




# “Leveraging employee relationship management to foster agility: The mediating role of employee empowerment in the Indian banking sector”

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# LEVERAGING EMPLOYEE RELATIONSHIP MANAGEMENT TO FOSTER AGILITY: THE MEDIATING ROLE OF EMPLOYEE EMPOWERMENT IN THE INDIAN BANKING SECTOR

## Abstract

Organizational agility is a prerequisite for ensuring enhanced corporate performance in the face of technological developments. However, the supplementary role of employee relations and empowerment practices in organizational agility has not been widely explored. FinTech introduction in the banking sector has added to its already dynamic work environment.

The study aimed to investigate the effect of Employee Relationship Management (ERM) on Organizational Agility (OA) & Employee Empowerment (EE), and Employee Empowerment on Organizational Agility, and evaluate whether EE has a mediating effect on the relationship between ERM and OA.

Structural Equation Modelling over the SmartPLS4 software was used for analysis. A structured questionnaire was distributed to 200 employees in back-office operations departments of the top four banks with the highest market capitalization on the National Stock Exchange, India. Employees from branches operating in metropolitan cities were selected.

Results underscore the human asset's prominence in the banking sector's sustenance, showing a significant positive direct effect of EE on OA (P value: 0.000, Path Coefficient: 0.627), ERM on OA (P value: 0.025, Path Coefficient: 0.718), and on EE (P value: 0.000, Path Coefficient: 0.718). EE also shows a mediating effect in the influence of ERM over OA (P value: 0.000, Path coefficient: 0.45).

The results bridge the gap in knowledge about the prominence of the Resource-Based Theory by investigating the role of employees in enhancing the banking sector's ability to adjust operations in line with technological advancements.

## Keywords

FinTech, bank, structural equation modeling, resource-based theory, organizational agility, employee wellbeing, mental health

## JEL Classification

D23, E24, G21

## INTRODUCTION

The advent of financial technology (FinTech), a technology dedicated to improving the user experience, has revolutionized the banking sector (Havryk & Nazarova, 2024). In this regard, the banking sector is on a path of constant renewal. Given how organizational agility is strongly linked with firm performance, banks must be agile enough to adapt to these developments in the FinTech world to survive and compete (Chikri & Kassou, 2024; Bangura & Lourens, 2024; Nina et al., 2024). However, jobs are generally characterized by increased stress levels (Kumar & Sundaram, 2014; Kurain, 2024). Burdening of work, unavailability of information, and lack of scope for career develop-

ment opportunities contribute to low employee satisfaction and motivation. This would, in turn, lead to poor performance, absenteeism, and employee turnover, eventually signaling a fall in service quality, and ultimately resulting in organizational instability. Various studies support that employee motivation and satisfaction lead to quality performance through increased efficiency and organizational commitment (Kambuaya, 2024; Raintung et al., 2024; Kalhor et al., 2017; Goswami, 2015). In this dynamic context, organizations are progressively recognizing the value of Employee Relationship Management (ERM) as the solution. A strategic tool for fostering a high-performing and agile workforce, ERM encompasses a range of practices designed to cultivate positive connections between employees and the organization, fostering a sense of belonging, and commitment, and eventually, driving superior business performance (Chaubey et al., 2017). Employee empowerment, by way of the provision of sufficient information, delegation of authority, and independence in performance can play a major role in contributing to increased levels of job satisfaction (AbuHazeem & Albloush, 2024). ERM practices can also contribute to employee empowerment by providing them with the autonomy, resources, and support needed to excel.

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## 1. LITERATURE REVIEW

One of the key internal resources of any firm, human capital, is extremely difficult to replace because no one person will have the same set of skills and abilities as another. This brings attention to the need for employers to employ and retain a task force that possesses the right fit of skills.

