

Mediating Role of Psychological Capital in Talent Retention amongst Pharmaceutical Employees of Pakistan: A Quantitative Study

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Abstract

Employee retention is a key strategic issue in the pharmaceutical industry of Pakistan. Employer and employee both are affected with this serious problem. Current study was quantitative in nature and was conducted to measure the mediating influence of psychological capital between transformational leadership and employee retention. By using a simple convenient sampling technique, 255 questionnaires were acquired and data was analysed by smartPLS 2.0 statistical tool. Finding of the current study showed that transformational leadership positively and significantly effects employee retention and psychological capital played a successful role of mediator between the relationship. Discussion and limitation with future recommendation are further discussed.

Keywords: Employee Retention, Transformational Leadership, Psychological Capital

Introduction

Employees are treated as the assets of the organization (Ragupathi, 2013). Employees are said to be the building blocks of any organization and known as human capital of the organization (Khan et al., 2011). Therefore, keeping the valuable employees for longer time period is called employee retention (Ahmed et al., 2015). Similarly, employee retention refers to the initiatives taken by organizations to keep their employees, in other words to discontinue the employee turnover (Beynon et al., 2015). Retention is a voluntary move by an organization to create an environment which engages employees for long term (Michael, 2008). Retention of human resources refers to the attempts to ensure that employees stay in the organization and that voluntary turnover will be minimized. The main purpose of retention is to prevent competent employees from leaving the organization as this could have adverse effects on productivity and service delivery (Chiboiwa, 2010). Also, retention allows senior and line managers to attract and effectively retain critical skills and high performing employees (Michael, 2008). The objective of retention policies should be to identify and retain committed employees for as long as is mutually profitable to the organization and the employee (Sutherland & Jordaan, 2004).

With massive technological changes happening in the workplace, the focus of attention has been on knowledge workers to meet the changing needs of the society (Akhar, Amir, Khurshid, Abro & Hussain, 2015; Kuruvilla & Ranganathan, 2010). Moreover, To attain competitive advantage, organizations have to be more concerned with the skills and the quality of their employees to ensure sustained performance (Akhar, et al., 2015; Reiche, 2008) and retaining capable and quality employees should be the top strategic policy issue for the organizations (Akhar, et al., 2015).

Globally companies like; SAS General Mills has a turnover rate of 2%, SC Johnson & Sons, Intel, meridian health and national instrument has the turnover rate of 3%. These multinational companies are retaining their employees in order to ensure their high performance (Hassan et al., 2013). Literature is full of empirical researches indicating that organizations adopt various policies and strategies to retain employees in order to be the successful entities (Hong, et al., 2012; Cascio, 2014; Frey, et al., 2013; Soundarapandiyam & Ganesh, 2015). Moreover, in order to achieve competitive advantage, maximum utilization of resources and to get organizational efficiency, employees must be retained in a true spirit in order to cope with all these conditions (Hassan et al., 2013).

The pharmaceutical sector is one of the leading manufacturing sectors of Pakistan (PPMA) and the 10th largest in the Asia-Pacific region and has shown significant growth over the last two decades (IBM, 2013). Today Pakistan has about 400 pharmaceutical manufacturing units which can meet around 80% of the country's demand of Finished Medicine. The value of pharmaceuticals sold in 2007 exceeded US\$1.4bn, which equates to per capita consumption of less than US\$ 10 per year and value of medicines sold is expected to exceed US\$2.3 B by 2012. The pharmaceutical industry in Pakistan has experienced an impressive growth of 17% during 2013, which is more than the global pharmaceutical average annual growth rate of 8 per cent (Zaman, 2011).

Pakistan pharmaceutical exports amount to US\$200 million annually in 18 different countries with an export vision of US\$500 million in 2013 (Ahmed & Batool, 2017). Pakistan's pharmaceutical industry has introduced the new talent management systems; however the industry is suffering from poor talent management practices that cause immense problem of employee turnover. After conducting a survey analysis from senior HR personnel of randomly selected 4 big companies (Martin Dow Pharmaceuticals Limited, Novo Nordisk Pharma Private Limited, Genix Pharma Private Limited, and Sante Private Limited companies including) it was found that 56% of the respondents disagreed on the use of talent management system for retaining the internal employees in their companies (Abbasi, Sohail & Syed, 2010). Moreover, Pakistan's pharmaceutical sales force is suffering from acute employee turnover problem and currently Pakistan pharmaceutical industry is facing 20% employee turnover including 59.6% of the field force (Molvi, 2012). This shows a drastic need of employee retention strategies. Moreover, different authors have supported this argument that Pakistan's pharmaceutical industry has a critical situation in order to keep and retain the talented employees (Ali & Akram, 2012; Rana, Waqar, & Mahmood, 2014). Additionally Table 1 shows the employee turnover in 3 big pharmaceutical companies of Pakistan for the year of 2014 and 2015.

