

A Study of Relationship between Compensation and Organizational Commitment in Pharmaceutical Sector

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ABSTRACT

Pharmaceutical sector in India is rapidly growing sector and employees are the assets for the organization. Compensation is the motivational factor for employee stability and attachment with the organization. Organizational Commitment brings sense of belonging and identification with the Organization that increases their desire to achieve the organization's goals and activities, and their willingness to remain a part of the organization.

The purpose of this study is to see the relationship between Compensation and Organizational Commitment (Affective, Normative and Continuous) in Sales Personnel of Pharmaceutical Sector. To achieve the objective the data was collected from 200 medical representatives registered in Punjab Medical Representatives Association (PMRA), Ludhiana. The study finds that there is a positive relation between Compensation and Affective, Continuance and Normative Commitment. The study also reveals the highest degree of association between Compensation and Affective Commitment.

Keywords

Compensation, Organizational Commitment, Pharmaceutical Sector

1. INTRODUCTION

The Pharmaceutical industry in India is the world's third-largest in terms of volume and stands 14th in terms of value. Pharmaceutical sector is growing swiftly and efforts of sales and marketing department highly responsible for the growth of the Organization. In Pharmaceutical Sector 45-50% employees placed in marketing job. So, Sales persons are the backbone of the Organization and it is very necessary to feel them attached with Organization. Beside it Pharmaceutical sector facing high attrition rate due to Compensation. Employees provide full efforts for growth of sales if they have feeling of affection and attachment with an Organization. Fair Compensation is the right of every employee and good salary brings sense of belongingness. Compensation is the important issue for both employee and employer. Basic needs are directly depend on Pay. Fair Compensation for work is an integral component of "Decent Work" as defined by International Labour Organisation (ILO). An ideal compensation policy encourages the employees to work harder and with more determination. Money or Compensation plays very important role in motivation. Money as a motivator and sales people can motivate and control through money and Compensation (Ernest F. Cooke 1999). The strength of Compensation leads to inspiration of its employees and brings sense of belongingness (Khan et.al., 2011). Organizational commitment can be defined as "a psychological state that (a) characterizes the employee's relationship with the organization, and (b) has implications for the decision to continue membership in the organization" (Meyer & Allen, 1997). Organization Commitment is the combination of three components. The *affective* component of Organizational

Commitment leads to emotional attachment, identification and involvement with the organization. The *continuance* commitment means that commitment which is based on cost that associate with leaving the organization and *normative* commitment associated with employee's feeling of obligations to remain with the organization. Employee's Commitment brings better performance, good profits, dedication and increase productivity (Gupta, 2011). Affective Organizational Commitment enhanced through the Compensation plan (Williams et.al. 2008).

2. REVIEW OF LITERATURE

Different studies on different sectors found that commitment is necessary for employee stability and compensation is urgent aspect for commitment of employees. Compensation is necessary aspect of Organizational Commitment. Nawab et al., (2011) worked on Compensation, Organisational Commitment to know the relation and impact of compensation on Organisational Commitment. Correlation and regression found that compensation is significantly related to Organisational Commitment and having impact on Organisational Commitment and. A study of 450 employees working in six Pharmaceutical Companies found that Compensation has positive relationship with job satisfaction, employee retention and organisational commitment (Anis et al., 2011).