The current study hinges upon the Resource-based theory to look at a firm's competitive advantage in terms of its resources rather than its products. The theory stresses the necessity to use internal resources in order to achieve competitive dominance (Wernerfelt, 1984; Barney, 1991; Wilden et al., 2013; Abdul-Aziz Ahmad & Jais, 2024). The Resource-based theory is a multifaceted framework involving various contributions to understanding ways of improving the efficiency of banking and financing operations. Sayed and Nefzi (2024) analyzed how three components of intellectual capital, namely, Human capital efficiency, Structural capital efficiency, and Capital employed efficiency in Saudi Banks, influenced financial performance, with findings revealing that intellectual capital significantly enhanced performance. Rahman et al. (2024) found that investing in employees' training, knowledge, skills and education could enhance the banks' efficiency in Bangladesh. An analysis of Indian banks to find the factors affecting international diversification led to the conclusion that while asset size, human resources, private ownership, and organizational age enhanced diversification, branding & advertisement expenses and state ownership dissuaded international diversification (Panda & Reddy, 2016).

A study on JP Morgan Chase showed how strategic environmental changes, both internal and external, led to them being the top-ranked commercial bank in the United States (Donnellan & Rutledge, 2019).

Technology-based banking services are becoming more and more common, and customers are switching from traditional banking to banking via mobile apps (Ashraf & Himel, 2020). The key to organizational excellence, agility, is a stepping stone to enhancing a firm's capability of succeeding at adapting to changes in the internal or external business environment (Margherita et al., 2021). An agile organization can achieve much more than just improved performance. A study by Zhang et al. (2023) indicated that agility was required for any firm to adopt digital transformations. Organizational agility, in tandem with competitive action, can assist an organization in attaining a competitive advantage. A transformational business is the need of the hour. A study by Horabadi Farahani and Salimi (2015) demonstrated that manufacturing firms could endure and beat the competition only in the presence of an agile production system. Organizational renewal strategies are of utmost importance to ensure the sustenance of banking operations.

The onset of COVID-19 saw organizations finding ways to improve their functioning by rethinking their processes. A study on Caribbean banks conducted by Adesegha (2023) found that implementing strategies involving a shift towards digitization could lead to flexibility and agility, provided that, the organization can bring down the costs

and organizational inertia associated with change. A major change such as this had its shortfalls in terms of team management. Managers had to encourage adaptability through creativity and leadership among their employees to avert challenges posed by digitization (El Yaagoubi & El Baz, 2023). The significance of creating and maintaining employee relations is ever-growing. A study by Ribeiro et al. (2024) found that the detrimental effects of the COVID-19 pandemic on the market resulted in intensified efforts by the banking sector to bring operations back on track. These efforts, however, came with a great cost to human resources. Banks found ways such as stepping up activity and production targets, reducing labor costs, and increasing layoffs to ensure the implementation of developmental strategies. Since the pandemic, listed banks have seen extremely positive financial results. However, their contribution to employees, users, and society as a whole plummeted (Torres-Pruñonosa et al., 2024). The banking sector, characterized by its stressful environment, has specifically found employee relationship management to be most beneficial as it not only enhances healthy relationships between employees by fostering wellbeing but also contributes to organizational success through enhanced performance and productivity (Papasolomou-Doukakis, 2002; Yasin et al., 2023; Yiheyis, 2023; Piwowar-Sulej & Cierniak-Emerych, 2024).

Empowering the employee through training to develop skill sets and delegation of authority ensures organizational success through improved employee performance. Thus, it can be seen that banks pay special attention to this aspect of employee relations (Ivancevich, 2004). A study by Kumari et al. (2024) found that organizations can succeed if they emphasize instilling gender inclusiveness, ensuring a harmonious working environment, and encouraging employee empowerment through capacity development. To ensure rapid adoption of innovations in FinTech, banks are constantly competing to acquire personnel with expertise across various departments, may it be sales, back-office operations, or risk management (Sandeep & Neeraja, 2024).