Table \

Employee turnover rate in 3 big pharmaceutical companies for the year of 2014 & 2015

Company	2014	2015	% increase
Merck pharmaceuticals	13%	21%	8%
Aventis pharmaceuticals	17%	24%	7%
Abbot pharmaceuticals	19%	25%	6%

Source: Compiled data from regional managers of the companies

Extensive number of studies focused towards employee turnover problem and the causes (Alsalemi, 2013; Sajjad et al., 2013; Khan, 2014). However, very less attention has been given to the solution of this problem which is employee retention and its predictors (Taplin & Winterton, 2007). Additionally, Most of the studies on transformational leadership and employee retention have focused on the direct relationship (Chagani, 2015; Gill et al., 2011; Kim & Jogaratnam, 2010; Wells & Peachey, 2011); however with some prominent inconsistencies in the results (Long et al., 2012).

Based on the recommendation of Forest and Kleiner (2011), current study will focus on transformational leadership as the predictor of employee retention directly and indirectly with the mediating effect of psychological capital. Moreover, this study will be one of its own kinds to test the mediating influence of psychological capital between transformational leadership and employee retention relationship.

Literature Review and Hypotheses Development

In this section of the current study, particular literature with the help of particular references has been reviewed on the relationship between transformational leadership, psychological capital and employee retention. In the later part hypotheses are developed to examine how transformational leadership develops psychological capital of employees in pharmaceutical companies of Pakistan and how psychological capital plays a mediating role between transformational leadership and employee retention.

Transformational Leadership and Employee Retention

Leadership has numerous definitions however no genuine accord; basically it is a relationship through which one individual impacts the conduct or activities of other individuals. In ordinary discourse leadership and Management are utilized reciprocally. Management is tied in with creating, arranging and controlling of organizational assets while Leadership is about the adjusting of individuals to the normal results of the vision. With a specific end goal to lead one must have the capacity to oversee and subsequently the two are firmly related (Gwavuya, 2011). Leaders utilize their impact factor to draw individuals towards accomplishing objectives and to expand the outcomes in the association. The impact factor does not mean the Leader having control over the devotees and controlling or guiding them to the objectives the Leaders need to accomplish, rather it is the Leaders' own behaviour that influence the adherents conduct and activities. For the most part, adherents will imitate the Leader's demonstrations and practices in this manner prompting the accomplishment of the coveted objectives (Mat, 2008).

One of the basic parts of administration is to make a workplace that will endear the organization to workers. It additionally incorporates affecting these workers' choice to be conferred and stay with the organizations notwithstanding when other openings for work exist outside the organization (Michael, 2008). Beard well and Claydon (2007) concluded that

the role of leadership and a leader is essential in staff retention, and contends that workers leave managers not organizations. As indicated by Frank, Finnegan and Taylor (2004), organizations can never afford to leave the duty regarding keeping great performing workers in the hands of the HR Department. Duty and responsibility for retaining the workers is under the control of leaders. Leaders and their aptitude in building an atmosphere of retention, a culture that addresses workers in a way that urges them to stay, will be an organization's best guard against undesirable turnover. Leaders are subsequently the mystery weapon in keeping esteemed ability longer. A two way correspondence is viewed as a central management competency and a key administration obligation.

Leaders ought to receive a style that would set up and affirm their management specialist by methods for seeming equipped and dependable. Successful leaders should direct individuals in a way that enables them to add to the accomplishment of the group's general objective (Mat, 2008). Workers will probably stay with an organization on the off chance that they believe that their leaders demonstrates intrigue and worry for them, if that they realize what is anticipated from them, if they are given a part that fits their capacities and if they get standard positive input and acknowledgment. The nature of relationship a worker has with his or her immediate boss lengthens the stay of a worker in an organization (Ferreira, 2007; Michael, 2008).

