

## **\*Empowerment of Employees As A Strategy For Improving Organizational Performance – A Comparative Study Between State Sector And Private Sector Banking Institutions In Sri Lanka**

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### *Abstract*

*This paper argues that employee empowerment promotes organizational performance. On the basis of a positive relationship between employee empowerment and financial performance of service firms identified by the existing literature, a research question was probed in this study to find out whether the high income growth rate of private sector commercial banks is due to a high degree of employee empowerment in those banks. This study attempted to answer this question by measuring the degree of empowerment in the state and private sector commercial banks in the country. Degree of empowerment was measured in terms of four factors: Power to make decisions that influence organizational performance, Information sharing on key aspects of organizational performance, Knowledge that enables employees to contribute to organizational performance, and Rewards based on organizational performance. The study, which was based on a questionnaire survey covering a sample of hundred front line employees in four banking institutions, concluded that the private sector bank employees are highly empowered than state sector bank employees. Thus it was suggested, when other factors remain constant, the high income growth rate of private sector banks has been contributed to some extent by the high degree of employee empowerment. The empowered state of mind of private sector bank employees would help to delight customers by exceeding their expectations. Increased customer satisfaction, customer retention, and expansion of market share might have resulted in the increased financial performance. The implication of the study for managers and executives is that they need to introduce planned change in their organizations with the aim of disseminating power, information, knowledge, and rewards among subordinates; the process often referred to as empowerment of employees.*

**Key Words:** Empowerment, Power, Information, Knowledge, Reward, Organizational Performance.

### **Introduction**

In present day context, it has been recognized that the human resource is one of the most single valuable asset that an organization could use to gain competitive advantage. Managing human resource has become a strategy of motivating employees at all levels in an organization so that control comes from within the employee. Of course, today's employee wants to use his 'head' in his work, and to enjoy work, which provides some

intellectual stimulation. Therefore, the response of management should be to tap employees' creativity and innovation so that they could realize their full potential and contribute positively to higher organizational performance. Employee empowerment plays a vital role in this process of motivating employees.

Particularly employee empowerment plays a vital role in service industry where

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a high degree of human contact is required in the service delivery process. It also directly affects service quality and customer satisfaction. As the degree of customer contact is high, customers often get a chance of directly evaluating the quality of services that are being provided. The existence of a close service provider – customer relationship makes employee interpersonal skills important in order to make that service more tangible to customers. In a study, it was found that the majority of customers often emphasize not only the initial correct service, but also quick recovery from failures (Carman, 1996). Competitive advantage in the service industry comes from developing capabilities and competencies in employees through empowerment that ultimately provide superior value to the customer while increasing organizational performance mainly in terms profitability.

This paper aims to study the level of employee empowerment in state sector and private sector local commercial banks in the country. It attempts to measure the degree of empowerment from employees' point of view by way of analyzing their empowered state of mind, which refers the feeling of being adequately equipped with necessary resources on the job. This is done in order to determine the extent to which employees are empowered in these two different banking sectors. Because, it should be noted that the performance of private sector banks is generally well above the state sector banks in Sri Lanka. The average income growth rate of private sector banks is said to be often higher than that of state sector banks. Very often the services offered by these banks are not very different. Therefore, the difference should be in some other factors, which depend on the people who are employed. When other factors remain

constant, it is assumed that the differences in employee empowerment practices could have major impacts on income growth rate. This assumption is supported by the findings of a positive relationship between employee empowerment and financial performance of a firm (Bowen and Lawler, 1995). However, this needs an empirical testing among the employees of state and private sector commercial banks operating in Sri Lanka.

### **The Meaning and Nature of Empowerment**

Empowerment derives its original meaning from delegation, which is a conventional management practice for transferring formal authority from one position to another within an organization. If managing is about 'achieving results through people', then all managers should delegate. It is therefore clear that delegation lies at the heart of the managerial task.