The multifaceted approach of employee relationship management can offer a vital understanding

of organizational behavior, its performance, and sustainability (Blomkvist et al., 2024). Practices of conflict management, effective communication, employee empowerment, encouragement of employee suggestions, and employee involvement can enhance Employee Relationship Management in any organization (Chaubey et al., 2017). Corporations that are run by satisfied and motivated employees can meet changing global trends. This is possible only if a specific focus is given to improving the employee-employer relationship. A resilient leadership that can inculcate a feeling of oneness among its employees will ensure improved organizational agility (Menon & Suresh, 2020).

In this digital era, continuous learning is essential for any employee to pave the way for their career. Moreover, in the banking world, employees are required to deal with task-related stressors on a daily basis. As such, employee empowerment turns out to be integral to an organization on its way to discovering its competitive edge. Studies have found that employee empowerment can play a major role in helping improve overall work quality, enhance job satisfaction and, in turn, improve the organizations' productivity and achieve market competitiveness (Mardiani & Utami, 2023; AbuHazeem & Albloush, 2024; Aliyeva & Ibrahimova, 2024; Hoque, 2024).

Employee empowerment becomes pertinent to the smooth running of an organization, the lack of which may lead to work incompetence due to job dissatisfaction (Muthaiyah et al., 2023; Shakya & Kc, 2023). Hence, systematic empowerment of employees is the key to creativity, innovation, teamwork, and flexibility among employees. These characteristics, in addition to the self-determination and competence of employees, enable the implementation of organizational agility in the working system (Vu, 2020; Syamil & Isa, 2023; Simmert, 2024).

The distinct skill set possessed by every individual makes the human asset a precious one. The right combination of human resources can largely contribute to achieving the organization's objectives. The existing literature clearly outlines the interrelationships between employee relationship management, employee empow-

erment, and organizational agility. The present study attempts to further understand this interrelationship by drawing from the Resource-based theory and to bridge the gap in knowledge about the prominence of the Resource Theory framework within the banking sector. The study investigates the role of employee relations and employee empowerment in enhancing the organization's ability to adjust its operations in line with the ongoing technological transformations. Moreover, the increasing mental health issues faced by bank employees due to occupational stress point to a necessity for research in this area (Ribeiro et al., 2024). This study, hence, delves into the interplay between ERM and employee empowerment in enabling organizational agility by determining the mediating role of employee empowerment in the relationship between employee relationship management and organizational agility.

Based on the literature review, the following hypotheses are formulated:

- H1: Employee Relationship Management has a positive significant effect on Employee Empowerment.*
- H2: Employee Relationship Management has a positive significant effect on Organizational Agility.*
- H3: Employee Empowerment has a positive significant effect on Organizational Agility.*
- H4: Employee Empowerment has a positive mediating effect on the relationship between Employee Relationship Management and Organizational Agility.*

## 2. METHOD

The quantitative research method is employed in this study. The target population consists of employees from public and private banks in India. The top four banks with the highest market capitalization and currently traded on the National Stock Exchange, India, were used for sampling. Bank managers of branches operating in the metropolitan cities of Mumbai, Pune, Bangalore, and Chennai were contacted to share a structured questionnaire via Google Forms among their employees belonging to the back-office operations section. The sample of banks considered is shown in Table 1.

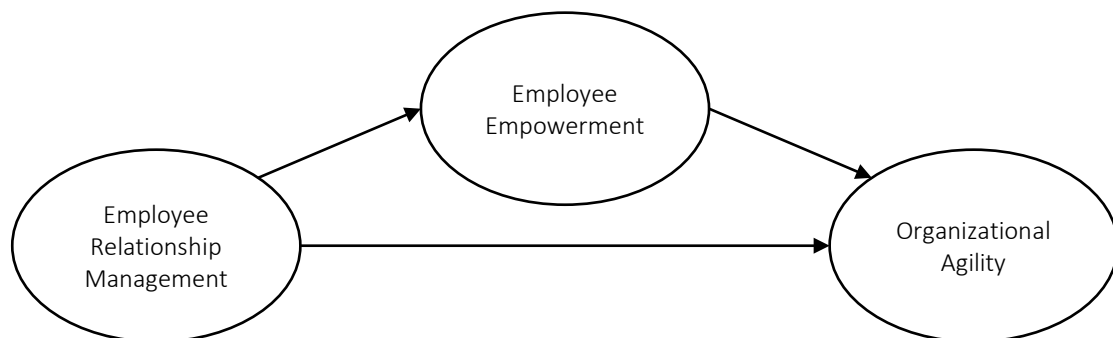
**Table 1.** Banks included in the sample

