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The consequences and limits of empowerment in financial services

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Abstract

Empowerment may be one of the answers to the growing competition and increasingly demanding customers in the financial retail sector, but the relation between empowerment and profit-oriented behaviour at the service encounter has been only sparsely documented. This article offers a comparative empirical analysis of the conditions and impact of empowerment and related activities in Danish financial institutions, with a focus on semi-standardised front-line jobs. The results indicate that granting decision-making authority and autonomy to the individual front-line employees has often been a powerful step in the efforts of the financial service companies to increase their competitiveness. In the change process, formal participation has only a moderate supportive impact on performance while changes initiated at the branch offices and the linking of rewards with performance, both have a notably positive impact on the competitiveness and profit-oriented behaviour of front-line employees. © 2002 Elsevier Science Ltd. All rights reserved.

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1. Introduction

Despite a general trend towards delegation and empowerment in service companies, there is still some uncertainty about the impact of empowerment, and even about what it actually consists of (Bowen & Lawler, 1995a, b). In the prescriptive literature of human resource management, this popular term has been used rather loosely (Wilkinson, 1998), and researchers have not reached any general

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agreement on its content. However, it has long been recognised that empowerment is more than a simple managerial technique for delegation (Conger & Kanungo, 1988). As a motivational construct it also represents a complicated process, and in analysing its effects on performance in financial services, sufficient attention should be paid to the context in which the empowerment occurs.

In our approach we stress that the employees' power to make decisions during the service encounter is at the core of empowerment. But empowerment is also a change process involving the participation of front-line employees, and its impact cannot be understood unless it is regarded as a change in the formal authority and in the state of mind. Several managerial initiatives such as the application of rules, the formulation of quality measures, and training activities are included in our analysis, in order to establish the connection between empowerment and performance indicators.

The main purpose of the paper is to explore the impact on performance in a comparative analysis based on the perceptions of front-line employees in financial service companies in Denmark, using both survey data and interviews. Special attention is attached to the question of whether empowerment merely fosters friendliness and service quality, or whether it can be related to a type of profit-oriented behaviour that would be more challenging to the norms prevailing among employees in financial branch offices.

Thus, it is a central point in recent prescriptive literature that quality at the service encounter does pay and that a 'service profit chain' can be identified in which employee satisfaction leads to customer satisfaction, which in turn leads to customer retention and profit (Heskett, Sasser, & Schlesinger, 1997). The evidence and conditions of such relationships form the point of departure for our analysis, since this focuses on a part of the service profit chain. Is it possible to establish the linkage between the formal core of empowerment and the delivery of competitive service in financial service companies? Does empowerment make employees feel able to produce results for customers—or would a production-line approach be just as good (Bowen & Lawler, 1995a; Bowen & Youngdahl, 1998)? Employees enjoying appropriate decision-making power will probably provide a better quality of service (Fløhr Nielsen & Høst, 2000), but are such initiatives also linked to profit-oriented behaviour?

Our results indicate that granting decision-making authority and autonomy to the individual front-line employees *is* a powerful ingredient in the financial service retailers' efforts to be competitive, but that training and guidelines concerning service encounters appear to offer a high degree of support. In the process of change, the participation in itself is less likely to foster the intended change. In particular, changes initiated in the branch offices did seem to have a positive impact on the competitiveness and profit-oriented behaviour of front-line employees.

2. Empowerment and performance in financial companies

2.1. The concept of empowerment

Empowerment sounds good. Few would argue against something that is closely related to western cultural norms and is believed to support organisational

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