A Quantitative Research to Investigate the Relationship of Factors Affecting Employee Empowerment on Organization Performance

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Received: March 23, 2021.
Accepted: July 3, 2021.
Published: September 1, 2021.

Abstract
This explanatory research aims to study an association between the factors affecting the performance of banks working in Pakistan. The current study was conducted using a cross-sectional research design, data for this study was collected from 5 private banks of Lahore, Pakistan. A total sample of three hundred bankers was recruited by using a random sampling technique and their ages ranged between 25-45 years. For the analysis of the hypothesis, diverse statistical instruments like PROCESS analysis for mediation and Pearson Product Moment correlation are applied. The results of the study show that employee loyalty, as well as service quality, mediates an association between employee empowerment and financial performance. Numerous other variables influence the financial performance of banks which are not included in this study. The proposed model guides the management in analyzing the service sector's performance.

Key words
Employee empowerment (EE); financial performance (FP); service quality (SQ); employee loyalty (EL).

How to cite this article
Mazahir, S. Z., Rehman, Z. (2021). A Quantitative Research to Investigate the Relationship of Factors Affecting Employee Empowerment on Organization Performance. Harvard Deusto Business Research, X(2), 305-316. https://doi.org/10.48132/hdbr.322.
1. Introduction

The financial performance of the organization is described through its capacity to attain its targets (Stainer, 2006). Principle to measure the financial performance of the organization must be cohesive and reliant to deliver a complete viewpoint like the organization's goal, business plan, and explicit purposes, along with organization performance (Tomic et al, 2018). Performance management is the theory that helps the organization in managing its complicated parts and those organization which uses this management theory to measure their system, strategies and processes can attain the competitive advantage (Spitzer, 2007).

This descriptive study directs an addition towards a concept, which was previously explained by several authors that employee empowerment positively influences employee loyalty and employee loyalty directly affects the financial performance of service sector organizations (Machado and Cavacoa, 2014; Tvaronaviciene and Balkyte, 2010). The relevance of the topic for the banking industry is significant because the banking industry has become quite competitive in the current environment. To cut their costs banks are taking serious measures to improve their performance. In the current business environment, human resources are the most valuable asset for the service sector organizations to gain a competitive advantage over other organizations. To test the variables that impact the performance of the banking industry, we studied the associations among financial performance, employee empowerment, service quality, and employee loyalty. Yao, Tan, and Shen, (2011) claimed that analysis of these associations is of specific significance to increase sustainable competitiveness also for the performance of the organization; hence, associations are established to enhance performance.

2. Theoretical Framework

Due to globalization, competition has intensely increased in the business world. In this very competitive, unstable, and complicated environment, companies need to innovate different ways for continuing their operations and remain competitive. The needs of the Customer are changing rapidly and getting a larger share of market companies needs to be responsive enough to keep up with the demand of its customers. To gain competitive advantage service organizations need to improve their performance. For this purpose, organizations use different tactics for example they empower their employees so that they turn out to be loyal towards the organization and if the workers are loyal they provide services with improved quality that eventually improves the performance of the organization.

Efficiency is an important feature of employees that are directly linked with organizational performance. The question now occurs that “what are the different methods through which we can increase the efficiency of employees?”. According to the current business perspective if empowerment is given to the employees it will not only increase the efficiency of the employees, but it will also affect the organization in different ways like the competitiveness, uniqueness, and success of the organization increase. Empowerment of employees is founded on the notion that if we give the liberty to our employees to make the decision then they will feel more content and
expert and perform their tasks more efficiently and accurately. Due to these working procedures, the efficiency of the employees also enhances.

2.1. Employee Empowerment

Employee empowerment is simply described by Randolph (1995) as a method of transferring power from the employer of the organization to the employees of the organization. This change in the powers will affect the organization in different ways. Grönroos (2001) stated that there is a guarantee of providing a more quick and direct reply to the customer's requirements by the organization if their employees are empowered due to which the satisfaction of the customers also increased. Employee empowerment is explained in different ways by many researchers. According to Ghosh (2013) empowerment of employees is drive through four different perceptions i.e (organizational, psychological, social, and growth). Likewise, Crouse & Becker (1998) explain three perceptions of employee empowerment include training and development, organizational and individual. It is stated by Zeglat et al. (2014) and Kohn & Lee (2001), that the most common types of empowerment of employees are relational and psychological empowerment. According to Jaffe & Scott (1992) viewpoint of individuals regarding empowerment includes commitment, authority, motivation, and locus of control. Another researcher claimed the empowerment of employees is consists of four different components such as power, rewards, knowledge, and information.

