



## ICIMTR 2013

International Conference on Innovation, Management and Technology Research,  
Malaysia, 22-23 September, 2013

# Mediating effects of affective organizational commitment and psychological contract in the relationship between strategic compensation practices and knowledge sharing

Roya Anvari\*, Nur Naha Abu Mansor, Siti Aisyah Bt. Panatik Abdul Rahman,  
Rabeatul Husna Binti Abdull Rahman, Siavash Hosseinpour Chermahini

*Department of Human Resource Development, Faculty of Management  
Universiti Teknologi Malaysia, 81310 Skudai, Johor Bahru, Malaysia.*

### Abstract

This study contributes to the development of the knowledge management and strategic compensation literatures through developing the linkages between them. The study sample comprised of 301 employees from universities of medical sciences in Iran. Multiple and simple linear regression and path analysis were used to test the direct and mediated relationships among the variables. Results highlighted significant relationships between (a) strategic compensation practices and affective organizational commitment, (b) affective organizational commitment and knowledge sharing, (c) strategic compensation practices and psychological contract, and (d) psychological contract and knowledge sharing. Results revealed that strategic compensation practices are positively related to affective organizational commitment and psychological contract. In addition, the results provided evidence that affective organizational commitment and psychological contract have a significant mediating effect on the relationship between strategic compensation practices and knowledge sharing. Managerial and practical implications of the findings are highlighted.

*Key words:* Strategic Compensation Practices; Psychological Contract; Affective Organizational Commitment; Knowledge Sharing.

© 2014 The Authors. Published by Elsevier Ltd. Open access under [CC BY-NC-ND license](https://creativecommons.org/licenses/by-nc-nd/4.0/).  
Selection and peer-review under responsibility of Universiti Malaysia Kelantan

## 1. Introduction

Since the mid-1990s, knowledge management has emerged as a subject of great interest to both academics and organizational practitioners. Knowledge management is actually an evolved form of

\*Corresponding author. Tel. + 60172458894  
E-mail address: [roya.anvari@utm.my](mailto:roya.anvari@utm.my)

human resource management practices, including compensation. In fact, the role of human resource management in knowledge management has been discussed by a number of researchers and practitioners.

For instance, the role of human resource in knowledge management in facilitating the dissemination of learning through workshops (Armstrong, 2000); the role of human resource in creating and using knowledge (Garavan et al., 2000); and the role of human resource in choosing the appropriate knowledge management programme, creating knowledge management leadership and team (Soliman and Spooner, 2000). While the importance of human resource management issues has been widely articulated, the relationship between strategic compensation practices and knowledge sharing is yet to be explored. The concept of strategic human resource management practices is based on the human resource management philosophy that emphasizes the strategic nature of human resource (Armstrong, 2000; Walton, 1985). According to Armstrong (2000) the aim of strategic human resource management practices is to generate strategic capability of organization to ensure that it has skilled, committed, and well-motivated employees. This aim shows that the rationale for implementing strategic human resource management is to manage people effectively in the long run. Despite the abundance of research that has examined affective organizational commitment, there remain a number of gaps that form the basis for this study. Firstly, a literature review shows that although affective organizational commitment has been shown to be an important predictor of turnover intentions (Addae and Parboteeah, 2006) very few studies have examined how psychological contract is related to the link between strategic compensation practices and affective organizational commitment. It is plausible to argue that strategic compensation practices will likely relate to employees' levels of organizational commitment, the degree to which they are satisfied with their jobs and even their intentions to leave. Secondly, few studies (Aggarwal and Bhargava, 2009) have investigated how aspects of compensation strategies are related to various key organizational variables such as psychological contract, and affective organizational commitment. Furthermore, we also examine how psychological contract and affective commitment mediate the relationship between strategic compensation practices and knowledge sharing. We believe that this article makes some important contributions to the literature. Organizations could benefit from a committed workforce because those who are committed to their organizations tend to be absent less often and make positive contributions to the organization. Notably, this is the first study linking strategic compensation practices to affective organizational commitment and other related factors using universities sample. We therefore believe this study brings together, in one model, the three constructs of strategic compensation practices, psychological contract, and affective organizational commitment.