Gwavuya (2011) asserts that non-supportive leadership brings about poor worker performance, high stress, low occupation commitment, low employment satisfaction and low retention decision. Research directed on the territory of South African Training industry demonstrated that leadership style was the most noticeable retention factor in South Africa (Netswer & Rankhumise, 2005). Sherman (2006) found in the examination that greater part of the employees in organization studied intended to stay with their organizations at any rate for the following five years in view of the common culture of management mind. Muindi (2011) concluded that leadership style, particularly absence of involvement in basic leadership and deficient correspondence were a portion of the issues that caused disappointment of academic staff University of Nairobi. In this way, literature demonstrates that leadership style is essential in employee retention.

Past literature has shown a positive relationship between transformational leadership and employee retention (Chagani, 2015; Gill et al., 2011; Hewko et al., 2015; Kim & Jogaratnam, 2010; Wells & Peachey, 2011; Zhang et al., 2015). Manager's transformational leadership style has great effect on employee decision to stay in the organization (Chagani, 2015). However, Long et al. (2012) concluded in the results that transformational leadership has no potential to effect employee behaviours and actions in the organization.

In line with the previous findings, current study expects the evidence of strong relationship between transformational leadership style and employee retention. Hence, following hypothesis has been proposed.

H1: Transformational leadership has positive and significant relationship with employee retention.

Psychological capital and employee Retention

The psychological capital is an idea, as of late presented by Luthans is acquired from positive organizational behavior (POB) (Nafei, 2015), which can give economical upper hand to organizations (Hodges, 2010). People with more elevated amounts of psychological capital will produce pathways to successfully seek after and accomplish individual objectives inside of the work space (Snyder et al., 2002). Likewise, workers will forcefully seek after those

objectives (Bandura, 1997) hoping to make progress (Carver & Scheier, 2003) while being flexible to mishaps (Masten & Reed, 2002). Taking part in stimulating work and holding discernment that the association typifies the framework inside of which the worker can acquire accomplishment of individual objectives will lead those representatives to yearning support in the organization and retain themselves longer. It has been proposed that more research is expected to better comprehend whether Psychological capital is in fact a vital and important variable at work and in life (Choi & Lee, 2014).

Moreover, the surviving examination on Psychological capital is restricted in extension, as it has concentrated only on the impact of Psychological capital on business related results. The discoveries hence uncovered that representatives' Psychological capital may affect positive business related attitudes and behaviors (Choi & Lee, 2014). The present study directed with employees from Pakistan answers Luthans and Youssef's (2007) call for testing the outside legitimacy of psychological capital in an extensive variety of settings with an intend to comprehend its relevant appropriateness and confinements. Moreover, the evidence of psychological capital as a mediating variable has not been found in past studies between transformational leadership and employee retention. Therefore, current study will focus on the mediating role of psychological capital between transformational leadership and employee retention.

Due to strong evidence from past studies regarding the relationship between transformational leadership and psychological capital (Gooty et al., 2009; McMurray et al., 2010; Wang et al., 2014) and the relationship between psychological capital and employee retention (Avey et al., 2011; Abbas et al., 2014; Avey et al., 2010), current study proposes the mediating role of psychological capital between transformational leadership and employee retention. Hence, following hypothesis has been proposed.

H2: Psychological capital mediates the relationship between transformational leadership and employee retention.

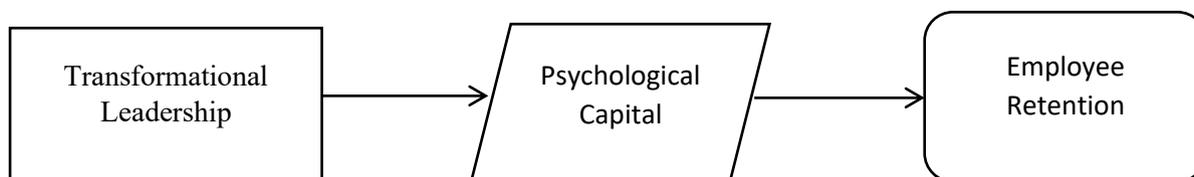


Figure 1

Conceptual framework

Methodology

Sample and data collection procedure

In this study, pharmaceutical employees from Lahore were considered as population of the study. Survey method with the help of questionnaires data was collected. In this study convenient sampling was used and the sample included 255 employees from different pharmaceutical companies of Lahore, Pakistan.

In order to get the adequate response rate, 400 questionnaires were distributed personally by visiting each company in Lahore, Pakistan. 260 questionnaires were collected back, which showed 65% response rate.

