>
</table>

**Table 2. Model Fit indices.**

<table>
<thead>
<tr>
<th>Chi-Square</th>
<th>Df</th>
<th>p-value</th>
<th>Chi/Df</th>
<th>GFI</th>
<th>AGFI</th>
<th>RMSEA</th>
<th>TLI</th>
</tr>
</thead>
<tbody>
<tr>
<td>84.020</td>
<td>5</td>
<td>0.000</td>
<td>16.804</td>
<td>0.971</td>
<td>0.965</td>
<td>0.071</td>
<td>0.953</td>
</tr>
</tbody>
</table>
organization. It means that satisfied employee is more loyal to its organization and therefore employee is unlikely to switch job and work hard for the organization. This study is carried out in multinational organizations in Pakistan, but it can be generalized if number of industries as well as number of respondents increased. Recommendation for future research is carry out this study in other sectors of the economy by incorporating more sample size. The purpose of such study would be to resolve how job satisfaction and employee retention is viewed by the employee of other industries settings resolve how job satisfaction and employee retention is viewed by the employee of other industries settings.

The purpose of such study would be to resolve how job satisfaction and employee retention is viewed by the employee of other industries settings. Further, their impact on firm performance can be observed because the ultimate objective of the firm is to increase the productivity and performance.

REFERENCES