## **2. Literature Review and Hypotheses**

### *2.1 Strategic compensation, affective commitment, psychological contract and knowledge management*

Affective organizational commitment is central to strategic human resource management practices and individual effectiveness (Bratton and Gold, 1999). Therefore, with strategic perspective, this article explores the literature on the relationships between two practices of strategic compensation and affective organizational commitment. According to Armstrong (2000), taking a strategic approach to human resource management practices (e.g. compensation) may mean making strong changes in how employees are compensated. Compensation links all pay and benefits to attracting and motivating employees (Mello, 2002; Daley, 2002). Organizations taking a strategic approach to compensation realize the need for inspiration to meet strategic objectives. In addition, inside an organization, different compensation

programs may be needed for different separation, departments or group of employees. In fact, compensation should focus on internal and external pay differential among jobs (Martocchio, 2009). Strategic compensation refers to the provision of intrinsic and extrinsic compensation that are perceived by employees as fair. According to Armstrong (2000) implementing strategic compensation practices help the organization to achieve its objectives by increasing commitment and motivation. Following this logic, compensation has been considered an important mechanism affecting attitudes and behaviors of employees. It is clear that effective compensation is generally associated with work attitudes and behavioral outcomes. The positive impact of compensation, such as pay and incentives on work attitudes can be derived from the argument that an individual's perception of being valued by the organization may be significantly influenced by the organization's compensation for the individual's effort (Meyer and Allen, 1997). Some scholars have suggested that compensation should be designed to achieve affective commitment as a strategic human resource management practices (Martocchio, 2009). Also, they addressed that certain types of compensation plans may lead to higher affective organizational commitment. For example, in a study conducted by Grover and Crooker (1995), using data collected in a national survey of more than 1,500 U.S. workers, found a positive relationship between availability of benefits and affective commitment. They argued that organizations that offer such benefits are perceived by employees as showing greater support and as being fair in their dealing with employees.

Compensation research has adopted theories, such as the equity theory (Adams, 1965) and job characteristic theory (Hackman and Oldham, 1976), to explore the issue of attitude with compensation. According to the equity theory, individuals are dissatisfied with the amount of pay received that is less than they had expected. In the individuals' perceptions of fair within the compensation approach, some studies have suggested that pay satisfaction is related to organizational commitment. For example, Beauvais et al. (1991) found a positive and significant relationship between pay equity and organizational commitment.

The retention of employees with valuable knowledge may be an element of an organization's knowledge management strategy as its attempts to induce its employees to share their knowledge. Therefore, when linking commitment to knowledge sharing, the issue of intention to stay is as important as having positive attitudes towards knowledge sharing. Employees with high levels of organizational commitment are less likely to leave, and will probably be more willing to provide extra discretionary effort and be generally more willing to share their knowledge within the organization. The strategic human resource management perspective assumes that it is possible to develop a set of compensation strategies which facilitate knowledge sharing, and that these strategies will be universally applicable to all types of organization. In fact, this perspective is closely associated with the issue of affective commitment. According to Scarbrough and Carter (2000), strategic human resource management will ensure the level of commitment and capability to encourage knowledge sharing that will make knowledge management successful. It is clear that strategic human resource management practices including compensation is related to retaining knowledge employees. Thus, by managing knowledge, organizations can improve commitment between knowledge-employees. Having suggested that commitment can be linked to knowledge sharing attitudes and behaviors, it is necessary to conceptualize the relationship between them, which is done through Figure 1. Based on these arguments, the following hypotheses are developed:

*Hypothesis 1: Strategic compensation practices will be positively related to affective organizational commitment.*

*Hypothesis 2: Affective organizational commitment will be positively related to knowledge sharing.*

*Hypothesis 3: Affective organizational commitment will mediate the relationship between strategic compensation practices and knowledge sharing.*