Measurement Scale

Current study used transformational leadership, psychological capital and employee retention as uni-dimensional constructs. Employee retention scale by Kyndt, Dochy,

Michielsen and Moeyaert (2009) was adapted. All the responses were measured on a five-point Likert type scale (1 = Strongly Disagree; 2 = Disagree; 3 = Neither agree nor disagree (Neutral); 4 = Agree; 5 = Strongly Agree). Transformational leadership scale by Bass (1985) was adapted and measured on a five-point Likert type scale (1 = Not at all; 2 = Once in a while; 3 = Sometimes; 4 = Fairly often; 5 = Frequently). Psychological capital scale by Luthans, Avolio, Avey and Norman (2007) and was measured on a five-point Likert type scale (1 = Strongly disagree; 2 = Disagree; 3 = Neither agree nor disagree (Neutral); 4 = Agree; 5 = Strongly agree). The scales were found reliable with the alpha values of 0.91, 0.87 and 0.90 respectively.

Data Analysis

Partial least square (PLS) is a multivariate analysing statistical tool which can examine the relationship between the dependent variable and one or more than one independent variables (Ringle et al., 2005). The advantage of PLS-SEM (Structural Equation Model) is that it can be used when there are problems with data, such as the sample size is small; the data is not normally distributed (Hair et al., 2012). PLS tool has ability to test the measurement model (outer model) and the structural model (inner model) simultaneously. Measurement model is used to determine the relationship between the observed items (research instrument) with latent variables to test the validity and reliability and structural model is used to determine the relationship between the variables to test the causality affect.

Results

This section of the study shows the results for demographic variables, reliability and validity results, measurement model and hypotheses results through structural model.

Table 2 shows that in current study number of male respondents were higher (63.2%) than female respondents (36.8%). Moreover, majority of the respondents were 20 – 29 years old (44.7%) than 30 – 39 years old (24.1%), 40 – 49 years old (22.2%) and 50 – 59 years old (5.5%). Majority of the respondents were bachelor's degree holders (64.4%) than intermediate (10.3%), masters (23.7%) and doctorate (1.6%).

In a similar vein, majority of respondents in current study were having 7 – 9 years of working experience (41.5%) as compared to respondents having less than 1 year of experience (0.4%), 1 – 3 years of working experience (15%), 4 – 6 years of experience (31.6%) and more than 9 years of experience (11.5%). Additionally, majority of the respondents (43.1%) showed that they have worked with their current leader for 4 – 6 years as compared to the other respondents who have worked with the current leader for less than a year (7.9%), 1 – 3 years (34.4%), 7 – 9 years (13.8%) and more than 9 years (0.8%).

Table 2

Demographic Profile of the respondents

	Frequency	Percentage
Age		
Less than 20 years	14	5.5%
20 - 29	113	44.7%
30 - 39	61	24.1%
40 - 49	51	22.2%
50-59	14	5.5%
60 and above	0	0
Gender		

	Frequency	Percentage
Male	160	63.2%
Female	93	36.8%
Current level of job		
Senior Management	13	5.1%
Middle Management	67	26.5%
Lower Management	69	31.2%
Non-Administrative staff	94	37.2%
Highest qualification		
Intermediate	26	10.3%
Bachelor	163	64.4%
Master	60	23.7%
Doctorate	4	1.6%
Working experience		
Less than 1 year	1	0.4%
1 – 3	38	15.0%
4 –6	80	31.6%
7 – 9	105	41.5%
More than 9 years	29	11.5%
Experience with current leader		
Less than 1 year	20	7.9%
1 – 3	87	34.4%
4 –6	109	43.1%
7 – 9	35	13.8%
More than 9 years	2	0.8%

Measurement Model Results

Further data analysis was performed using software SmartPLS 2.0 M3. Initially, evaluation of the measurement model (outer model) was performed to determine the reliability and validity of the research model. Validity tests consisting of convergent validity and discriminant validity were performed. Validity was viewed on the score of average variance extracted (AVE), and the outer loadings of the model (Abdillah & Hartono, 2015).

According to Hair et al (2016) composite reliability of a study should fall between 0 and 1, however; it should not be lower than 0.60. Moreover, to test the convergent validity of a study the AVE value should be ≥ 0.50 (Hair et al., 2016). As it can be seen in Table 3, the CR values are ranging in between 0.946 and 0.979 and AVE values fall between 0.553 and 0.727. Hence, it can be concluded that current study model is sufficiently reliable and convergent validity has been confirmed.