Islam et al, (2012) found the influence of compensation with job satisfaction and organizational commitment. The study concluded that faculty members of Quaid-e-Azam university of Pakistan have positive and significant association between Compensation. Job satisfaction and teacher's commitment. Effective Compensation structure support Organization to achieve goals. Compensation leads to Job Satisfaction and Satisfy employees are more committed to their Organization. Compensation is related to Organizational Commitment with mediation effect of Job Satisfaction. (Ibrahim and Boerhaneoddin, 2010). Pay Satisfaction is directly related to Organizational Commitment. If employees get enough wages then their commitment level also increases. Another study of Muhlau and Lindenberg, (2003) based on 4567 employees from 52 American plants and 3735 employees from 46 Japanese found that Wage and Organizational Commitment significantly related to each other. Rashid and Raja, (2011) when employees are highly satisfied with compensation or pay Structure offered by the organization with strong, productive culture they develop a strong sense of belonging to the organization. The study focused on 300 bank employees in Rawalpindi and Islamabad and found that Compensation is highly associated and significantly related to Organizational Commitment. Singh and Loncer (2010) investigate the relationship between Pay Satisfaction and Intent to Leave of 200 registered in Toronto, Ontario (Canada) Hospitals and found that Pay Satisfaction is significantly related to Intent to Leave. The employees can retain for long period if they are satisfy with pay. High level of attrition is a great challenge for most companies. People can retain if organization has sound

retention policies. Compensation is one of the most important retention aspects which encourage employees to stay with organization. Ratan and Chawla (2012) worked on retention strategies in the telecom sector. The data was collected from 107 employees of three telecom companies situated in NCR. The study found that employees were not satisfied with compensation, reward and recognition. So, these factors can retain employees if companies provide it to them.

Williams et. al., (2008) explains the Compensation into seven dimensions through confirmatory factor analysis. Study involves employees of large state university (65 employees) and a large paper and packaging company (22 employees) of mid east USA. The study found the significance relationship between Compensation and Affective Commitment.

3. THEORETICAL FRAMEWORK

In this model, there are four variables containing one independent and three dependent variable. Compensation taken as independent variable and Organizational Commitment (Affective, Continuance and Normative) taken as dependent variable.

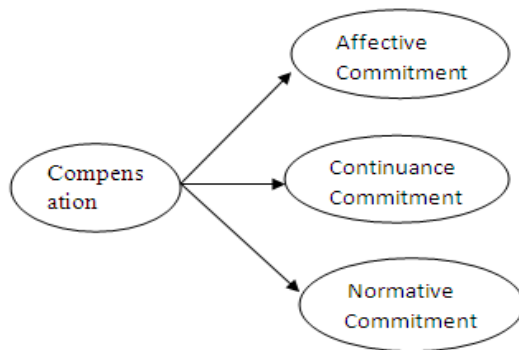


Fig 1. Theoretical Framework (shows relationship between compensation and organisational commitment i.e. affective, continuance and normative commitment)

4. RESEARCH METHODOLOGY

4.1 Objectives of the study

To study the relationship between Compensation and Organizational Commitment (Affective, Continuance and Normative) of Sales Personnel of Pharmaceutical sector.

4.2 Hypothesis of the study

H1: There is a significance relationship between Compensation and Affective Organizational Commitment.

H2: There is a significance relationship between Compensation and Continuous Organizational Commitment.

H3: There is a significance relationship between Compensation and Normative Organizational Commitment.

4.3 Sampling Size and Measures

The data was collected from 200 Sales persons of Pharmaceutical Sector registered under Ludhiana, Punjab Medical Representatives Association (PMRA). The data was collected during group meeting of PMRA. To achieve the objective standardised questionnaire used. To measure Compensation satisfaction scale given by Heneman and Schwab (1985) is used. It consists 18 items on 5 point likert scale which measures four dimensions (Pay level, Benefits, Raises and Structure and Administration). To measure Organizational Commitment Allen and Meyer (1990) scale is used. It consists three scales- Affective, Continuance and Normative. Each scale contains 8 items.

4.4 Statistical Tools

To know the relationship between Compensation and Organizational Commitment Correlation and Regression analysis was used.

5. RESULTS AND DISCUSSIONS

5.1 Reliability Analysis

Table 1. shows the Reliability Analysis of ompensation and Organizational Commitment

Table 1. Reliability Statistics

Items	Cronbach's Alpha	No. of Items
Compensation	.790	16
Organizational Commitment	.860	24

The table 1. shows the reliability of Compensation and Organizational Commitment questionnaire. The cronbach's alpha value shows the adequacy of data if it measures than it provides the same numeric value. The cronbach's Alpha value is .790 for Compensation and .860 for Organizational Commitment, which shows the adequate reliability.