Psychological contract is defined “as the beliefs individuals hold regarding the terms and conditions of the exchange agreement between themselves and their organizations” (Rousseau, 1993) or an “individual’s belief in the terms and conditions of a reciprocal exchange agreement between the focal person and another group” (Rousseau, 1993). In other words, “psychological contracts refer to employees’ perceptions of what they owe to their employers and what their employers owe to them” (Robinson, 1996). According to King (2000) and Guzzo and Noonan (1994), strategic human resource management practices including compensation affect the psychological contract. Compensation is an important encouragement of the exchange process between employers and employees. Compensation has been recognized as a vital element of the psychological contract central to the relationship between employers and employees. Beliefs become contractual when the individual believes that he or she owes the employer certain contributions (e.g. hard work, loyalty) in return for certain inducements (e.g. high pay, pay-for-performance). In fact, when individual employees believe they are obligated to behave or perform in a certain way and also believe that the employer has certain obligations toward them, these individuals hold a psychological contract. Thus appropriate strategic compensation practices motivate employees to apply their skills and encourage them to work harder and improve work processes (Aggarwal and Bhargava, 2009). Studies on strategic compensation have identified pay-for-performance as important employer obligations (Rousseau, 1993; Robinson, 1996). The question that follows is how can compensation influence employee perception of psychological contract and how can it be used as a signaling mechanism to establish certain kinds of employment relationships? We can therefore posit that:

*Hypothesis 4: Strategic compensation practices will be positively related to psychological contract.*

*Hypothesis 5: Psychological contract will be positively related to knowledge sharing.*

*Hypothesis 6: Psychological contract will mediate the relationship between strategic compensation practices and knowledge sharing.*

### 3. Materials and Methods

#### 3.1 Measurement of variables

The main variables of the study were strategic compensation practices, affective organizational commitment, psychological contract, and knowledge sharing. This research used standard questions adopted from previous studies to measure the variables. Measures for strategic compensation practices were drawn from existing research instruments specifically the Work Design Questionnaire (Morgeson and Humphrey, 2006). Psychological contract was measured by using 12 items scale adopted from Coyle-Shapiro and Conway (2005). In this study, affective organizational commitment measurement was adopted from sub-dimensions of organizational commitment Scale by Meyer and Allen (1997). In terms of evaluating effective knowledge management to measure knowledge sharing, 5 items developed by Hooff et al. (2003) was administered in this study. Respondents were asked to indicate on a 5-point Likert-type scale (1= strongly disagree; 5= strongly agree) the extent to which they agreed with the statements.

### 3. Hypotheses Testing

First, we tested the general hypotheses (H1, H2, and H3) corresponding to each strategic compensation. Pearson product-moment correlation analysis was used to examine the following hypotheses regarding the relationship between the three strategic compensation practices and affective organizational commitment. Preliminary analyses conducted revealed no violation of the assumptions of normality, linearity, and homoscedasticity. As can be seen the strategic compensation practices were significant and have a strong positive correlation with affective organizational commitment ( $r=.565$ ,