Table 3

Outer Loadings, Composite Reliability and Average Variance Extracted (AVE)

Latent Constructs and Indicators	Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Employee Retention		0.938	0.946	0.620
ER1	0.8722			
ER2	0.7382			

Latent Constructs and Indicators	Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
ER3	0.8611			
ER4	0.8738			
ER5	0.7645			
ER6	0.8229			
ER7	0.7879			
ER8	0.8724			
ER9	0.6704			
ER10	0.6708			
ER11	0.6705			
Psychological Capital		0.946	0.951	0.553
PC1	0.8325			
PC2	0.6305			
PC3	0.595			
PC4	0.603			
PC5	0.8325			
PC6	0.7746			
PC7	0.6831			
PC8	0.6766			
PC10	0.8325			
PC11	0.6497			
PC12	0.6983			
PC15	0.603			
PC17	0.7746			
PC18	0.6831			
PC19	0.6766			
PC20	0.735			
Transformational Leadership		0.977	0.979	0.727
TL1	0.9239			
TL2	0.6902			
TL3	0.9254			
TL4	0.9289			
TL6	0.8546			
TL7	0.8546			
TL8	0.6838			
TL9	0.9165			
TL10	0.8546			
TL11	0.9239			
TL12	0.6902			
TL13	0.9254			
TL14	0.9289			
TL16	0.8546			

Latent Constructs and Indicators	Loadings	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
TL17	0.8546			
TL18	0.6838			
TL19	0.9165			
TL20	0.8546			

Table 4 shows the discriminant validity results. Discriminant validity is explained with the extent to which one construct differs from another construct. If two constructs are theoretically different, their measures must not be related to each other (Hair et al., 2016). In order to confirm the discriminant validity Fornell-Larcker Criterion test was applied. According to Hair et al (2016) the square root of AVE for each construct should be greater than the highest correlation of that construct with other constructs. In current study, the square root of AVE shown in bold is greater than the correlation of the construct with other constructs. Hence, there is no problem with discriminant validity in current study.

Table 4
Correlations and Square root of AVE

	ER	PC	TL
Employee Retention (ER)	0.787		
Psychological Capital (PC)	0.574	0.744	
Transformational leadership (TL)	0.630	0.495	0.853

