



# Assessment of Organizational Performance: Linking the Motivational Antecedents of Empowerment, Compensation and Organizational Commitment

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## ABSTRACT

A growing body of knowledge in social exchange theory has long postulated social exchange interrelationships as the dominant practice within the organization. Specifically, nearly majority of previous studies utilizing social exchange theory concentrates on testing the direct effect of various organizational practices on functional and organizational outcome with little attention towards the intermediate mechanism facilitating such connection. In this vein, this study draws from social exchange theory to investigate the mediating role of organizational commitment on the effect of empowerment and compensation on organizational performance. Data was collected from bank managers using a cross sectional survey and all the direct and indirect propositions were supported. Organizational commitment was found to mediate the effect of empowerment and compensation on organizational performance. The limitations and implications of the study were discussed and area for future studies provided.

**Keywords:** Organizational Performance, Empowerment, Compensation, Organizational Commitment

**JEL Classifications:** J3, L2

## 1. INTRODUCTION

Over the past few years organizations have been experiencing rapid changes due to unpredictable business atmosphere (Meyerson and Dewettinck, 2012). Specifically the changes are as a result of the increasing need to improve the quality of human resources and the need to provide customers with superior value (Baird, and Wang, 2010). This development suggests the need for organizations to effectively configure their human resource in order to meet up with the predominant challenges in the business environment (Charkhabi, 2015). Particularly, empowering managers to quickly respond to the rapidly changing environment has obviously become central to organizational success (Ignore, 2009). Moreover, the present demands of the business environment necessitate a more focused strategy aimed at equipping human resources in organizations especially the middle level managers because of the role they play implementing the organizational goals. More precisely providing middle level managers with empowerment and authority to initiate and implement organizational decisions has

now become essential in influencing employee and organizational level outcome (Charkhabi, 2015).

Furthermore, despite increasing need to empower managers in organization, compensation and reward management in organization is increasingly becoming one of the most critical determinants of effectiveness and quality of human resources (Gupta and Shaw, 2014). This is because it plays a greater role in persuading a pool of competent human resource into the organization, determine their intention to stay and motivate their desired behavior to ensure optimum performance (Dineen and Williamson, 2012; Shaw and Gupta, 2007). Despite this fact there are conflicting views among scholars on the positive effect on compensation in a typical organizational setting (Pfeffer, 1998). On the contrary compensation has been recognized for as an important element that influence positive behavior from human resource and eventually contribute to overall effectiveness of a business organizations (Castanias and Helfat, 1991; Gupta and Shaw, 2014). However, despite the vital role played by organizations

literature examining the effect of organizations compensation strategy is scanty. This necessitate a call for closer investigation of the effect of compensation in organizational settings (Gupta and Shaw, 2014).

In essence, despite importance of empowerment on influencing employee and organizational outcome there is little scholarly effort linking empowerment with more proximal organizational outcome. Although recently empowerment has been recognized as organizational level construct (Regan and Rodriguez, 2011) understanding the antecedents of effect of empowerment on organizational outcome remain a paucity that this study will fill. Moreover, in line with the call for closer examination of compensation and the recognition of the role of empowerment in influencing effective managerial behavior and overall organizational performance, this study will investigate the effect of compensation on organizational performance. Specifically, examining the more proximal mechanism linking compensation and empowerment with organizational outcome represent the paucity that this paper will fill.

## 2. BACKGROUND AND HYPOTHESIS

### 2.1. The Concept of Empowerment

The concept of empowerment has received adequate attention in the management, human resource and psychology literature. Specifically conceptualization of empowerment construct has been a subject of debate among scholars from different fields of knowledge (Fernandez and Moldogaziev, 2013). In this vein academic scholars from various fields have exert reasonable effort to define the concept with each disagreeing on the actual conceptualization (Mandefrot, 2003; Thomas and Velthouse, 1990). The disagreement among scholars about the actual conceptualization of empowerment led to the emergence of two distinct of points of view that is the managerial and psychological standpoints respectively (Fernandez and Moldogaziev, 2013).