$p < .01$ ). Second, in order to test the first hypothesis, multiple regressions analysis was employed. Results of preliminary analyses confirmed that all the assumptions of multiple of multiple regressions were met. Three independent variables were entered into the regression model and explained 39.7% of the variance ( $R^2$ ) in affective organizational commitment, which was highly significant, as indicated by the F-value of 65.246 in Model Summary table (Table 1). Thus, hypothesis 1 is substantiated. Third, three hypotheses (from H4a to H4c) were formulated to test the relationship between each of the variables and psychological contract. The Pearson correlation matrix obtained for the three interval-scaled variables is shown in Table 6. As can be seen the strategic compensation practices were significant and have moderate positive correlation with psychological contract ( $r = 0.471$ ,  $p < 0.01$ ). Forth, the results show that the multiple regression coefficients of the three independent variables that were entered into the regression model was  $R$  (0.558) while the correlation of the strategic training variables with the psychological contract was  $R^2$  as 0.312. The result suggest that 31% of the variance ( $R^2$ ) in psychological contract has been significantly explained by the strategic compensation practices as shown by the F value of 44.835 ( $p < 0.000$ ), substantiating the forth hypothesis. Fifth, the psychological contract was found to have a high positive significant correlation with affective organizational commitment at  $p < 0.01$  level ( $r = .662$ ) and a high positive significant correlation with knowledge sharing at  $p < 0.01$  level ( $r = 0.702$ ). Also, result of the correlation indicated that higher affective organizational commitment is associated with higher knowledge sharing scores. Additionally, no problems exist related to multicollinearity and homoscedasticity. The total mediating effect of the strategic compensation practices on the psychological contract was tested by hypothesis (H5). Strategic compensation practices is found to be significantly related to the affective organizational commitment 0.471,  $p < 0.05$ ,  $CI95 = 0.420, .647$ ). The mediator (affective organizational commitment) (Table 2) was found to significantly influence knowledge sharing ( $\beta = 0.509$ ,  $p < 0.05$ ,  $CI95 = 0.441, 0.629$ ). However, strategic compensation practices remained highly significant in the Equation 3 ( $\beta = 0.325$ ,  $t = 7.159$ ) and indicated no perfect mediation was found. The Beta value of strategic compensation practices in the third equation has been diminished by 0.240 (0.565 to 0.325). It implies that the inclusion of psychological contract in the Equation 3 has reduced the effect of strategic compensation practices to knowledge sharing. Hence, psychological contract is partially mediating the relationship of strategic compensation practices on affective organizational commitment. However when psychological contract was controlled, the magnitude of the correlation reduces from 0.565 to 0.383. The model also indicates 42.5% (0.240 / 0.565) of the effect of strategic compensation practices on knowledge sharing was mediated through affective organizational commitment. And 57.5% (0.325 / 0.565) was the direct effect of strategic training practices on knowledge sharing when affective organizational commitment was controlled. To determine the significance of indirect effect, Distribution of Product is used (Mackinnon et al. 1998). The result indicates the indirect effect value is 103.43 which was above the critical value of 2.18. In another words, there is a significant indirect effect of strategic compensation practices on knowledge sharing via affective organizational commitment at the alpha value of 0.05. The simple mediation model is illustrated in Figure 1. The indirect effect of strategic compensation practices on knowledge sharing was 0.243 ( $0.481 \times 0.506$ ) and its direct effect was .324. The total effect coefficient was .567 (0.243 + 0.324). The model also indicates 42.86% (0.243 / 0.567) of the effect of strategic compensation practices on knowledge sharing was mediated through psychological contract. And 57.14% (0.324 / 0.567) was the direct effect of strategic compensation practices on knowledge sharing when affective organizational commitment was controlled. The result indicates the indirect effect value was 105.001 which was above the critical value of 2.18. In another words, there was a significant indirect effect of strategic compensation practices on knowledge sharing via psychological contract at the alpha value of 0.05. Hence, psychological contract was partially mediating the effect of strategic compensation practices and affective organizational commitment.

Table 1. Relationship between strategic compensation practices and affective organizational commitment (Model Summary)

R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Std Error of Estimate	F	Sig
.630	.387	.391	.4451	65.246	.000

Predictors: strategic compensation practices Dependent variable: Affective commitment

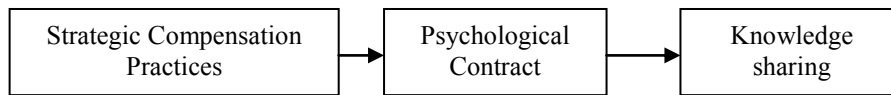


Figure 1. Simple mediation model for strategic training practices on knowledge sharing

Table 2: The Mediation effect on the relationship of strategic compensation practices on knowledge sharing

