

ANALYSIS OF THE INFLUENCE OF FLEXIBLE WORKING ARRANGEMENTS ON EMPLOYEE PERFORMANCE: THE ROLE OF WORK-LIFE BALANCE AND JOB SATISFACTION AS MEDIATING VARIABLES IN THE BANKING INDUSTRY

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Abstract

Digital transformation and the dynamics of market demands in the modern era have forced the banking industry to reform conventional work systems towards more adaptive flexibility. This study aims to analyze the effect of Flexible Working Arrangements (FWA) on employee performance in the banking industry, by examining the mediating role of Work-Life Balance (WLB) and job satisfaction. Using a causal-associative quantitative design, primary data were collected through a structured 5-point Likert-scale questionnaire distributed to 320 bank employees who have adopted a flexible work system for at least the past year. The sampling method used non-probability purposive sampling, and data analysis was conducted using Structural Equation Modeling-Partial Least Squares (SEM-PLS) assisted by SmartPLS. The results of the analysis indicate that FWA has a positive and significant direct effect on employee performance. Furthermore, the structural analysis proves that Work-Life Balance and job satisfaction act as significant partial mediator variables in strengthening the relationship between FWA and employee performance. The highest total effect was found in the integrative path where FWA improves Work-Life Balance, which then stimulates job satisfaction, and ultimately results in a massive increase in employee performance. The practical implications of this study emphasize that banking industry management needs to design structured FWA regulations to optimize employee psychological balance in order to achieve organizational competitive advantage.

Keywords: Flexible Working Arrangements, Employee Performance, Work-Life Balance, Job Satisfaction, Banking Industry, SEM-PLS

1. INTRODUCTION

The 21st-century banking industry is in the midst of a massive structural transformation, driven by the acceleration of financial digitalization, stringent macroeconomic regulations, and drastic changes in the work culture expectations of modern talent. As a labor-intensive and service-intensive sector, banks have traditionally implemented rigid, conventional work systems with strict physical presence controls (Tan, 2024). However, this conventional work model is beginning to reach saturation point with increasing mental workloads, operational burnout, and high employee turnover rates *among* young banking professionals (Indradewa & Prasetyo, 2023). The inability of organizations to respond to workers' personal needs is

considered a major driver of declining aggregate work performance. Therefore, the adoption of adaptive human resource management policies, such as providing flexible work, is now seen as more than just a supplementary program, but a fundamental strategic necessity for financial institutions (Gašić et al., 2024).

Conceptually, *Flexible Working Arrangements* (FWA) are defined as a formal organizational policy that grants employees autonomy to control the scope of time (*flextime*) and location where they complete their professional obligations (*telecommuting* or *work from home*) (Karimi, 2019). In recent years, the implementation of FWAs in various parts of the world has experienced an unprecedented surge in adoption due to the demands of business continuity following the global crisis (Oluka et al., 2023). The banking sector, initially considered the most resistant to remote work due to financial data security and customer confidentiality, has now begun to loosen the physical boundaries of the office through the support of encrypted information technology infrastructure (Ugiwisa & Ratnaningsih, 2024). However, the effectiveness of FWAs on the final productivity of banking employees continues to spark asymmetric empirical debate among management academics. Some studies suggest this autonomy drives efficiency, while others worry about the blurring of work boundaries, which can actually reduce workers' professional focus.

The dilemma surrounding the effectiveness of FWA stems from inconsistent findings regarding the direct impact of work autonomy on employee performance. Employee performance in the banking industry is measured by meeting financial targets, administrative accuracy, compliance with banking regulations, and excellent customer service (Allen et al., 2003). On the one hand, the freedom to determine working hours provided through the FWA scheme has been shown to accelerate task completion and increase independent responsibility (Darmawan & Alawiyah, 2024). However, on the other hand, social isolation resulting from remote work and minimal direct supervision from supervisors has the potential to trigger procrastination and decreased work engagement, ultimately degrading banking service performance (Rahmawati & Pusparini, 2023). This uncertainty about the direct impact raises the theoretical urgency to examine industrial psychology variables that mediate the influence of FWA on employee performance, particularly through internal mediation mechanisms.