Power is related to complete the things it includes giving autonomy, the authority to the employees (Kanter 1993). Yasothai et al. (2015) explain reward as the monetary and non-monetary benefits given to employees to motivate them. While he explains the sharing of knowledge as a method through which employees share information and ideas related to the work of the organization. Vacharakiat (2008) comprehend information is the process through which employees can get information related to the objective and different strategies of the organization.

2.2. Employee Loyalty

The loyalty of employees is a specific behavior of employees through which certain performances are formed. Over time there is a change in the culture of the organization and the performance of the employees. Due to globalization, employee's experience transfer, downscaling, and rearrangement due to which the concept of employee loyalty has been gradually changed. Nowadays, employees always attempt to obtain a new job with better perks as well as privileges and they left the job whenever they get a better option due to which it is difficult for the employer to find someone who is trustworthy and loyal towards the organization. Loyalty is a characteristic that is difficult to find in every situation.

2.3. Service Quality

Quality of the service provided to the customer is review as a crucial predictor to measure the financial performance of the banking industry. Buzzell, Phillips, and Chang (1983); Teal and
Reichheld (1996) explain that the quality of service performs a vital part in the development of return on stockholders’ income and market share. According to Mehdi Bozorgi (2007); Buzzell and Gale (1989); Zahorik and Rust (1993) there must be a positive association between service quality and the efficiency of the organization. When the customer of the organization spread good word of mouth regarding the service quality of the organization then it would assist in gaining the interest of new consumers (Teal and Reichheld, 1996). All service sector organizations like banks, hospitals, etc. Understand the importance of service quality, therefore, they provide extraordinary rewards and profits to their employees so, they offer services to the customers which are of high-quality.

According to (Oliver 1977) service quality is the difference between the perception of customers related to the services and the services they receive. In another word, service quality is the perceived quality as a mode of attitude in which the customers shape a long-run assessment (Parasuraman et al. 1988). Parasuraman et al. (1988) explain a model of service quality according to the author there are five dimensions of service quality which include responsiveness, tangibles, empathy, reliability, and assurance. Tangible refers to the availability of gadgets use in providing the service. Zeithaml et al. (2006) refer to reliability as the ability of the employees to provide services constantly and precisely. Responsiveness means that how quickly and timely employees rely on the needs of customers. Assurance is the understanding and politeness of employees and their ability to direct self-confidence and hope. Empathy states towards kind and customized care to clients (Kotler, Keller 2012: 374).

Provided that the first-class service is very important for the organization. According to Oliver (1997) satisfaction of the customer is based on the quality of services performed. Companies normally have to select any one approach out of these two approaches the one is the production line approach and the second one is the empowerment approach (Looy et al. 2003). Sparks et al. (1997) disclose that if the employees are completely empowered then their customers are highly satisfied. In the opinion of Saif and Saleh, (2013) empowerment of employees is one of the most basics features for constant development of the value of products and services. The study of Timothy and Abubaker (2013) approves the positive and important influence of empowerment on service quality and discloses that the empowerment of employees advances the quality of services.

2.4. Financial Performance

Hubbard (2006) claimed that it is difficult for organizations to measure their performance, particularly when there is a continuous change in performance. Many SMEs are getting more or more directed towards their organizational performance. As stated in the literature commonly use variables to measure organizational performance is financial performance, market-based performance, and operational performance (Hofer and Carton, 2006; Combs et al., 2005; Helfert, 1994). In the present study, only the organization’s financial performance is measured. Normally financial performance illustrates how the monetary objectives of the organization are accomplished and it also helps the organization in managing its financial risk. The financial performance also evaluates the company’s policies in monetary terms. Eneizan and Matar (2018) stated that financial performance also helps in measuring the overall financial capabilities of the
organization during a specific period in comparison with the other organization relating to the same sector. Employee empowerment suggests significant benefits for both organizational as well as personal level (Ignore, 2009). For instance, loyalty and a feeling of ownership would be developed as a result of empowerment. Mathieu et al., (2006) claimed that empowerment has originated to increase capability and reduce expenses. According to Fulford and Enz, (1995) employee empowerment shows a greater degree of job gratification, loyalty, and performance. Furthermore, employee empowerment enhances the amount of motivation, which resultantly, reduce faults and create individuals be extra responsible about their actions; upsurges loyalty, and decreases turnover meanwhile it also increases the effectiveness by enhancing employee pride, assertiveness, along with their dignity (Spatz, 2000 and Ripley & Ripley, 1992).