However, the managerial perspective of empowerment differ slightly with that of the psychological perspective in the sense that it is concerned with sharing of power, resources, information and wealth between those who have and those lacking them (Fernandez and Moldogaziev, 2011). Particularly, managerial works on empowerment is traceable to the seminal works of human relations movement (e.g., Argyris, 1957; Follett, 1926; McGregor, 1960; Metcalf and Urwick, 2004). According to the management perspective in the structural theory of organizational power the full details of organizational power was described. Specifically, the management perspective of empowerment describes that the extent to which managers empower their employees with access to the power sources outlined in the structural theory the more success they have in empowering them (Fernandez, 2013). In addition, the managerial perspective of empowerment conceptualize empowerment as the style of leadership that involve leadership behaviors aimed at enhancing the meaningfulness of work through fostering the participants freedom to involve in the decision making, providing autonomy from bureaucratic constraints and express their confidence in high performance (Ahearne et al., 2005). This is also consistent with

the definition provided by Arnold et al. (2000) where he consider empowerment as an approach to leadership that includes the following leadership behaviors: Leading by example, involving others in decision making, coaching, informing, and showing concern for others. Hence empowerment that was considered in this research investigation is in line with the managerial perspective of empowerment.

### 2.2. Concept of Compensation and Reward Management

Compensation as a human resource management function has several meanings. Milkovich and Newman (1996) argue that compensation refers to all forms of financial returns and tangible benefits that an employee receives as a part of his employment contract. Specifically, compensation has been used to refer to the policy and procedure that enables organizations to pay employees proportionately, based on their level of performance and/or accomplishing the assigned task (Hewitt, 2009). Even more, compensation is not just a free gift, but pay or a reward received during employment (Dessler, 2004).

In virtually every aspect of organizational functioning, compensation can shape employee behavior and organizational effectiveness. Two, from a psychological standpoint, compensation affects employee attitudes and behaviors. Simple and minimal reminders of money (e.g., a U.S. dollar bill on a screen saver) can increase feelings of self-reliance (Vohs et al., 2006; 2008) and increase pain tolerance (Zhou et al., 2009) From the perspective of organizations, it is almost axiomatic that, unless the compensation system is done right, other organizational policies and procedures cannot have their desired effects. The centrality of compensation systems is amply displayed in our everyday life in phrases such as “money talks,” “follow the money,” and “pay the piper.” Indeed, the design and implementation of compensation systems not only can affect employee motivation, but also can be harnessed to improve safety, quality, creativity, innovation and a myriad other outcomes critical in a successful workplace.

### 2.3. Concept of Organizational Commitment

In recent times, organizational commitment has received considerable level of attention in the literature, for instance (Mowday et al., 1982) sees organizational commitment as an individual's attitude towards an organization that comprises of strong confidence in, and acceptance of, the organization's objectives and values, eagerness to apply significant effort for the organization and a strong desire to keep working in that organization. Allen and Meyer (1990) contended that there are three types of organizational commitment; affective commitment, normative commitment and continuance commitment. They further assert that affective commitment refers to the employees' passionate to, identify with, and support to the organization. Today, organizations that lay more emphasis on ensuring commitment from their employees remain competitive and excel in the marketplace (Benjamin, 2012).

Moreover, employees with an affective commitment remain with the organization because they are willing to do so, not so much as a consequence of any pressure or compulsion being forced on them

by an outsider (Alnıaçık et al., 2012; Jain et al., 2013; Patrick and Sonia, 2012). Then again, continuance commitment refers to an attention to the expenses connected with leaving the organization (Bentes et al., 2012; Gill et al., 2011; Zhang et al., 2013). The continuance commitment centered employees stays with the organization principally in pecuniary connection appended in their relationship with the organization (Vandenberghe et al., 2011).

#### **2.4. Empowerment and Organizational Performance**

There is consensus among scholars that empowerment is a means through which organizations provide employees with necessary opportunities and resources that will enable them contribute positively and induce the desired changes in the organization (Delaney et al., 2014). Specifically, motivating employees to have the feelings of self-efficacy and commitment depends on the extent of empowerment culture in the organization (Conger and Kanungo, 1988). Previous literature has pointed out that employees from organizations whose score is high on empowerment are motivated to think on better ways to perform their task, which translates into enhance employee competence and make them develop a sense of meaning for the assigned task (Laschinger et al., 2004).