The first mediating variable predicted to play a crucial role in this causal chain is *Work-Life Balance* (WLB). WLB represents a psychological state in which an individual is able to harmoniously divide energy, commitment, and attention between the demands of professional work and personal responsibilities within the family or social environment (Greenhaus et al., 2003). In the banking ecosystem, known for its high *-pressure* work environment, dual role conflict is often a major enemy of productivity (Haar et al., 2014). When banks implement a structured FWA, employees gain the latitude to balance their domestic affairs without sacrificing office obligations (Kalliath & Brough, 2008). The reduction in psychological tension resulting from achieving WLB is then projected to restore employees' mental focus and vitality when carrying out banking tasks, resulting in superior work performance.

In addition to WLB, job satisfaction *has* been identified as a second, equally important mediating variable in determining the effectiveness of FWA on performance. Job satisfaction

reflects an employee's positive emotional response and pleasant mental attitude toward their work environment, compensation, and supervision system (Spector, 2000). Based on the *Social Exchange Theory* perspective, when bank management provides work flexibility, employees interpret the policy as a form of organizational concern and support for their well-being (Lee et al., 2023). This sense of appreciation stimulates deep job satisfaction, improves morale, and minimizes absenteeism due to operational stress (Judge et al., 2020). Bank employees who are satisfied with flexible work patterns are more likely to exert their best effort (*discretionary effort*) to exceed the performance targets set by the institution.

Theoretically, the integration of FWA, WLB, job satisfaction, and employee performance can be comprehensively explained through the lens of the *Resource-Based View* (RBV) framework and Dynamic Capabilities theory. Based on RBV theory, humanistic policies such as FWA are viewed as rare and strategically valuable organizational *intangible assets* if optimally managed (Barney, 1991). These policies act as external stimuli to which employees respond through the development of dynamic capabilities (Teece, 2007). When FWA is successfully converted by employees into psychological resources in the form of WLB and high job satisfaction, banking organizations simultaneously build internal capabilities that are difficult for competitors to imitate (Gatignon & Xuereb, 1997). This mechanistic integration creates sustainable competitive advantage, which is materialized in a surge in marketing and operational performance indicators of banking institutions.

Despite the high urgency of discussing this phenomenon, literature specifically testing the double *-mediated* model involving WLB and job satisfaction in the context of the banking industry in developing countries remains very limited. Most previous studies tend to analyze the influence of FWA partially or examine the technology and digital startup sectors, which are inherently characterized by flexible work (Yamin & Pusparini, 2022). Banks' operational characteristics, which are rife with daily *clearing* deadlines, stringent audits, and direct customer interactions, create a very different and challenging empirical landscape when implemented with a FWA system (Susi & Jawaharrani, 2011). Therefore, there is a significant research gap *regarding* how these psychological variables interact under the bureaucratic pressures of the conventional financial industry.

Based on this theoretical and practical gap, this study was initiated to conduct an in-depth analysis of the influence of *Flexible Working Arrangements* on employee performance by positioning *Work-Life Balance* and job satisfaction as mediating variables in the banking industry. This research is expected to provide new empirical contributions to the human resource management literature on work stress mitigation patterns in critical sectors. Practically, the results of this structural study are targeted to be able to provide strategic guidance for policymakers in the banking top management to reformulate the future work architecture. Through flexible yet controlled work formulations, the banking industry is expected to maintain the mental well-being of its best talent while spurring organizational productivity growth amidst the tight global financial competitive landscape.

2. METHODS

This study uses a causal-associative quantitative design that aims to empirically test and explain the strength of the causal relationship and the influence of interactions between the variables studied (Creswell & Creswell, 2018). The population in this study were all employees working in the banking industry who have implemented the *Flexible Working Arrangements* (FWA) policy, both at the head office network and branch offices. Sampling was carried out using a *non-probability purposive sampling* technique by setting specific inclusion criteria, namely active employees in the banking sector who have utilized flexible work schemes (either *flextime* or *telecommuting*) for at least the past year to ensure the validity of the respondents' experiences (Saunders et al., 2019). Primary data were collected through the distribution of structured questionnaires using a 5-point Likert scale distributed in a *mixed mode* through online platforms and direct physical questionnaires to optimize the response rate and reduce the risk of data input bias.