Estimator	Equation 1 (dependent= knowledge sharing)		Equation 2 dependent= affective commitment		Equation 3 dependent= knowledge sharing	
	$\beta$	<i>t</i>	$\beta$	<i>t</i>	$\beta$	<i>t</i>
Independent: Strategic compensation	.565**	11.844	.471**	9.230	.325**	7.159
Mediator: affective commitment					.509**	11.206

#### 4. Conclusions and Discussion

The purpose of this study was to measure the mediating effects of affective organizational commitment and psychological contract in the relationship between strategic compensation practices and knowledge sharing. After interpretation of results, our H1 is sustained as a significant relationship has been found between strategic compensation practices and affective organizational commitment. However, limited studies have been conducted so far, particularly on the relationships of strategic compensation practices and affective organizational commitment. It should be noted that universities employees put great emphasis on psychological contract, which in turn significantly affects their emotional bond toward their employing university.

#### Acknowledgements

We would like to extend our appreciation to the Ministry of Higher Education (MOHE, vote number: Q.J130000.2729.00k30) for funding this project and our acknowledgement to the Research Management Center, Universiti Teknologi Malaysia for their support in managing this research.

## References

- Adams, J. S. (1965). Inequity in social exchange. In L. Berkowitz (ed.) *Advances in social psychology*. New York: Academic Press. 2: 267-299.
- Addae, H. M., & Parboteeah, K. P. (2006). Organizational information, organizational commitment, and intention to quit a study of Trinidad and Tobago. *International Journal of Cross Cultural Management*. 6(3):343-359.
- Aggarwal, U., & Bhargava, S. H. (2009). Reviewing the relationship between human resource practices and psychological (A conceptual model). *Journal of European Industrial Training*. 33(1):4-31.
- Armstrong, M. (2000). *Strategic human resource management: a guide to action*. London: Kogan.
- Bratton, J., & Gold, J. (1999). *Human resource management: theory and practice*. London: Macmillan, Basingstoke.
- Caudron, S. (1993). Master the compensation maze. *Personnel Journal*. 72(6): 64a-64o.
- Chew, J., & Chan, C. C. A. (2008). Human resource practices, organizational commitment and intention to stay. *International Journal of Manpower*. 29 (6):503-522.
- Daley, D. M. (2002). *Strategic human resource management: people and performance management in the public sector*. United States of America: Pearson education.
- Eisenberger, R., Rhoades, L., & Cameron, J. (1999). Does pay for performance increase or decrease perceived self-determination and intrinsic motivation, *Journal of Personality and Social Psychology*. 77(5):1026-1040.
- Grover, S., & Crooker, K. (1995). 'Who appreciates family-responsive human resource policies: The impact of family-friendly policies on organisational attachment'. *Personnel Psychology*. 48: 271-288.
- Hackman, J., & Oldham, G. R. (1976). Motivation through the design of work: test of a theory. *Organizational Behavior and Human Performance*. 16:250-279.
- Herzberg, F. (1987). One more time- how do you motivate employees? *Harvard business review*. 65(5): 109-120.
- Martocchio, D. M. (2009). *Strategic compensation. A human resource management approach*. Upper saddle river, NJ: Pearson.
- Mello, J. A. (2002). *Strategic human resource management*. United States: South-Western.
- Meyer, J. P., & Allen, N. J. (1997). *Commitment in the workplace: theory, research, and application*. London, Thousand Oaks, New Delhi: Sage Publications.

Morgeson, F. P., & Humphrey, S. E. (2006). The work design questionnaire: developing and validating a comprehensive measure for assessing job design and the nature of work. *Journal of Applied Psychology*, 91(6): 1321-1339.

Robinson, S. L. (1996). "Trust and breach of the psychological contract". *Administrative Science Quarterly*. 41: 574-99.

Rousseau, D. M., & Parks, J. M. (1993). "The contracts of individuals and organizations", in Cummings, L.L. and Staw, B.M. (Eds). *Research in Organizational Behavior*. 15, JAI Press, Greenwich, CT: 1-43.