Furthermore, studies has long projected that empowerment through added discretion given to employees enable them display flexibility, improve the quality level of service delivery, ease adaptation to unforeseen circumstances and make more productive use of available time which will in turn significantly influence performance (Fernandez and Moldogaziev, 2013; Worley et al., 1992). Although, employee empowerment is an important tool that enable employee perform the assigned tasks more effectively through improving his capabilities, competence and technical knowledge (Fernandez and Moldogaziev, 2011), its effectiveness is ascertained in terms of how it influence employee extra effort which will eventually leads to favorable organizational performance outcome (Fernandez and Moldogaziev, 2013). Previous studies on empowerment established significant relationship between empowerment and organizational commitment, performance of work group and innovative behavior (Fernandez and Moldogaziev, 2011; Fernandez and Moldogaziev, 2013).

Hence, most of the previous literature on empowerment focused on investigating the direct relationship between empowerment and performance (Maynard et al., 2014) while few studies tested the indirect effect for instance Karavardar (2014) examined the moderating effect of job embeddedness. Thus, the study will contribute to literature by testing the mediating role of organizational commitment in the relationship between empowerment and organizational performance. Hence based on the above discussion this study hypothesizes as follows:

H<sub>1</sub>: Empowerment has significant positive effect on organizational performance.

#### **2.5. Compensation and Organizational Performance**

Compensation has been used to connote non-financial and financial reward that accrue to employee in return for effort

and talent expended in the production of goods and services for the organization (Fajana, 2002). The effective management of compensation signifies the act of implementing and designing pay system that guarantees organizations ability to attract, retain and maintain a pool of capable employees that are willing and able to exert considerable efforts necessary to help organization achieve its goals (Lo et al., 2011).

However, organizations effective reward system should be capable of channeling individual with organizations strategic goals (Fisher et al., 2007). In particular, organizations effort to motivate its employees through utilization of compensation and reward system are essential and emphasis should be placed on job rotation, specification, analysis, evaluation and clear description of the assigned task (Hornsby and Kuratko, 2003; Delaney and Huselid, 1996).

Moreover, despite the relevance of effective compensation and reward strategy in influencing employee motivation which eventually transcend overall organizational outcome it has been highly under studied aspect in the literature (Gupta and Shaw, 2013). Among the little attention the field has generated, empirical evidence has provided support that generous compensation aligned with quality service orientation significantly influences organizational profitability (Georgiadis and Pitelis, 2012). Also, investigation conducted by King-Kauanui et al. (2006) also provided support that effective compensation system in organization is significantly and directly related to organizational performance. Additionally, compensation and reward was also reported to firmly relate with organizational performance of oil and gas firms (Khan, 2010). In essence, extant literature has largely recognize compensation as a motivational tool utilized by organizations to create greater organizational performance (Harris and McMahan, 2015). More precisely, studies has revealed significant positive relationship between collection of high performance work practices on organizational performance of which compensation is among the bundle of the practices (Shin and Konrad, 2014). In view of the above this study hypothesizes as follows:

H<sub>2</sub>: Compensation has significant positive effect on organizational performance.

#### **2.6. Organizational Commitment and Organizational Performance**

Employee behaviors and attitudes are assessed in terms of their eventual direct or indirect impact and its likely significant contribution to the overall organizational performance (Jung and Yoon, 2014). In essence, human resource are very important in the business organization as they directly influence organizational performance through their associations with customers in most services industries (Wallace et al., 2011). Specifically the need to get employee commitment to uphold human resource strategic role is important to the organization and this require firms to establish proper employee commitment oriented organizational systems (Kim and Sung-Choon, 2013). Particularly, organizational commitment as an element of employee attitude significantly influences career growth (Wang et al., 2014). This is because the

greater the opportunity provided by organizations for employees to meet their career goals, acquire additional professional skill and degree to which organization reward those activities makes employees committed to the organizations goal (Leslie et al., 2012; Presslee et al., 2013) and less likely that employees will think about quitting the organization (Stanley et al., 2013) which eventually lead to significant influence on organizational performance (Ali et al., 2010).