Source: NSE website.

Bank Name	Market Capitalization*
HDFC BANK	11,646
ICICI BANK	7,882
STATE BANK OF INDIA	7,411
AXIS BANK	3,559

Note: \* Market Capitalization as of May 31, 2024 (in billions INR).

Convenience sampling was considered a more appropriate approach for data collection due to the lack of willingness of many bank employees to participate in the research. According to the recommendation of Hair et al. (2019a), 200 respondents served as the sample size for the study. Hair et al. (2019a) recommended that “the minimum sample size is 5-10 times the number of indicators used”. There are 17 indicators in this study, so the minimum sample size would be (17×10) 170 respondents. The questionnaire was divided into two sections. The first section focuses on key demographics like age, gender, and work experience. The second section includes employees' perspec-



**Figure 1.** Conceptual model show the hypotheses



tives on the underlying constructs. Google Forms was used to collect the required data for the study. The respondents were assured of the confidentiality of their identities and that their responses would only be used for academic and research purposes. Approximately 210 responses were collected. Out of 210 responses, only 200 were found suitable for further analysis.

The reliable measurement scales validated in the literature were used for the study. All the items of employee relationship management (ERM), employee empowerment (EE), and organizational agility (OA) were borrowed from Sajuyigbe et al. (2023) and were modified to fit the study requirements. A five-point Likert scale, with 1 denoting “strongly disagree,” 2 “disagree,” 3 “neutral,” 4 “agree”, and 5 “strongly agree”, was used to measure each item.

The Partial least squares (PLS)-based structural equation modeling (SEM) is used in this study for data analysis. The SEM approach was selected as it allows for the analysis of all the hypotheses under study (Cheah et al., 2024). Similarly, SEM was employed in this study to precisely measure the variables and items on the questionnaire by analyzing variable relationships and approximating random errors in observed constructs directly (Teo, 2019). Furthermore, PLS is a latent SEM technique that uses a component-based estimation approach.

Thus, PLS-SEM provides measurement model assessment to evaluate the construct’s reliability, validity, and structural model assessment to check relationships between variables (Hair et al., 2021). The PLS technique is well-suited for complex models and is widely used in the social sciences. Furthermore, PLS is not dependent on a large sample size or the assumption that the data is normally distributed. PLS-SEM was selected for this study due to its suitability and capabilities (Hair et al., 2013). The measurement and structural models were evaluated using Smart PLS 4 version 4.1.0.0.

### 3. RESULTS

The first step in evaluating the developed model using Confirmatory Factor Analysis (CFA) is to validate the relationship between the model’s constructs to test the factor loadings (outer loading), construct reliability, and validity. Reliability is the degree to which the variables produce error-free and consistent results. Similarly, validity describes how much a variable deviates from other variables in the same model to measure the intended outcome (Hair et al., 2021). The outer loading for each of the three constructs’ items was measured using the Smart PLS algorithm to validate the data. A factor loading of 0.70 indicates that each item is strongly related to the associated construct, as represented in Table 2 (Hair et al., 2019b). Reliability was measured utilizing Cronbach