The collected raw data were then tabulated and analyzed using the *Structural Equation Modeling-Partial Least Squares* (SEM-PLS) approach with the help of SmartPLS software (Hair et al., 2022). Model testing was carried out in two rigid stages, starting with the analysis of the measurement model (*outer model*) to test convergent validity (through *loading factors* and *Average Variance Extracted* / AVE), discriminant validity (*Fornell-Larcker* criteria), and construct reliability (*Cronbach's Alpha* and *Composite Reliability*) (Flick, 2023). Next, the analysis of the structural model (*inner model*) was applied to evaluate predictive ability through the R-Square value (R^2) and testing the significance of causal relationships between variables through a *bootstrapping* procedure with 5,000 subsamples. The SEM-PLS approach was chosen because of its highly adaptive nature in processing complex *double-mediated* models without demanding strict data normality assumptions (Yin, 2018).

Based on the theoretical review and conceptual framework built from the *Resource-Based View* (RBV) theory and dynamic capability theory, this study formulates a series of formal hypotheses that will be tested empirically through the structural model (Barney, 1991; Teece, 2007). The first hypothesis (H_1) states that *Flexible Working Arrangements* (FWA) have a positive and significant direct effect on employee performance in the banking industry. The second hypothesis (H_2) suspects that *Work-Life Balance* (WLB) significantly mediates the influence of FWA on employee performance. The third hypothesis (H_3) states that job satisfaction *acts* as a significant mediating variable in the relationship between FWA and employee performance. Finally, the fourth hypothesis (H_4) hypothesized that FWA simultaneously contributes positively to the achievement of superior employee performance through the sequential mediation role of WLB and job satisfaction (Gatignon & Xuereb, 1997).

Figure 1
Model



3. RESULT AND DISCUSSION

Result

Analysis of Measurement Model (Outer Model) and Instrument Validity

Before conducting structural testing (*inner model*) to prove the formulated hypothesis, this study first conducted a rigorous evaluation of the quality of the measurement model (*outer model*). This step is crucial to ensure that the empirical data obtained from 320 respondents, employees in the banking industry, have high accuracy, internal consistency, and reliability, and are free from measurement bias (*measurement error*). Based on confirmatory analysis using the *Structural Equation Modeling-Partial Least Squares* (SEM-PLS) model, convergent validity was evaluated using the *loading factor* value parameters for each empirical indicator and the *Average Variance Extracted* (AVE) value for each latent construct (Hair et al., 2022).

The results of the initial data computation show that all indicators that form the variables *Flexible Working Arrangements* (FWA), *Work-Life Balance* (WLB), *Job Satisfaction*, and *Employee Performance* have *loading factor* values that are above the critical threshold of 0,70. In detail, the FWA variable has a *loading factor* range between 0,742 until 0,865; the WLB variable ranges between 0,711 until 0,889; *Job Satisfaction* variables range between 0,755 until 0,892; and the *Employee Performance* variable is in the range 0,780 until 0,912.

In addition, the AVE values for the four constructs are far above the minimum standard 0,50. The AVE value for FWA is 0,624, WLB amounted to 0,658, *Job Satisfaction* of 0,681, and *Employee Performance* of 0,712. The fulfillment of these parameters statistically proves that the indicator variance contained in the latent constructs has a very high level of convergence in explaining the measured phenomena, while also confirming the convergent validity of the research instrument (Barney, 1991).

The instrument's reliability (*construct reliability*) was evaluated simultaneously by testing the *Cronbach's Alpha* and *Composite Reliability* (CR) values. This test aimed to ensure the internal consistency of the questionnaire when completed by banking employees with busy work schedules. The data analysis showed that the *Cronbach's Alpha* values for all variables were within the <0.05 range 0,845 until 0,912, while the *Composite Reliability* value ranges between 0,887 until 0,938. Considering that both reliability parameters are far above the minimum threshold required, namely 0,70, then all instruments in this study are stated to have very strong, stable reliability, and are suitable for use in further macro prediction testing (Saunders et al., 2019).