Moreover, organizational commitment also influences employee extra effort (Kim and Brymer, 2011) thus, organizations need to continuously work on enhancing employee commitment (Khanin, 2013) because it reduce the tendency of employees leaving the organization (Nouri and Parker, 2013; Tse et al., 2013) and positively affect overall performance (Ali et al., 2010). In addition organizational commitment has been found to firmly relate with work performance (Rose et al., 2011; Fu and Deshpande, 2014), organizational citizenship behavior (Huang et al., 2012) empowerment (Oh and Chung, 2011), job performance (Imran et al., 2014) and organizational performance (Ali et al., 2010). It also leads to organizational commitment leads to extra efforts which eventually influences competitive performance (Kim and Brymer, 2011).

H<sub>3</sub>: Organizational commitment has positive effect on organizational performance.

### **2.7. Theoretical Underpinning for Organizational Commitment as a Mediator between Compensation Empowerment and Organizational Performance**

Theoretically, social exchange theory postulates that employee and organizational relationships are reciprocal in nature (Blau, 1964). This implies that if organization provides employees with practices that are supportive by recognizing their view in the decision making while linking their performance to appropriate compensation they will reciprocate with commitment to the organization. Specifically, employee development by organization lead to reciprocation through higher level of commitment to the organization (Jaiswal et al., 2015). Specifically, the point when employees view their relationship with an organization as a social exchange, they are more prone to be fulfilled with their job, focused on their organization, have a feeling of individual achievement in their work, and help other employees accomplish their task (Venkataramani et al., 2010). Social exchange as considered is constrained to activities that are dependent upon rewarding reactions from others. It is a two ways mutually rewarding and mutually contingent procedure involving social exchange (Blau, 1964). Social exchange theory has recently been recognized as one of the most relevant conceptual models for explaining workplace conduct. This notion of reciprocity in exchange relationships forms the focus of recent research attention with very limited studies linking the effect of social exchange relationship of empowerment and compensation on organizational performance through the reciprocal social exchange of organizational commitment; thus, this study will contribute to literature by filling this gap.

H<sub>4</sub>: Organizational commitment mediate the effect of empowerment on organizational performance.

H<sub>5</sub>: Organizational commitment mediate the effect of compensation on organizational performance.

## **3. MATERIALS AND METHODS**

Context, design, data collection and procedure: This study was conducted in the banking sector Nigeria, and the respondents are the middle level managers randomly selected 10 commercial banks. Additionally, the study employed quantitative research design which involves hypothesis testing of the causal effect of the exogenous latent constructs on endogenous latent constructs (Sekaran and Bougie, 2013). The middle level managers selected in this study comprise the branch level managers controlling the branch operations of the commercial banks and they report the branch level performance to the top management. Particularly the top management sums the branch level performance and aggregates it to the organizational to determine the overall performance of the banks. The study employed a cross sectional survey which is considered appropriate in collecting sampled responses for the purpose of generalization (Creswell, 2003). Furthermore 258 valid responses were collected from the total sample size of 5,058 branch managers. This was facilitated through the personal delivery of the questionnaire (self-administered) to ensure timely responses and assist the respondent on any item which may require further clarification. Moreover, SMART-partial least squares (PLS) structural equation modeling (SEM) was used to analyze the retrieved data (Hair et al., 2014).

Constructs and measurement instruments: Organizational performance is an important goal for every business organization, and it is especially crucial in recognizing how management shapes performance (Meier and O'toole, 2013). Many studies employed different performance assessments and operationalization based on diverse areas. Thus, this study considers organizational performance as a division of organizational effectiveness (Venkatraman and Ramanujam, 1986) which encompasses organizational financial performance and other performance concepts such as; customer, internal process and learning and growth perspectives (Kaplan and Norton, 1992). These are relevant for practice and research because it constitutes the final objective of economic activities (Hamann et al., 2013). Besides, the study adapt balanced score card on a 7 points scale (Kaplan and Norton, 1992).

Empowerment in this study is operationalized as an autonomy provided by the organization to its employees which enable them air their views and participate in organizational decisions. This enable them perform the assigned task with reasonable influence, self-determination, discretion and control. Empowerment is so critical because it enable employees decide on the best method to perform the required task. Hence this study measure empowerment construct was measured using (Spreitzer, 1995).

Compensation has been used to connote non-financial and financial reward that accrue to employee in return for effort and talent expended in the production of goods and services for the organization (Fajana, 2002). In view of the above, this study

operationalize compensation as the organizations ability to align both financial and non-financial employee reward with level of employee contribution to production or service delivery which will commensurate with the prevailing rate the industry offer for similar task. Compensation was measured with instrument adapted from Tremblay et al. (1998).