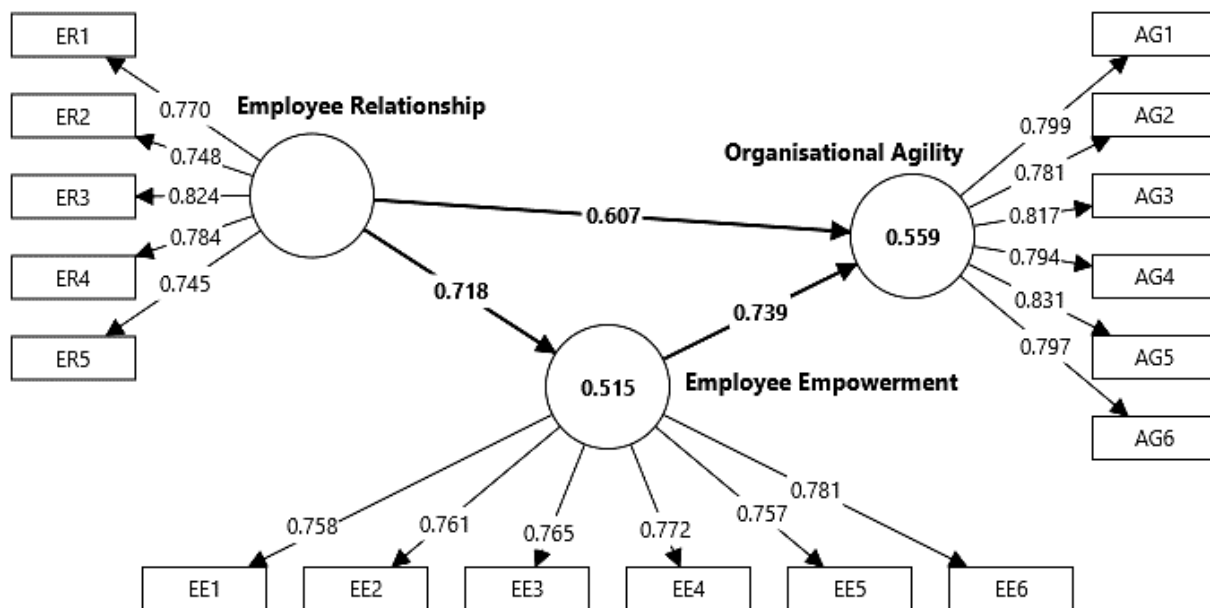


Figure 2. Results of the PLS-SEM algorithm (measurement model)

**Table 2.** Factor loadings

Abbreviations	Items	Employee Empowerment	Employee Relationship	Organizational Agility
AG1	My organization has a value culture that accommodates change as normal	–	–	0.799
AG2	Management spends a lot of time and resources on the future of the organization	–	–	0.781
AG3	In my organization, employees are aware of the external environment, especially our customers and competitors	–	–	0.817
AG4	In my organization, there is a free flow of information from the outside to units and groups	–	–	0.794
AG5	My organization embraces innovation	–	–	0.831
AG6	My organization has a common purpose apart from profitability and market share	–	–	0.797
ER1	Employees trust the promises provided by managers	–	0.770	–
ER2	The organization treats employees fairly and without discrimination	–	0.748	–
ER3	The manager holds regular meetings to discuss employee performance	–	0.824	–
ER4	The compensation offered by the organization corresponds to the expectations of the employees	–	0.784	–
ER5	The manager assigns or nominates employees for challenging tasks that facilitate their professional development	–	0.745	–
EE1	Management encourages teamwork	0.758	–	–
EE2	My boss gives me authority	0.761	–	–
EE3	Management encourages employees to come up with creative and innovative ideas	0.765	–	–
EE4	I am in control of the aspects of my work for which I am responsible	0.772	–	–
EE5	I have the authority to fix problems as they occur	0.757	–	–
EE6	I do not need management approval before dealing with issues	0.781	–	–