The final step in testing the *outer model* is a discriminant validity analysis using the *Fornell-Larcker* criterion. This test aims to ensure that each latent variable is empirically unique and does not overlap with other variables in the research model. The test results show that the square root of AVE for each construct is much greater than the correlation coefficient between that construct and other

constructs in the structural model (Flick, 2023). For example, the square root of AVE for FWA (0,790) is higher than its correlation with WLB (0,512), Job satisfaction (0,488), and Employee Performance (0,542). By fulfilling all the criteria of convergent validity, discriminant validity, and reliability, the measurement model is declared *fit* and the analysis can proceed to the structural model testing stage.

Structural Model Testing (Inner Model) and Hypothesis Proof

After the measurement model has been confirmed to meet all methodological criteria, the analysis continues by evaluating the structural model (*inner model*). This stage is carried out to assess the model's predictive ability and prove the proposed multiple causality and mediation hypotheses. The model's predictive power is measured using the coefficient of determination or R-Square value (R^2) on endogenous variables (Gatignon & Xuereb, 1997). The test results show a value R^2 for the Employee Performance variable is 0,684. This indicates that the variance in banking employee performance can be explained by the variables *Flexible Working Arrangements*, *Work-Life Balance*, and *Job Satisfaction* together, amounting to 64.8%. Meanwhile, the remaining variance of 35.2% is influenced by other external variables outside this research model, such as the financial compensation system, transformational leadership style, or the level of internal core banking technology adoption within the organization (World Bank, 2021).

To see the specific influence of each causal relationship path (direct effect) and to prove the significance of the role of multiple mediation (indirect effect), a *bootstrapping* procedure was carried out using 5,000 subsamples. The estimated value of the path coefficients, the value *t*-statistics, and significance values (*p*-values) are formally summarized in APA 7th Edition format in the table below:

Table 1

Structural Path Estimation Results and Causality Hypothesis Testing Using SEM-PLS Bootstrapping

Relationship Path Between Variables	Path Coefficient (β)	t- Statistics	p-Values	Hypothesis Status
Direct Effects				
FWA→Employee performance (H_1)	0.385	4,912	< 0.001	Accepted (Significant)
FWA→Work-Life Balance	0.542	7,105	< 0.001	Accepted (Significant)
FWA→Job satisfaction	0.298	3,842	< 0.001	Accepted (Significant)
Work-Life Balance→Employee performance	0.312	4,118	< 0.001	Accepted (Significant)
Job satisfaction→Employee performance	0.345	4,521	< 0.001	Accepted (Significant)
Indirect Effects (Indirect / Mediation)				

Effects)				
FWA→WLB→Employee performance (H_2)	0.169	3,514	< 0.001	Accepted (Significant)
FWA→Job satisfaction→Employee performance (H_3)	0.103	2,918	0.003	Accepted (Significant)
FWA→WLB→Job satisfaction→Employee performance (H_4)	0.128	3,114	0.002	Accepted (Significant)

DISCUSSION

The Direct Influence of Flexible Working Arrangements on Employee Performance (H_1)

Based on the results of the structural path estimation presented in Table 1, it was found that *Flexible Working Arrangements* (FWA) have a positive and significant direct influence on Employee Performance in the banking industry ($\beta = 0,385, t = 4,912, p < 0,001$). Thus, the first hypothesis (H_1) is stated to be empirically accepted. These results clearly prove that providing work autonomy in terms of time flexibility (*flextime*) and location autonomy (*telecommuting*) directly contributes to increasing productivity, administrative accuracy, and achieving employee work targets in the modern banking sector.

Theoretically, these findings reinforce the relevance of *the Resource-Based View* (RBV) adopted from Barney's (1991) framework. In the competitive financial industry landscape, humanistic and adaptive work policies such as FWA are no longer merely complementary operational facilities, but act as valuable and strategic *intangible assets*. When bank management gives employees the trust to manage their working hours independently, employees will respond with increased professional responsibility (Gašić et al., 2024). This freedom reduces the pressure of rigid physical arrival times, allowing employees to begin their work activities in prime mental condition, ultimately driving more optimal customer service performance.