Organizational commitment was operationalize as the collective employee willingness to exert considerable efforts, commitment to goals, being passionate, through internalizing organizations values, willingness to take any responsibility as well as selflessly performing all the necessary activities required to move the organization achieve its corporate goals by demonstrating feeling of loyalty and a desire to invest mental and physical energy in helping the organization achieve its goals (Gardner et al., 2011). This study, organizational commitment was assessed by means of a measure adopted from Mowday et al. (1982) and Hung, et al. (2005).

#### 4. RESULTS

Measurement model: The study utilized PLS-SEM path modeling to analyze the data pertinent to the investigation and due to the nature of the constructs involving the collection of reflective and formative construct in the same model (Hair et al., 2014). As a requirement reliability analysis was performed on the constructs in order to assess their measurability and suitability to measure the constructs in the study. Moreover, the results of reliability test are demonstrated in Tables 1 and 2, Appendix Tables B1 and B2 respectively. Specifically based on the measurement results demonstrated in Table 1 it is indicated that the loadings are within the acceptable minimum threshold of 0.708 (Hair et al., 2014).

The next column shows the average variance extracted (AVE) which is also within the acceptable limit of above 0.50 as shown in the Table 1. Precisely, the AVE in the study ranges between

**Table 1: Measurement of AVE and CR (n=258)**

Construct	Item	Loading	AVE	CR
Compensation	COMP1	0.973	0.649	0.879
	COMP2	0.728		
	COMP4	0.826		
	COMP5	0.661		
	COMP6	0.691		
Empowerment	EMP7	0.797	0.558	0.790
	EMP8	0.749		
	EMP9	0.749		
Organizational commitment	OC3	0.431	0.550	0.852
	OC5	0.943		
	OC7	0.826		
	OC8	0.668		
	OC9	0.738		

All the items that could has loadings<0.40 were removed in order to increase the CR and AVE. AVE: Average variance extracted, CR: Composite reliability

**Table 2: Measurement of discriminant validity (n=258)**

Construct	1	2	3
Compensation	<b>0.806</b>		
Empowerment	-0.116	<b>0.747</b>	
Organizational commitment	0.558	0.097	<b>0.923</b>

The figures in bold represent the squared root of AVE of each construct. AVE: Average variance extracted

the numbers 0.550 and 0.649, these signifies that they are all above the minimum threshold and demonstrates that the items for each construct collectively explains more than 50% variance of the target constructs (Bagozzi and Yi, 1988; Hair et al., 2014). Additionally, in Table 1 is the composite reliability which is also above the threshold of 0.70, as shown in the Table 1 the values ranges from 0.790 to 0.879.

Finally, Table 2 which is the discriminant validity table demonstrates that square root of AVE for each of the constructs is higher than its correlation with all other construct in the model. This demonstrates that each of the constructs is distinct from all the other constructs in the model (Fornell and Larcker, 1981). Specifically Appendix A1 presents PLS-SEM algorithm output for the constructs as summarized in Tables 1 and 2.

Structural model: The results of the structural model in this paper are presented in Table 3. Specifically the Table 3 demonstrates direct hypothesized effect of the exogenous constructs on endogenous latent constructs. Moreover, the analysis of the constructs in this study was performed based on the theoretical model as depicted in Figure 1. Hence, results of the analysis revealed that hypothesized direct effect of empowerment on organizational performance was also supported based on the results obtained from the structural path analysis where ( $\beta = 0.260, P \leq 0.01, t = 3.925$ ). Furthermore, the results of the structural model analysis revealed that the hypothesized direct effect of compensation on organizational performance has been statistically supported. This is demonstrated in the results of the analysis where ( $\beta = 0.086, P < 0.01, t = 12.879$ ). Finally, the hypothesized direct effect of organizational commitment on organizational performance was also supported where ( $\beta = 0.152, P < 0.05, t = 1.688$ ) indicating that organizational commitment has significant positive effect on organizational performance. In essence all the hypothesized direct effects has been fully supported where empowerment, compensation and organizational commitment were both reported to have a significant positive effect on organizational performance. Specifically Appendix A2 demonstrates the PLS-SEM bootstrapping results for the direct relationship as summarized in Table 3.