**Table 3.** Construct reliability and validity

Constructs	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Employee Empowerment	0.859	0.859	0.895	0.587
Employee Relationship	0.833	0.833	0.882	0.600
Organizational Agility	0.89	0.89	0.916	0.645

**Table 4.** Fornell-Larcker criterion

Constructs	Employee Empowerment	Employee Relationship	Organizational Agility
Employee Empowerment	0.766	–	–
Employee Relationship	0.718	0.775	–
Organizational Agility	0.739	0.607	0.803

**Table 5.** HTMT ratio

Constructs	Employee Empowerment	Employee Relationship
Employee Empowerment	–	–
Employee Relationship	0.848	–
Organizational Agility	0.845	0.702

**Table 6.** VIF test results

Constructs	Employee Empowerment	Employee Relationship	Organizational Agility
Employee Empowerment	–	–	2.062
Employee Relationship	1	–	2.062
Organizational Agility	–	–	–

Alpha and Composite Reliability, and validity was established using Average Variance extracted (AVE) (Hair et al., 2013). According to Hair et al. (2019a), Cronbach Alpha and Composite Reliability should be above the significance level of 0.70. As shown in Table 3 Cronbach Alpha and Composite Reliability values for all the constructs were greater than the recommended cut-off level indicating the reliability and internal consistency of the constructs. As per Table 3, AVE for all constructs was greater than the significance level of 0.50 thus, establishing validity (Hair et al., 2013). For the assessment of the Discriminant validity of the model, the Fornell-Larcker criterion was utilized. According to Fornell and Larcker (1981), if the square root of AVE is greater than the correlation among constructs the model has no issues of discriminant validity as represented in Table 4. To further confirm the discriminant validity of the constructs, the HTMT ratio was analyzed. As shown in Table 5, the HTMT ratio for all constructs is less than the recommended level of 0.90, hence, discriminant validity is established Hair et al. (2019b). Furthermore, the VIF test was utilized to confirm the model has

no multicollinearity issues. As per Table 6, VIF values for all constructs were less than 5, hence there are no multicollinearity issues in the model (Hair et al., 2019b).

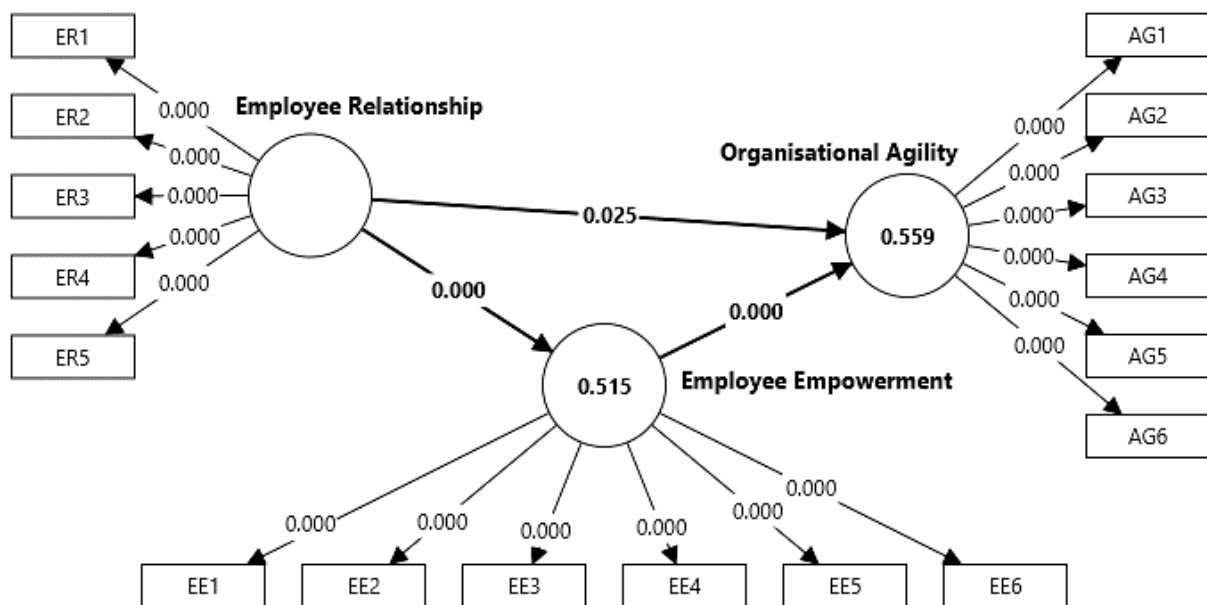
R<sup>2</sup> was assessed to measure the explanatory power of the model. According to Hair et al. (2019b), R<sup>2</sup> values of 0.75, 0.50, and 0.25 are considered substantial, moderate, and weak, respectively. The R square values for both dependent variables, Organizational Agility and Employee Empowerment, were 0.515 and 0.559, respectively, indicating moderate explanatory power. Table 7 indicates the R<sup>2</sup> values of the dependent variables.