Structural Model Results

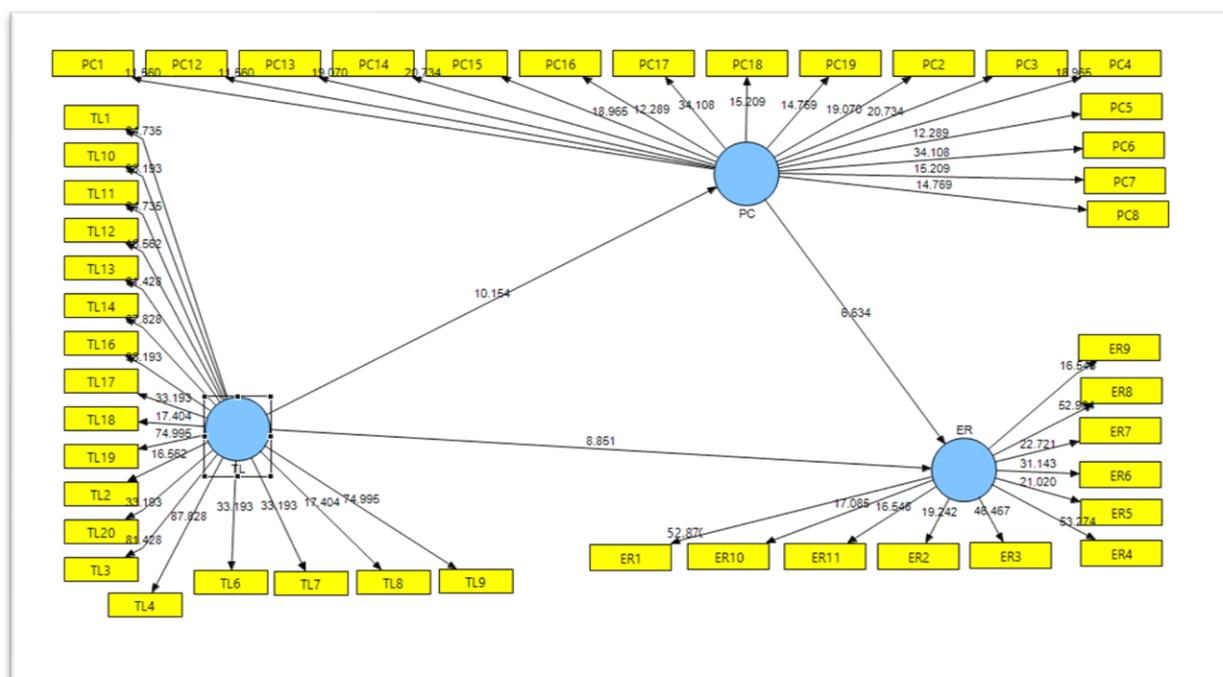


Figure 2
Structural Model

In order to estimate the structural model, a bootstrapping method (Preacher & Hayes, 2008) was applied. Current sample was bootstrapped with 500 sub-samples to generate the

relationship t-value. Figure 2 shows the relationship between transformational leadership, psychological capital and employee retention.

Hypotheses results are shown in Figure 2, Table 5 and Table 6. According to the structural model results, transformational leadership and employee retention has a significant positive relationship ($\beta=0.458$, $t=8.851$). Hence, H1 was supported and explaining the 48% variance.

Table 5
Hypothesis results

Relationship	Beta Value	Standard Error	t-Value	Decision
TL > ER	0.458	0.0518	8.851	Supported

Mediation analysis was conducted with the help of bootstrapping method and mediation calculator (Preacher & Hayes, 2008). As shown in Table 6, psychological capital mediates the relationship between transformational leadership and employee retention.

Table 6
Mediating effect

H.	Relations hip	Dir ect Eff ect	Direc t Effec t with Medi ator	Indire ct Effect	Stand ard Error (SE)	T Value	P Valu e	Bootstrapped Confidence Interval 95% LL	95% UL	Decision
H 2	TL > PC > ER	0.6 29	0.458	0.171	0.002 5	10.246	0.00 0***	0.167	0.175	Supporte d

Discussion and Conclusion

The findings of the present study can help to provide different types of solutions for the problem of employee retention. Strategies which are design for the purpose of increasing employee retention decision should focus on the importance of transformational leadership in developing the psychological capital of the employees. Findings of the current study showed that there is a positive and significant relationship between transformational leadership and employee retention. In order words, it can be said that if leaders or immediate supervisors have a transformational (people oriented) leadership style, that could help employees to make their retention decision in the current organization. Current study findings are aligned with the findings of Chagani (2015) and Zhang et al. (2015) that transformational leadership positively and significantly effects employee retention.

Moreover, current study also found that psychological capital mediates the relationship between transformational leadership and employee retention. In previous literature psychological capital was found to mediate the relationship between occupational stress and job burnout (Li et al., 2015), occupational stress and depressive symptoms (Shen et al., 2014), ethical leadership and job performance (Bouckenoghe, Zafar & Raja, 2015), work-family conflict and job burnout (Wang et al., 2012). However, up to best of the researcher knowledge current study is the only of its kind to test the mediating effect of psychological capital between transformational leadership and employee retention. Current study results will provide great inside for the human resource policy makers and private firm owner that what

is psychological capital of an employee and how to gain the capital like other capitals, i.e. financial capital, resource capital and human capital.

The findings of the current study can help pharmaceutical industry policy makers to comprehend the employee retention problem and different to control low employee retention. Current study results will help pharmaceutical industry think tanks to understand the importance of transformational leadership in employee retention. Moreover, how psychological capital of an employee can play a mediating role between a leader's transformational style and employee's retention decision.

Limitations and Future Suggestions

Similar to other empirical studies, this study also has limitations. Firstly, the response rate was low but in acceptable range for an empirical study. Secondly, due to the limited resources and time this study was conducted only in Lahore city of Punjab province, Pakistan. Future studies should focus whole province or a country level analysis in order to get more generalizable results. Thirdly, convenient sampling technique was applied in current study on the basis of scarce resources and limited excess of employee record. Future studies should apply probability sampling with the help of employees record in order to get more generalizable results. Fourthly, current study only focussed on private pharmaceutical sector of Pakistan. Future studies should compare private sector with the government sector results. Finally, current study only focussed on the relationship between transformational leadership and employee retention with the mediating role of psychological capital. Since, psychological capital is new phenomenon which requires more attention of researchers. Hence, future studies should empirically measure other variables with the mediating role of psychological capital to find the solution for low employee.

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