The conventional process of delegation is mainly confined to the notion of sharing authority. That is, the emphasis was primarily on sharing authority and not on sharing power and resources. But, empowerment emphasizes enabling subordinates with power and resources (Thomas and Velthouse, 1990). It is more meaningful than delegation, and yields fruitful results in improving organizational performance. Despite its growing popularity, many managers are still uncertain about the impact of empowerment. In many cases, managers have assumed that empowerment is the same as delegating or sharing authority with subordinates (Luthans, 1995). Of course the difficulty lies in the understanding in the first place and then practicing of empowerment.

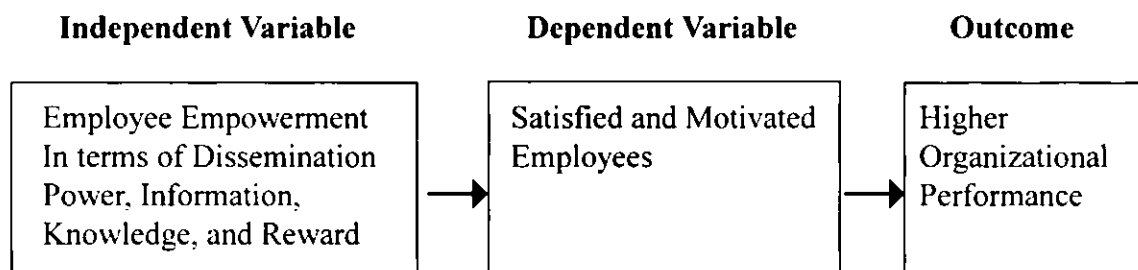
Empowering people typically means giving them the freedom and resources to do things their way, often in association with an attempt to establish a climate in which creativity and innovation can flourish. Empowered employees have a sense of meaning, competence and personal control over their work environment (Conger and Kanungo, 1998). Studies reveal that there is a positive relationship between employee empowerment and a firm's financial performance (Bowen and Lawler, 1995).

Involving employees with sufficient powers and resources in operational matters should not be confused with employee participation in management. In the management literature the ideas of delegation and participation are central to the empowerment notion. As a result, the author finds that most of the management literature on empowerment deals with participative management techniques as the means of sharing power or delegating authority. This manner of treating the notion of empowerment from the management practice perspective is so common that often employee participation is simply equated with empowerment. However, this line of reasoning does not adequately address the nature of

empowerment as experienced by subordinates working in front lines with customers. Therefore, it must be made very clear that empowering employees is different from employee participation, which only means that the employees participate in improving matters usually within their job boundaries and control. The aim is to improve their quality of work life. But, empowered employees would add value to every additional step they perform. They would take overall ownership of the process.

### **Research Framework**

The conceptual framework was mainly built up by deriving inputs from the research findings of Bowen and Lawler in 1995. According to their empowerment model, employee empowerment has been defined as 'sharing with front line employees the following four organizational ingredients; Power to make decisions that influence organizational direction and performance, Information about the organization's performance, Knowledge that enables employees to contribute to organizational performance, and Rewards based on organizational performance'. On the basis of this definition, a conceptual model as depicted in figure below was constructed.



### Definition and Operationalization of Variables

- Power – It refers to the decision-making authority that influence work procedures and organizational performance, given to employees in performing their duties. This is measured by operationalizing the variable power in terms of the following five items: Operation of quality control circles, Autonomy in enriching job, Operation of self-managed teams, Freedom to act spontaneously in meeting customer expectations, and Freedom of choice among different ways of doing a job.
- Information – It refers to the dissemination of key information among employees about the organizational performance and activities. This is measured in terms of the following five items: Information on operating results, Information on competitors' performance, Information on customer feedback, Information on business goals, and Information on bank's service delivery process.
- Knowledge – It refers to the opportunities given to employees for acquiring and utilizing skills that enable them to understand and contribute to organizational performance. The following five items were considered under this category: Skills in problem solving, Skills in business results analysis, Skills in teamwork, Skills in business operations, and Use of variety of skills.
- Rewards – It refers to the opportunities given to employees for tying up their financial rewards to the organizational performance. This is measured by operationalizing the

variable reward in terms of the following five items: Profit sharing, Stock ownership, Individual bonus plans, Group bonus plans, and Adequacy of rewards for contributing to organizational performance.