5.2 Correlation Analysis

The Pearson correlation has been calculated between Compensation and Affective, Continuance and Normative Commitment. The correlation value lies between -1 and +1. The value -1 represents negative relationship and +1 represents positive relationship between variables.

Table 2. The Correlation Analysis of Compensation ,Affective Commitment, Continuance Commitment and Normative Commitment

		Compensation	AOC	COC	NOC
Comp.	Pearson Correlation	1	.585**	.242**	.396**
	Sig. (2-tailed)		.000	.001	.000
	N	200	200	200	200
AOC	Pearson Correlation	.585**	1	.481**	.636**
	Sig. (2-tailed)	.000		.000	.000
	N	200	200	200	200
COC	Pearson Correlation	.242**	.481**	1	.554**
	Sig. (2-tailed)	.001	.000		.000
	N	200	200	200	200
NOC	Pearson Correlation	.396**	.636**	.554**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	200	200	200	200

** . Correlation is significant at the 0.01 level (2-tailed).

In the table 2. AOC stands for Affective Organizational commitment, COC stands for Continuance Organizational Commitment and NOC stands for Normative Organizational commitment. It explains the correlation matrix of Compensation and organizational commitment (Affective, Continuance and Normative). Pearson correlation between Compensation and Organizational commitment is positive and highly significant at 0.01 significance level respectively. This shows that there is positive relationship exists between I.Vs and D.V.

5.3 Regression Analysis

The research study uses the regression analysis to verify the effect of independent variables on independent variable.

Simple Linear Regression Analysis for Compensation and Affective Commitment

Table 3.1. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.585 ^a	.342	.339	.61421

a. Predictors: (Constant), Compensation

b. dependent variable: AOC

Table 3.2. ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	38.816	1	38.816	102.892	.000 ^a
Residual	74.696	198	.377		
Total	113.511	199			

a. Predictors: (Constant), Compensation
b. dependent variable: AOC

Table 3.3. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.281	.186		6.893	.000

Com pensa tion	.627	.062	.585	10.1 44	.00 0
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Dependent Variable: AOC

Table 3. shows the simple linear regression analysis, taking Affective Organizational Commitment (AOC) as the dependent variable and Compensation as independent variable. Table 3.1. shows the model summary which signifies the goodness of fit. R square stands for the coefficient of determination which determines the variation caused by a particular variable in the dependent variable. Adjusted R square provides with a more significant value for variance which is in .342 means that 34 percent of the variation in overall AOC of employees (dependent variable) can be explained from the independent variables Compensation. ANOVA table shows the F ratio for the regression model that indicates the statistical significance of the overall regression model. The larger the F ratio there will be more variance in the dependent variable that is associated with the independent variable. The statistical significance is .005 .Which shows the model is significant. So reject the null (Ho) hypothesis. And accept the alternative hypothesis (H1) that there is relationship between Compensation and Affective Organizational Commitment. The third table, Table . is the Coefficients Table, which shows the coefficients of the independent variables and reveals the significance of the independent variables individually.

Simple Linear Regression Analysis for Compensation and Affective Commitment

Table 4.1. Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.242 ^a	.058	.054	.77572

a. Predictors: (Constant), Compensation

b. Dependent variable: COC

Table 4.2. ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1	7.384	1	7.384	12.272	.001 ^a
	119.146	198	.602		
	126.531	199			

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a. Predictors: (Constant), Compensation

b. Dependent variable: COC

Table 4.3. Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(C ons tan t)	2.23 0	.235		9.4 98	.00 0
	com pen sati on	.274	.078	.242	3.5 03	.00 1

Dependent variable: COC

Table 4.1. shows the simple linear regression analysis, taking Continuance Organizational Commitment (COC) as the dependent variable and Compensation as independent variable. Table 4.1 shows the model summary which signifies the goodness of fit. R square stands for the coefficient of determination which determines the variation caused by a particular variable in the dependent variable. Adjusted R square provides with a more significant value for variance which is in .058 means that .5 percent of the variation in overall COC of employees (dependent variable) can be explained from the independent variables Compensation. Table 4.2 ANOVA table shows the F ratio for the regression model that indicates the statistical significance of the overall regression model. The larger the F ratio there will be more variance in the dependent variable that is associated with the independent variable. The statistical significance is .005 .Which shows the model is significant. So reject the null (Ho) hypothesis. And accept the alternative hypothesis (H2) that there is relationship between Compensation and Continuance Organizational Commitment.