On the other hand, the PLS-SEM structural model was used to measure the indirect effect of exogenous constructs on the endogenous latent construct. Precisely, the mediation effect of the paths were assessed in order to ascertain whether organizational commitment can facilitate the mediation role on the effect of empowerment and compensation on organizational performance as shown in the theoretical model in Figure 1. However, in order to determine this effect the mediation test was conducted and the results are presented in the Table 4. Appendix A3 shows the PLS-SEM bootstrapping results for mediation analysis as hypothesized by the study.

The Table 4 demonstrates that results of PLS-SEM path modeling have provided support for all the hypothesized indirect effects. Specifically, the mediating role of organizational commitment on the effect of empowerment and organizational performance stated in hypothesis H<sub>4</sub> was supported accounting for (38.7%) variance. According to this result organizational commitment

Figure 1: Theoretical framework

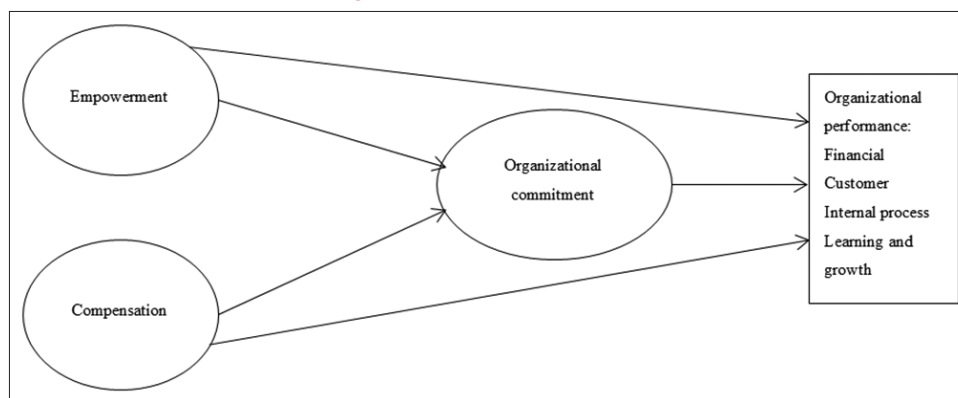


Table 3: Hypothesis testing (direct effect) model (n=258)

Hypothesis	Effect	Beta	SE	t-value
H <sub>1</sub>	Empowerment→OC→Organizational performance	0.260	0.066	3.925
H <sub>2</sub>	Compensation→OC→Organizational performance	0.086	0.097	12.879
H <sub>3</sub>	Organizational commitment→Organizational performance	0.152	0.090	1.688

The figures presented are beta, standard error and t-values for direct effect. SE: Standard error

Table 4: Hypothesis testing (mediation effect) model (n=258)

Hypothesis	Effect	Path a	Path b	TE	VAF	Decision
H <sub>4</sub>	Empowerment→Organizational performance	0.164	0.260	0.424	0.387	Supported
H <sub>5</sub>	Compensation→Organizational performance	0.577	0.086	0.663	0.870	Supported

TE: Total effect, VAF: Variance accounted for

is a significant mediator of the effect of empowerment on organizational performance. Similarly, the hypothesized mediating role of organizational commitment on the effect of compensation on organizational performance was supported by the result of the analysis. More precisely, the hypothesis H<sub>5</sub> was supported signifying that organizational commitment mediates the effect of compensation on organizational performance. The results accounted for (87%) variance based on the indirect path analysis.

Furthermore, the predictive power of the model which was evaluated in terms of the R<sup>2</sup> value between empowerment and organizational commitment and compensation and organizational commitment has the R<sup>2</sup> = 0.338. On the other hand, the R<sup>2</sup> value for the entire model is 0.115 which implies that overall empowerment, compensation and organizational performance explained 11.5% of variation on organizational performance. Thus the R<sup>2</sup> value for the model is small based on Cohen (1988). However, the small explanatory power of the model indicates that there are many constructs explaining organizational performance that were not included in this model. Therefore, both direct and indirect analysis performed in this study using empowerment, compensation and organizational commitment has explained 11.5% variance in organizational performance.