### Study Hypotheses

The focus of this research study is to find out precisely the manner in which employees reveal their agreement and satisfaction for the empowerment practices of relevant banking institutions that disseminate Power, Information, Knowledge, and Reward. The following four hypotheses were formulated to investigate the problem under consideration:

Hypothesis 1: Private sector bank employees are empowered with more power than state sector bank employees in making decisions.

Hypothesis 2: Private sector bank employees are given more opportunities than state sector bank employees for acquiring and utilizing knowledge.

Hypothesis 3: Private sector bank employees are provided with more information than state sector bank employees.

Hypothesis 4: Private sector bank employees are provided with more rewards than state sector bank employees.

### Sample Design and Method of Data Collection

The study has been based on a questionnaire survey carried out on a sample of 100 front line employees working in the state as well as private local commercial banks. It was intended to select 50 employees from each sector. Firstly, two state banks were selected

without applying any sampling method because there were only two state commercial banks in the country. Two private banks were randomly selected from the list of local commercial banks as appeared in the central bank report. After that, twenty five employees were randomly drawn from each selected bank, thus giving a total of 100 employees. It should also be noted that the study did not pay attention on geographic branch-wise selection of employees because empowerment practices have nothing to do with geographic dispersion of branches. Rather, these practices are designed by the top level management and kept same for all branches.

The method of personally supervised structured questionnaire was used to collect necessary data. The questionnaire consisted of twenty statements, which were scaled as ‘Strongly Agree’ (5), ‘Agree’ (4), ‘Not Decided’ (3), ‘Disagree’ (2), and ‘Strongly Disagree’ (1). Questionnaire statements were carefully designed to measure the four variables and associated items under investigation. The questionnaire was pre tested by

administering it to ten individuals prior to the study. A test for internal consistency was carried out by using correlation method and it was found a significant positive correlation between the score for each individual item in the questionnaire and the total score.

**Techniques of Data Analysis**

The method employed for the analysis of data and testing of study hypotheses was the statistical techniques of mean values, standard deviations, and significance testing. These were intended to facilitate the derivation of conclusions and formulation of generalizations.

**Mean values and Standard deviations of the variables under study**

Table – 1 shows the mean values and standard deviations of variables in respect of state sector banks. One could observe that almost all variables are approximately having a mean value close to 3 on the measurement scale. However, the factor Knowledge earned the highest mean value of 3.64, whilst the factor Reward earned the lowest mean value of 2.44.

**Table 1: Mean values and Standard deviations of the Variables Measuring Employee Empowerment in the State Sector Banks**

<b>Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>
Power	2.72	0.626
Information	3.00	0.828
Knowledge	3.64	1.038
Reward	2.44	0.636

Source: Survey Data

The data presented in Table – 2 shows the mean values and standard deviations of variables in respect of private sector banks. According to the table, the highest mean value of 4.48 was earned by the factor Knowledge whereas the factor Reward earned the lowest mean value of 3.6 on the measurement scale 1 to 5.

**Table 2: Mean values and Standard deviations of the Variables Measuring Employee Empowerment in the Private Sector Banks**

<b>Variables</b>	<b>Mean</b>	<b>Standard Deviation</b>
Power	3.88	0.514
Information	4.12	0.448
Knowledge	4.48	0.410
Reward	3.60	0.808

Source: Survey Data

**Analysis of Data for Hypothesis – 1**

The degree of empowerment has been determined by the values allocated by the respondents in terms of four factors of employee empowerment. A statistical technique of significance testing was employed to prove the hypotheses under investigation. It could be seen that the mean score of the variable Power for state sector banks was 2.72, and for the private sector banks it was 3.88. Obviously, the score of private sector banks is higher than that of state sector banks. The obtained difference between the two means is 1.16. Is this difference of 1.16 between means large enough to be taken as real and dependable? The significance of the obtained difference has to be therefore tested to determine whether a difference probably exists between these two means. Significance testing was done at 5% significance level at which the standard

Z value is given as 1.96. If the calculated Z value is outside the range of plus 1.96 to minus 1.96, then the hypothesis will be accepted. On the other hand, if the calculated value is within the range, the hypothesis will be rejected.