Mukherjee et al., (2003) claimed that service provider companies along with educational scholars perceive the quality of service as a crucial factor of profit. Gomes, Yasin, & Lisboa, (2004) stated that service quality is directly correlated with organizational performance in the usual service perspective. Moreover, this association has not been empirically examined in the computerized banking environment. Santos, (2003) argued that the sustainability of computerized banking relies on its productivity and study has associated the achievement or flop of computerized banking with quality of service. According to Mols, (1998), the quality of computerized banking attracts the customers and also allows banks to offer lower rates abruptly. Due to the quality of services provided to the customers the profitability of banks also increases (Smith and Moutinho, 2000).

If the supervisor has empowerment, then it provides an effective working environment for its subordinates. According to Ripley & Ripley (1992) empowerment not only encourage the employees but it also increases their accountability towards their everyday task, quality of the service, loyalty towards the job, empowerment positively affect the self-esteem of the employees and it will eventually increase the quality of the product and turnover ratio also decreases. Gronroos lists down some of the positive effects caused by empowering the employees of service sector organizations are the following: 1) The needs of the customers are dealt with faster and direct manner. 2) Fast and direct answers to the complaints of customers. 3) Employees are satisfied with their job 4) Employees deal with the customers more willingly.

Empowerment originates from delegation, which is a conservative management practice for relocating formal authority from one position to another within an organization. The main purpose of empowering employees is providing them the liberty and funds to do things in their way, every so often in a relationship to create a climate in which innovation and creativity increase. According to Kanungo & Conger (1998), there is a sense of competence, a sense of meaning, and personal control of employees in the working environment if they are empowered. Previous studies explained a direct association between the empowerment of employees and financial performance (Lawler & Bowen, 1995).

A significant form of theoretical as well as an experiential investigation has been conducted on employees' effect on organizational performance. Research conducted by Sila (2007) to study the effect of employee performance along with employee fulfillment on the performance of the organization. Another study conducted by Scott, Fulmer & Gerhart (2003) explores that whether the positive correlation among the employees and firm is a resource for the firm and it will
positively be linked with improved financial as well as market performance compared to other firms.

In current study the relationship between our independent variable employee empowerment and dependent variable financial performance is affecting by two mediating variables employee loyalty and service quality.

![Figure 1](image)

**Relationship between variables**

Source: Authors’ compilation.

### 3. Methodology

In the present study already well-established and accepted questionnaire is used to test the variables of the research. The participant rated their responses based on a five-point Likert scale of 1 to 5. Attributes of employee empowerment i.e. Autonomy, skill diversity, chore importance besides feedback, and chore identity are assessed using a scale consisting of fifteen items initially created by (Niehoff et.al, 2001).

### Table 1

**Data sheet of Empirical Study**

| Banks          | No of Respondents |
|---------------|-------------------|
| HBL           | 76                |
| MCB           | 47                |
| Allied Bank   | 59                |
| Soneri Bank   | 43                |
| Faysal Bank   | 75                |
| **Total**     | **300**           |

Source: Authors’ compilation.
It was considered useful as it shows a high-reliability value of (0.78). Rentzl’s and Matzler (2006) create a scale consist of five-item to measure employee loyalty the same scale is used in this study to measure employee loyalty. The reliability of the scale is (0.78). Service quality is assessed using a five items scale. Initially created through the SERVQUAL tool tested by (Parasuraman et al., 1991). SERVQUAL measures five attributes of service quality by a questionnaire consist of twenty-two items, every question of this scale is not related to our study so, we use a short version of this scale which is already used in different studies created by (Gotlieb et al., 1994). The reliability of the scale is (0.64). The financial performance of banks is measured using two ratios (i.e return on equity and return on assets). The reliability of the scale is (0.79).