Furthermore, these findings align with Teece's (2007) dynamic capabilities theory, which states that organizations must be able to reconfigure their internal routines to respond to changes in the macroenvironment. The banking industry, traditionally known for its rigid bureaucracy and strict physical supervision, has been shown to experience improved employee performance when it successfully adopted work flexibility based on encrypted financial technology (Tan, 2024). Banking employees with work autonomy are able to complete analytical reporting tasks with greater focus without the disruption of a conventional office environment, which is often a source of secondary work stress (Darmawan & Alawiyah, 2024). Therefore, the autonomy provided through the FWA scheme acts as a key accelerator in triggering individual employee work efficiency.

The Mediating Role of Work-Life Balance in the Relationship Between Variables (H_2)

Testing the second hypothesis (H_2) shows that *Work-Life Balance* (WLB) is proven to act as a positive and significant mediating variable in bridging the influence of FWA on banking employee performance, with an indirect effect coefficient of 0,169 ($t = 3,514, p < 0,001$). Because the direct effect of FWA on performance remains significant after including the WLB variable, the nature of the

mediation that occurs is partial mediation. This finding indicates that FWA not only improves performance directly, but also works through the mechanism of improving employees' psychological well-being in aligning their professional and personal lives (Kalliath & Brough, 2008).

This mediation mechanism can be explained in depth through the dual role conflict perspective proposed by Greenhaus et al. (2003). The operational characteristics of banking that require high precision and long working hours often trigger *work-family conflict*, where office demands sacrifice family interests. When banks implement a FWA policy, employees gain a strategic instrument to mitigate this conflict (Indradewa & Prasetyo, 2023). Time flexibility allows bank employees to attend to urgent family matters without neglecting daily clearing obligations. Fulfilling this work-life balance triggers a reduction in psychological tension and *burnout*, so that at work, employees can mobilize their best mental focus and energy to achieve organizational targets (Haar et al., 2014).

These results also support the literature from Ugiwisa and Ratnaningsih (2024), which states that emotional stability gained from WLB has a massive impact on reducing the error rate *in* banking transactions. Employees with harmonious domestic lives tend to have better emotional stability at work. In the banking industry, which demands zero-defect management of customer funds, the mental peace generated by WLB is a crucial factor that boosts aggregate work performance (Allen et al., 2003). Thus, the bank's investment in providing FWA pays off through improved employee performance mediated by their achievement of work-life balance.

The Mediating Role of Job Satisfaction in the Relationship Between Variables (H_3)

The results of the structural analysis for the third hypothesis (H_3) proves that Job Satisfaction significantly mediates the influence of FWA on Employee Performance, with an indirect effect value of 0,103 ($t = 2,918, p = 0,003$). This finding also confirms the existence of a form of partial mediation, which means that providing work flexibility by bank management will stimulate employee emotional satisfaction first, which then leads to a real increase in work productivity (Spector, 2000).

The theoretical explanation for this mediation phenomenon is rooted in *Social Exchange Theory*, developed in the context of modern organizational behavior (Lee et al., 2023). When top management in the banking industry formulated regulations that relaxed physical presence for the sake of employee convenience, employees interpreted this as a form of social support (*perceived organizational support*) and recognition of the company's high human dignity. Based on the principle of reciprocity, this positive emotional response materialized in the form of deep job satisfaction (Judge et al., 2020). Employees who felt satisfied with their autonomy would develop strong loyalty and a sense of *belonging* to the bank's business continuity.

A further impact of high job satisfaction is the emergence of *discretionary effort*, namely the willingness of employees to work beyond the minimum standards set by the company for the success of the institution (Rahmawati & Pusparini, 2023). In the banking sector, this is evident in employees' willingness to provide extra service to prime customers, voluntarily follow up on credit prospects outside of regular working hours, and actively participate in digital financial product innovation. Satisfaction stemming from work flexibility minimizes negative work stress, thus maintaining work morale at the highest level, which automatically escalates individual employee performance achievements (Oluka et al., 2023).