The results of significance testing for the Hypothesis – 1 are reported in Table – 3. According to the table, the calculated Z value is much greater than the value at 5% significance level. The results indicate a significant difference between the means of the variable Power in state sector banks and private sector banks. Therefore, the hypothesis could be accepted, and hence private sector banks employees are empowered with more power than state sector bank employees in making decisions while performing their duties.

**Table 3: Results of Significance Testing Based on the Mean and Standard Deviation Values of the Variable Power**

<b>Statistics</b>	<b>State Sector Banks</b>	<b>Private Sector Banks</b>
Sample	50	50
Mean	2.72	3.88
Standard Deviation	0.626	0.514

Obtained Difference 1.16  
 Standard Error of the Difference 0.114  
 Z value at 5% significance level 1.96  
 Calculated Z value 10.17

**Analysis of Data for Hypothesis – 2**

Results of significance testing for the Hypothesis – 2 are shown in Table – 4. As shown in the table, the calculated Z value is greater than the value at 5% significance level. This indicates that a significant difference exists between the means of the variable Information in respect of two different sector banks. The obtained difference can therefore large enough to be taken as real and dependable. The results lead to accept the hypothesis, hence the private sector bank employees are provided with more information than the state sector bank employees, regarding the organizational performance and activities.

**Analysis of Data for Hypothesis – 3**

According to the results reported in Table – 5, the calculated Z value is again greater than the value at 5% significance level. The results lead to a conclusion that a significant difference exists between the mean values of the variable Knowledge in state sector and private sector banks. The hypothesis is therefore accepted, hence private sector bank employees are given more opportunities than state sector bank employees, for acquiring and utilizing Knowledge to understand and contribute to organizational performance.

**Table 4: Results of Significance Testing Based on the Mean and Standard Deviation Values of the Variable Information**

Statistics	State Sector Banks	Private Sector Banks
Sample	50	50
Mean	3.00	4.12
Standard Deviation	0.828	0.448
Obtained Difference 1.12		

Standard Error of the Difference 0.133

Z value at 5% significance level 1.96

Calculated Z value 8.42

**Table 5: Results of Significance Testing Based on the Mean and Standard Deviation Values of the Variable Knowledge**

Statistics	State Sector Banks	Private Sector Banks
Sample	50	50
Mean	3.64	4.48
Standard Deviation	1.038	0.41

Obtained Difference 0.84

Standard Error of the Difference 0.158

Z value at 5% significance level 1.96

Calculated Z value 5.32

**Analysis of Data for Hypothesis – 4**

Table – 6 presents the results of significance testing for the Hypothesis – 4. According to the results, the calculated Z value is again greater than the value at 5% significance level. This indicates a significant difference between the means of the variable Reward in two different sector banks. The obtained difference can therefore large enough to be taken as real and dependable. The results lead to accept the hypothesis, hence the private sector bank employees are provided with more Reward than state sector bank employees.

**Discussion of Findings and Conclusions**

The present study investigated the degree of empowerment in the state sector and the private sector local commercial banks operating in the country. Findings suggest that the front line employees of private sector commercial banks are highly empowered than the employees of state sector commercial banks. Findings reveal the fact that employees of private sector banks are given more power, provided with more information, given more opportunities for acquiring and utilizing knowledge, and provided with more rewards. Because, the obtained difference

**Table 6: Results of Significance Testing Based on the Mean and Standard Deviation Values of the Variable Reward**

<b>Statistics</b>	<b>State Sector Banks</b>	<b>Private Sector Banks</b>
Sample	50	50
Mean	2.44	3.6
Standard Deviation	0.636	0.808

Obtained Difference 1.16  
 Standard Error of the Difference 0.145  
 Z value at 5% significance level 1.96  
 Calculated Z value 7.97

between mean ratings of the factors can large enough to be taken as real and dependable in all cases.