## 5. DISCUSSION

This study examines the direct effect of empowerment, compensation and organizational commitment on organizational performance as well as the mediating role of organizational commitment on the effect of empowerment and compensation on organizational performance. The propositions of the study were

grounded in the theory of social exchange (Blau, 1964) which provided the basis for testing the reciprocity in social exchange relationships in the study (Emerson, 1967). Specifically, in this study social exchange relationship was examined based on the investigation of the effect of reciprocity in exchange relationships between organizations effort to put in place practices that enable middle level managers to initiate, participate and contribute to organizations strategic decision chain through empowerment practice. The organizations provision for adequate compensation which reflect middle level manager’s effort toward task execution and how the effect of these practices influence overall organizational performance. Furthermore, the social exchange reciprocity was also assessed in terms of the middle level manager’s commitment emanating from the effectiveness of the empowerment and compensation practices.

Moreover, based on the foregoing the study data was collected, analyzed and it was established that all the propositions in the study were supported. Precisely, the test of the direct effect of empowerment on organizational performance was confirmed implying that highly empowered middle level managers are capable of making significant contribution to the organizational level performance outcomes. Additionally, the significant direct effect of compensation on organizational performance in this study indicates that providing managers with adequate compensation that reflects their contribution towards task execution will have direct positive effect on organizational performance. Finally, the mediating role of organizational commitment on the effect of empowerment and compensation on organizational performance was also confirmed. This implies that in situations where

organizations empower managers to contribute their unique ideas on organizations strategic decisions they will feel that their effort expended on coordinating activities and resources has been recognized by the organization which will stimulates their commitment to the organization and eventually lead to overall performance. In the same vein, as organization compensation strategy reflects manager's effort towards task execution the more committed they become and eventually organizational performance improves. This result on the effect of compensation on organizational performance corroborates previous literature (Brown et al., 2003). In essence, the most important finding of this study is that, it establishes a link between empowerment practice, compensation practice, organizational commitment and organizational performance which provides additional support for theory of social exchanges reciprocity in exchange relationships (Blau, 1964; Emerson, 1967).

## 6. CONCLUSION

This study concludes that organizations empowerment and compensation are significant tools in eliciting manager's commitment to the goals of the organizations which eventually have a positive effect on overall organizational performance. Despite previous literature linking empowerment and performance as well as compensation this study makes a unique contribution by establishing a mechanism through which the effect of empowerment and compensation on organizational performance is successfully transmitted. Additionally, the study reaffirms the social interrelationships that exist in organizations where organization provides empowerment and compensation and managers reciprocate with organizational commitment leading to improvement in overall organizational performance. Therefore organizations need to effectively implement practices that are capable of stimulating their managers toward a desired behavior that can positively impact on organizational performance.

## 7. LIMITATIONS AND FUTURE DIRECTIONS

Despite noteworthy contributions of this study to knowledge, like other studies it has some limitations that need to be addressed. First the study consider only empowerment and compensation practices, including more practices such as effective training, extensive recruitment and selection procedure and performance appraisal can elicit increased organizational commitment and provide more predictive power on organizational performance. Finally, the cross sectional nature of the study makes it difficult to infer causality on the model, hence future studies may benefit from repeating similar study longitudinally in order to establish causality.

