



## 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

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### 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.

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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

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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

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