The findings of the study suggest some important implications. Firstly, sampled employees of private sector banks have a strong tendency to agree with most of the statements which were used to measure the degree of empowerment through four variables: Power, Information, Knowledge and Reward. The high ratings given to these variables by sampled employees lend support for the study hypotheses. As indicated by the data, a relatively very high rating (mean value)

has been given to the Knowledge factor by private sector bank employees. This seems to suggest that those banks provide with employees sufficient opportunities to acquire and utilize various skills in their jobs. Similarly, other variables also had been given high ratings, thus suggesting that sampled employees were in high agreement with the statements used to measure degree of empowerment in private sector banking institutions.

As far as the state sector bank employees are concerned, there is hardly any significant variation in the mean ratings of the factors measuring degree of



empowerment. A relatively high degree of agreement has been attached to the Knowledge factor. This implies that state sector bank employees also enjoy with opportunities for acquiring and utilizing various job related and other skills, but not to the extent of the private sector bank employees. The factors Power and Reward particularly had been given low values, which fall in the area of disagreement in measurement scale. It could therefore be argued that the efforts of state sector banks on empowering employees in terms of Power and Reward seem to be weak. Sampled employees share this view to a considerable extent. Attention of top level management in the banks belonged to state sector is hereby attracted by this finding.

It is interesting to note that all the employees in both sectors have attached a relatively high degree of agreement to the Knowledge factor and low degree of agreement to the Reward factor. Employees seem to share the view that their banks provide adequate opportunities for acquiring and utilizing knowledge and skills in the service delivery process, but provide little rewards for their performance. This finding sheds additional insight into the concerns and aspirations of today's employees. Individual efforts and group efforts together contribute considerably to higher organizational performance.

The overall finding of the study is in line with the relationship expressed in the conceptual research framework. The assumption underlying the framework is that employee empowerment leads to higher organizational performance in terms of profitability. It was found that the average income growth rate of private sector banks is higher than that of the state

sector banks. Empirical results of this study now confirm that degree of empowerment is also high in private sector banks. Keeping other factors constant, one could reasonably conclude that the high income growth rate of private sector commercial banks has been contributed to certain extent by the high degree of employee empowerment in those banks. Employee empowerment practices that disseminate Power, Information, Knowledge, and Reward throughout the hierarchy produces satisfied and motivated employees, who could delight customers by exceeding their expectations. Customer retention through customer satisfaction is therefore possible in the banks, and hence profitability increased.

In light of the findings of the study, the author is of the view that employee empowerment is an important tool of management for achieving higher financial performance in banking institutions. The state sector banks, according to findings, have to redesign their management practices in such a way as to invest sufficiently in human resources in order to support service offerings based on customization and integrated service delivery process. Private sector banks have to strengthen further their empowerment practices as a source of sustainable competitive advantage.

In Sri Lanka, regulatory and market changes have led to increased competition among suppliers of financial service products. Advances in information and communication technology have enabled other non-banking firms to enter the retail banking market without branch office network. There has been a shift in consumer demand patterns, and customers

are using retail banking products more intensively. Knowing customers personally and being familiar with their individual needs has become a popular way of meeting these challenges. Empowerment plays a vital role in this regard. It facilitates customizing service offerings and makes it more difficult for customers to leave the bank.

Finally, any program of change targeted towards empowering individuals has to inevitably deal with the four ingredients of empowerment: Power, Information, Knowledge, and Reward. An individual then develops a sense of belonging and feel responsible for the organization's effectiveness.

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