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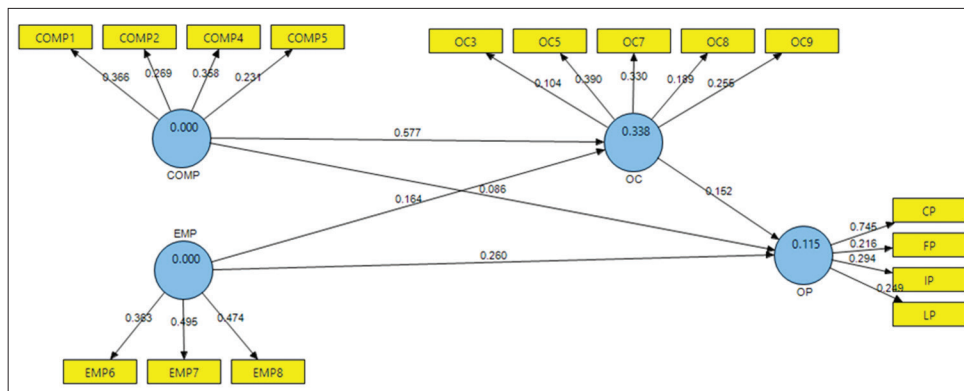
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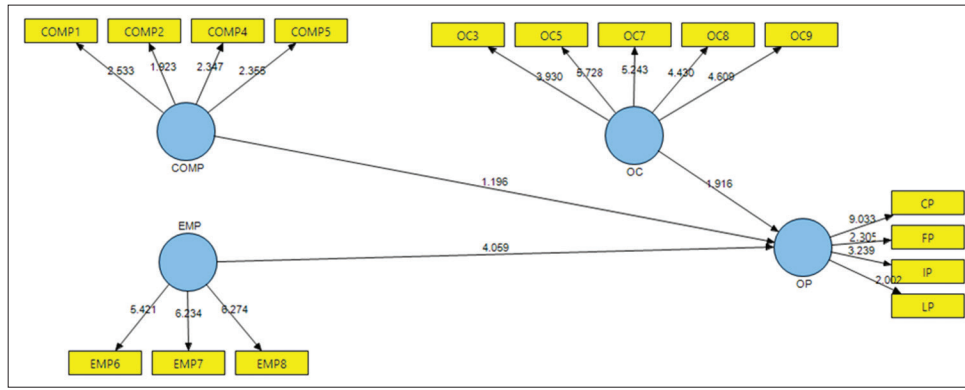
## APPENDIX

### Appendix A (Figures)

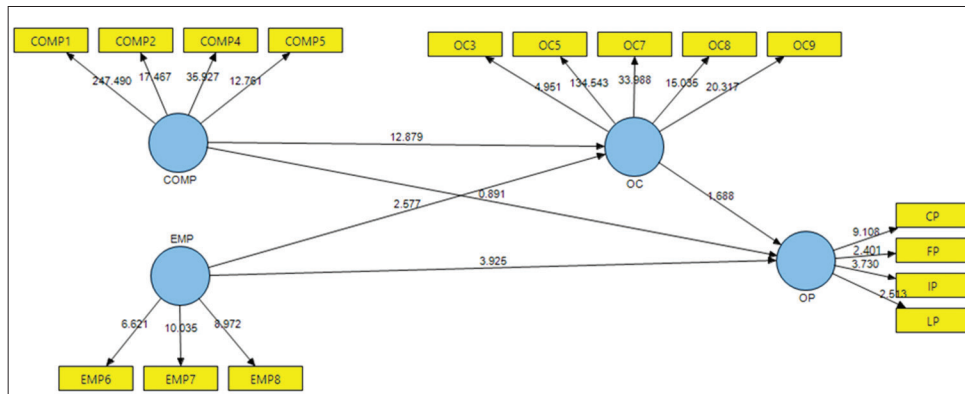
Figure A1: PLS algorithm



**Figure A2: Bootstrapping direct relationships**



**Figure A3: Bootstrapping mediation relationships**



**Appendix B (Tables)**

**Table B1: Cross loadings**

Item	COMP	EMP	OC
COMP1	0.973	-0.130	0.526
COMP2	0.728	-0.196	0.409
COMP4	0.826	-0.016	0.495
COMP5	0.661	-0.042	0.339
EMP6	-0.003	0.691	0.044
EMP7	-0.146	0.797	0.086
EMP8	-0.090	0.749	0.082
OC3	0.040	0.261	0.431
OC5	0.561	0.157	0.943
OC7	0.522	0.038	0.826
OC8	0.322	-0.067	0.668
OC9	0.397	0.037	0.738

The figures in bold represent the cross loadings for each of the constructs corresponding to the them

**Table B2: Coefficients<sup>a</sup>**

Model	Unstandardized coefficients		Standardized coefficients	t	Significant	Collinearity statistics	
	B	Standard error	Beta			Tolerance	VIF
1							
Constant	4.137	0.297		13.936	0.000		
EMP	0.077	0.047	0.104	1.650	0.100	0.831	1.204
COMP	0.046	0.035	0.090	1.315	0.190	0.710	1.408
OC	0.207	0.051	0.293	4.032	0.000	0.624	1.601

<sup>a</sup>Dependent variable: OP. VIF: Variance inflation factor