**Table 7.** R<sup>2</sup> values of the dependent variables

Constructs	R Square
Organizational Agility	0.515
Employee Empowerment	0.559

**Table 8.** Q<sup>2</sup>

Constructs	Q <sup>2</sup> predict
Employee Empowerment	0.507
Organizational Agility	0.361



**Figure 3.** Results of path coefficient analysis from bootstrapping (structural model)



**Table 9.** Path coefficient

Constructs	Path Coefficient	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Employee Empowerment → Organizational Agility	0.627	0.069	9.123	0.000
Employee Relationship → Employee Empowerment	0.718	0.043	16.869	0.000
Employee Relationship → Organizational Agility	0.157	0.07	2.25	0.025

**Table 10.** Mediation analysis

Constructs	Original sample (O)	Standard deviation (STDEV)	T statistics ( O/STDEV )	P values
Employee relationship → Employee empowerment → Organizational Agility	0.45	0.058	7.752	0.000

The model predictive relevance was assessed using  $Q^2$  using PLS Predict in Smart PLS 4. According to Hair et al. (2019b),  $Q^2$  values greater than zero indicate that the research model has good predictive relevance. As Table 8 shows,  $Q^2$  values for employee empowerment and organizational agility were 0.507 and 0.306, respectively, indicating the model has good predictive relevance.

To test the hypotheses, bootstrapping with 10,000 resamples was done in PLS-SEM (Streukens & Leroi-Werelds, 2016). The results indicated that Employee Empowerment has a significant impact on Organizational Agility, as the P value is less than the significance level of 0.05. Hence, hypothesis  $H3$  is accepted. Employee relationship has a significant impact on Employee Empowerment as the P-value is less than the significance level of 0.05. As a result, hypothesis  $H1$  is accepted. Employee relationship has a significant impact on Organizational Agility as P-value is less than the significance level of 0.05. Hence, hypothesis  $H2$  is accepted.

The function of Employee Empowerment as a mediator between Employee Relationship and Organizational Agility was investigated to understand their relationship better. The finding of mediation analysis reveals that employee empowerment positively mediates the relationship between employee relationship and organizational agility as the P value is less than the significance level of 0.05. As a result, hypothesis  $H4$  is accepted.

## 4. DISCUSSION

This study draws upon the Resource Based Theory to examine the interplay between Employee Relationship Management, Employee

Empowerment, and Organizational Agility in a technology-laden banking sector. Based on the theory, it was hypothesized that the strategic utilization of internally available resources can facilitate success for any organization. The theory is greatly applicable to the banking sector, due to its need for a flexible and adaptive workforce. In this regard, four hypotheses were drawn, all of which have been accepted. This further validates the use of the resource-based theory in elucidating the priority that must be placed on employee relations and why such emphasis must be given to human resources to ensure plasticity in the organization.