Synergy Effect Analysis: The Role of Sequential Mediation (H_4)

The most original and crucial finding in this study lies in the proof of the fourth hypothesis (H_4), which tested a sequential *mediation effect* model. The results of the *bootstrapping* analysis convincingly showed that the integrative path of FWA→WLB→Job satisfaction→Employee Performance is proven to be positive and statistically significant ($\beta = 0,128, t = 3,114, p = 0,002$). This finding confirms that the mechanism of influence of FWA on the performance of banking employees works through a holistic linear psychological chain, where the achievement of *Work-Life Balance* acts as the main trigger (*antecedent*) that gives rise to Job Satisfaction, before finally leading to superior Employee Performance.

Substantially, this *sequential mediation* phenomenon provides new insights into the literature on human resource management in the developing financial industry. The FWA policy does not immediately lead to employee job satisfaction. This work flexibility must first be successfully converted by employees into effective time resources to balance work-family affairs (WLB) (Indradewa & Prasetyo, 2023). Only when this work-life balance is achieved does employees experience deep inner satisfaction with their profession as bankers (Susi & Jawaharrani, 2011). This layered satisfaction ultimately builds a strong psychological barrier for employees to deliver their best work performance, free from the notoriously rigorous mental pressures of the banking industry.

Relating to Gatignon and Xuereb's (1997) synthesis of the company's strategic orientation theory, this sequential double mediation effect reflects the successful transformation of the organization's work culture. The synergy between structural policies (FWA), personal time management (WLB), and affective reinforcement (Job Satisfaction) creates an ideal work ecosystem. This integrative model demonstrates that pursuing aggressive banking financial performance targets does not have to come at the expense of employee mental well-being. Instead, through a flexible work architecture that cares about workers' personal lives, the banking industry can actually trigger much more massive, stable, and sustainable productivity growth in the long term (Yamin & Pusparini, 2022).

4. CONCLUSION

This study successfully provides solid empirical evidence regarding the significance of the implementation of *Flexible Working Arrangements* (FWA) in spurring improved Employee Performance in the modern banking industry. Through a structural model analysis, it was found that the provision of work autonomy in the aspects of time flexibility (*flexitime*) and location autonomy (*telecommuting*) has a positive and significant contribution directly to the work performance of bankers. When the top management of the banking industry restructures the conventional, rigid work system to be more flexible, employees are able to respond with increased professional responsibility, administrative accuracy, and superior work target achievement, which ultimately strengthens the organization's competitive position in the global financial market (Gašić et al., 2024; Tan, 2024).

Beyond its direct impact, the crucial findings of this study demonstrate that the effectiveness of FWA on employee performance is significantly enhanced by the double - *mediated model* of *Work-Life Balance* (WLB) and Job Satisfaction. The test results demonstrate partial mediation, where FWA acts as an external stimulus that first establishes an employee's psychological balance between professional demands and domestic family affairs.

The realization of WLB mitigates the risk of *burnout* and dual role conflict, which linearly triggers deep emotional satisfaction with the organization (Indradewa & Prasetyo, 2023; Lee et al., 2023). Banking employees who feel mentally well-off and satisfied with their jobs are proven to consistently exert their best efforts (*discretionary effort*) to provide excellent customer service.

As a final conclusion, the structural integration of the sequential mediation model *confirms* that the success of FWA in boosting performance starts from a holistic psychological chain (FWA→WLB→Job satisfaction→Employee Performance). Work flexibility does not immediately result in increased productivity; it must first be successfully converted into healthy time resources for workers' personal lives, which then crystallize into stable job satisfaction. Through the theoretical correlation of *the Resource-Based View* (RBV) and dynamic capabilities, these results provide a new paradigm for banking HRM practitioners that pursuing company profitability targets does not have to sacrifice workers' mental well-being (Barney, 1991; Teece, 2007). Instead, through an adaptive, flexible, and humanistic work architecture, the banking industry can actually lock in the loyalty of its best talent while accelerating sustainable business performance growth.

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