4. Results
Findings in Table 2 showed that employee empowerment is significantly and directly associated with employee loyalty. Similarly, employee loyalty is also a positive relationship with service quality. Similarly, service quality has a positive and meaningful relationship with financial performance.

Table 2
Table showing relationship among studied variables

| Variables                      | EL   | SQ   | FP   |
|-------------------------------|------|------|------|
| Employee Empowerment (EE)     | .16**| .39**| .32**|
| Employee Loyalty (EL)         | 1    | .28**| .19**|
| Service Quality (SQ)          | 1    |      | .75***|
| Financial Performance (EP)    |      |      | 1    |
| Employee Empowerment (EE)     | .16**| .39**| .32**|

Source: Authors’ compilation.

In order to test serial mediation among variables, process analysis was used as shown below;
Table 3

Table showing serial mediation

| Dependent Variables | Employee Loyalty | Service Quality | Financial Performance |
|---------------------|------------------|----------------|-----------------------|
|                     | Coeff. | SE  | P     | Coeff. | SE  | P     | Coeff. | SE  | P     |
| Employee Empowerment| .22    | .09 | .015  | .39    | .05 | .000  | .03    | .04 | .03   |
| Employee Loyalty    | -      | -   | -     | .11    | .03 | .000  | -.01   | .02 | .03   |
| Service Quality     | -      | -   | -     | -      | -   | -     | .67    | .04 | .000  |
| Constant            | 2.68   | .37 | .00   | 2.14   | .20 | .000  | 1.24   | .17 | .000  |

R² = .02  F (1,298) = 5.96; p = .015
R² = .23  F (2,297) = 45.33; p = .000
R² = .56  F (3,296) = 124.54; p = .000

Source: Authors’ compilation.

According to results shown in Table 3, the overall model for employee loyalty (EL) express a variation of 2 percent, where F (1,298)= 5.96; p = 0.015. The model of the current study also shows that there is direct and significant relationship between employee empowerment and employee loyalty. The overall model for service quality expresses a variation of 23 percent where F (2,297) = 45.33; p = 0.000. The results of the study also show that service quality is affect by employee empowerment and employee loyalty. The overall model for financial performance expresses a variation of 56 percent, where F (3,296) = 124.54; p = 0.000. The finding showed that service quality (SQ) has a direct effect on financial performance (FP).

Table 3 also indicated that employee empowerment (EE) indirectly impacts financial performance, and a serial mediation exists between employee empowerment, service quality, and financial performance of banks. It also indicates that employee empowerment (EE) indirectly affects financial performance (FP) through service quality (SQ).

5. Conclusion

The results of the present research exhibited a significant association between service quality (SQ) and personal empowerment. In the past, different studies show a positive connection between the empowerment of employees, service quality (SQ) along customer satisfaction (CS). Duong (2015) stated that a positive association exists among personnel empowerment in addition to service quality (SQ). In the service sector organization, the workforce and the service itself are of equal importance researchers claim that employees are the label of service. The
status of the employees is equally important as service manufacture and service transfer. The results of the current study show that there is a positive association between employee loyalty (EL), employee empowerment (EE), service quality (SQ), and financial performance (FP) of the organization. Previously different studies examine the relationship between the studied variables of service sector industries. According to this study employee loyalty (EL), financial performance (FP), employee empowerment (EE), and service quality (SQ) is significantly associated with one another. Different variables affect the performance of the service sector organization financially i.e. Efficiency, satisfaction of customers, loyalty of customers, and the reduction in cost, etc. However, the current study is conducted by using only three variables that affect the performance of the organization financially. The data for the study was collected only through three hundred respondents which are very limited as per the population of current research. Financial performance (FP) of the other service sector organizations such as hospitals, the education sector is also required to be measured using a similar model. Management of the organization needs to consider loyal employees as the major resource of the service organization. Promoting loyalty among the employee's employers need to allow creative ideas from their employees and they also need to provide them with different rewards. By all the efforts that are reported by the management to create employee loyalty, it will ultimately increase the financial performance.

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313
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