Results indicate that is indeed a significant relationship between ERM and EE, indicating a positive impact of the former on the latter. The results are in line with Ivancevich (2004) who indicated that the implementation of ERM can enable any organization to engage in the practice of employee empowerment through decision making. Similar results were also brought forward by Sajuyigbe et al. (2023). Based on these findings, it may be apt to infer that maintaining amicable employer-employee relationships in a banking institution plays an important role in encouraging empowerment among its employees through teamwork, delegation of authority, and invitation of suggestions from employees.

Employee Empowerment was found to have a positive significant impact on Organizational Agility. These results were found to be in line with those of Aliyeva and Ibrahimova (2024), which indicated that empowerment of employees contributed towards boosting organizational efficiency, a quality that acts as the key to the firm's ability to achieve competitive dominance. To add further, studies

have previously noted that empowerment aspects, such as communicating essential information to employees (Hoque, 2024) along with competence and self-determination (Syamil & Isa, 2023), were found to contribute to an adaptive and agile work environment. Likewise, any banking establishment employing an empowered workforce is in line to attain organizational agility.

ERM was found to have a positive significant impact on organizational agility. These results are in tune with the findings of Carlsen (2021), that a work of proximity on the part of the management can lead to shared goals and hence, the attainment of a point of advantage in a dynamic environment. The works of Jamal et al. (2024) also hinted at specific ERM practices that significantly impact agility in terms of technology and change acceptance among employees. The findings of the current study point to ERM being a stepping stone to organizational agility. Practices such as offering professional development opportunities, fair compensation, and fair treatment of employees can aid firms, specifically banking institutions, in achieving flexibility in employee performance, enabling

the organization to seize the opportunities offered by the dynamic business environment.

Finally, results indicated the presence of a mediating effect of EE on the relationship between ERM and OA. This is in line with research results obtained by Sajuyigbe et al. (2023), wherein employee empowerment was shown to have a positive significant mediating effect on the relationship between ERM practices followed by establishments in the consumer goods sector and organizational agility. These findings highlight the importance of employee empowerment in fostering organizational agility. When employees feel empowered, they are more likely to take initiative, be adaptable, and contribute to organizational innovation. Additionally, the positive relationship between employee relations and employee empowerment suggests that creating a supportive and positive work environment empowers employees. Likewise, it may be concluded that for banking institutions to achieve organizational agility, a specialized focus would have to be placed on employee empowerment by relying upon employee relationship management.

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## CONCLUSION

The present study aimed to find evidence of the impact of employee relationship management practices on organizational agility, while simultaneously assessing the mediating effect of employee empowerment within the said relationship. Human resources are vital to all businesses, specifically to service organizations that heavily rely upon their workforce to fulfill their customers' needs. The banking sector is one industry that serves its customers with an appropriate mix of human and technological assistance.

Nevertheless, the need for an efficient human resource subjugates all other needs as banks would require a skilled workforce to handle their technology. The research hence found the employment of the Resource-based theory suitable to understand the significance of employees in a banking institution. The results evinced the role of employees in enhancing a bank's market standing. Employees who found their employers to be trustworthy, fair, and willing to contribute to career development opportunities were found to positively participate in achieving the organizational goals. An empowered workforce was found to be the key to organizational success.

Furthermore, this study also has some implications for banks concerning their employees. The research findings underscore the need for an emphasis on ensuring the mental well-being of employees in terms of work-related stressors by focusing on employee relations. Banks can achieve trust and loyalty among their employees if they are offered an opportunity for personal and professional development. Employees who are offered authority and creative space in their area of work are more likely to share a common purpose with their employers. It is this shared purpose that projects a bright future for banks.

Future research can incorporate the mediating effect of factors like employee engagement, commitment, and intelligence. The current study relies upon the resource-based theory to evaluate the interrelationships. Future research may focus on the Technology Acceptance Model to understand how employees of various FinTech firms perceive the FinTech world's technological dynamism.

## AUTHOR CONTRIBUTIONS

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