The third table, Table 4.3. is the Coefficients Table, which shows the coefficients of the independent variables and reveals the significance of the independent variables individually.

Simple Linear Regression Analysis for Compensation and Normative Commitment

Table 5.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.396 ^a	.157	.153	.61912

a. Predictors: (Constant), compensation

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	14.155	1	14.155	36.929	.000 ^a
Residual	75.895	198	.383		
Total	90.050	199			

a. Predictors: (Constant), comp

b. Dependent variable. NOC

Table 5.3 Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.155	.187		11.500	.000
	Compensation	.379	.062	.396	6.077	.000

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Table 5.1 shows the simple linear regression analysis, taking Normative Organizational Commitment (COC) as the dependent variable and Compensation as independent variable. Table 5.1 shows the model summary which signifies the goodness of fit. R square stands for the coefficient of determination which determines the variation caused by a particular variable in the dependent variable. Adjusted R square provides with a more significant value for variance which is in .157 means that 15 percent of the variation in overall NOC of employees (dependent variable) can be explained from the independent variables Compensation. Table 5.2 ANOVA table shows the F ratio for the regression model that indicates the statistical significance of the overall regression model. The larger the F ratio there will be more variance in the dependent variable that is associated with the independent variable. The statistical significance is .005 .Which shows the model is significant. So reject the null (Ho) hypothesis. And accept the alternative hypothesis (H3) that there is relationship between Compensation and Normative Organizational Commitment.

The third table, Table 5.3 is the Coefficients Table, which shows the coefficients of the independent variables and reveals the significance of the independent variables individually

7. FINDINGS AND CONCLUSION

This study analyzes the current issues of India Pharmaceutical industry that is Compensation and Organizational Commitment. The empirical study describes that Organizational Commitment can be enhanced if employees are Compensated well. This study proved the significant relationship between Compensation and Organizational Commitment (Affective, Continuance and Normative). Affective Commitment is highly associated with Compensation. R-Square for Compensation and Affective Commitment model is 0.342 this means that 34 percent of the variation in Affective Commitment of employees (dependent variable) can be explained from the independent variables. Williams et.al, (2008) supported the outcome that Compensation is associated

with Affective Organizational Commitment. Continuance Commitment is very less associated with Compensation. R-Square for Compensation and Normative Commitment model is 0.157 this means that 15 percent of the variation in Normative Commitment of employees (dependent variable) can be explained from the independent variables. In the nutshell the study suggested that employee can be emotionally attached if they get good Compensation. Rashid and Raja, (2011), Ibrahim and Boerhaneoddin, (2010), Islam et al, (2012) and Muhlau and Lindenberg, (2003) supported the study that Compensation is related to Organizational Commitment (Affective, Continuance and Normative).

This study analyzes the main issues in the pharmaceutical industry which are employee compensation and organisational Commitment towards his/her organisation. This study describes that organisational commitment of employees can be enhanced if employees have better compensation. If employees are committed with their organization they are unwilling to exit from their current job. Affective organisational commitment will also increase their efficiency. It means that satisfied employee is more trustworthy to its organization and therefore employee is unlikely to switch job and work hard for the organization. This study is carried out in MNC's and non MNC's organizations in Punjab (India) but it can be widespread 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 Organisational Commitment can enhance with better Compensation. Further, their impact on firm performance can be observed because the ultimate objective of the firm is to increase the productivity and performance.

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