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Flexible work, healthier minds, happier employees: Evidence from Malaysia's banking sector

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Abstract

The increasing demands of professional roles and the difficulty of achieving work-life balance pose significant challenges to banking employees. These circumstances highlight the urgent need for flexible work arrangements in the banking sector. The Social Exchange Theory explains social interactions and relationships through the lens of cost-benefit exchanges. As such, this study investigates the role of flexible work arrangements in enhancing job satisfaction among banking employees, with psychological well-being serving as a linking mechanism. A total of 385 complete and usable datasets were collected in the banking institutions in Selangor and W.P. Kuala Lumpur, Malaysia. Partial Least Squares Structural Equation Modelling and bootstrapping were used to test the structural hypothesis. The results indicated that flexible work arrangements have a positive influence on psychological well-being and job satisfaction. Similarly, psychological well-being has a positive influence on job satisfaction and serves as a mediator of the relationship between flexible work arrangements and job satisfaction. The study enhances the existing literature by emphasising psychological well-being as a vital consideration for policymakers, particularly in the service industry, including banking institutions. Psychological well-being can lead to more satisfied and productive employees, thereby contributing to a healthier organisational culture.

Keywords:

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1. Introduction

Over the past decade, the service industry has become a major contributor to Malaysia's economic growth, creating numerous employment opportunities and enhancing productivity (Nair, 2021). In particular, the banking industry plays a vital role in supporting national financial infrastructure. However, the rapid pace of digital transformation has created pressure on bank employees, including the need for continuous upskilling and adaptation to technological advancements (Kitsios et al., 2021). Consequently, bank employees are under increasing pressure to develop digital literacy and continuously adapt to evolving technological and workplace

demands. However, the banking industry is known for its stressful working environment. Employees often manage large volumes of financial transactions, promote financial products, and comply with strict regulatory frameworks (Omoregbe et al., 2022). These demanding responsibilities, combined with customer service expectations, frequently lead to increased stress among employees, work-life imbalance, and declining job satisfaction. Such conditions can harm employees motivation, productivity, and overall well-being.

In response to these challenges, flexible work arrangements have been recognised as a potential solution to improve the employee experience. Flexible work arrangements encompass various practices, such as telecommuting, flexible time schedules, and compressed workweeks, which allow employees to have greater control over their working hours and environments. These arrangements have been consistently linked to positive outcomes, including improved work-life balance, reduced stress levels, and increased job satisfaction. From an organisational perspective, flexible work arrangements can lead to increased employee retention, lower turnover rates, and enhanced productivity when effectively managed. Despite the growing global recognition of the benefits of flexible work arrangements, their adoption within the Malaysian banking industry has been slow. This hesitation is often rooted in concerns related to productivity, data security, and a firm reliance on traditional work structures in the workplace.

Moreover, the COVID-19 pandemic has significantly accelerated the shift towards remote and hybrid working models in many industries, demonstrating the feasibility of flexible work at scale. While this shift encouraged some Malaysian banks to implement flexible practices, the long-term integration of work arrangements remains limited and inconsistent. As the post-pandemic workforce continues to demand flexibility and autonomy, it is increasingly important for financial institutions to rethink and modify their work designs and employee support systems. This study examines the impact of flexible work arrangements on job satisfaction among banking employees. This study also explores how psychological well-being interacts with flexible work arrangements to influence job satisfaction.

2. Literature review

Flexible work arrangements and psychological well-being have consistently been identified as influential factors contributing to job satisfaction across industries. In contrast, these relationships have been well explained individually; existing literature studies flexible work arrangements and psychological well-being as separate determinants of job satisfaction. Flexible work arrangements, such as remote work, flexible schedules, and compressed workweeks, are often associated with improved work-life balance (Putri et al., 2025; Aziz-Ur-Rehman & Siddiqui, 2019). Conversely, psychological well-being has been shown to predict both job satisfaction and employee performance (Kesawa et al., 2019). However, while these two factors have been extensively studied, most existing research treats them as independent predictors of job satisfaction.

2.1 Theoretical framework

Social Exchange Theory, initially developed by Blau (1964) and Homans (1958), posits that human relationships are built on reciprocal exchanges of resources, where individuals seek to maximise benefits while minimising costs. In the workplace, this theory suggests that when organisations provide sufficient support and benefits to employees, such as flexibility and a healthy work environment, employees feel obligated to reciprocate with positive behaviours and attitudes, including higher job satisfaction and performance. Flexible work arrangements are relevant examples of such organisational resources. When organisations offer employees the ability to control when, where, and how they work, they communicate trust and respect for

individual needs. This perceived organisational support aligns with the Social Exchange Theory by fostering a sense of mutual obligation. Employees respond to flexibility not only with gratitude but also with increased motivation, loyalty and satisfaction.

Similarly, promoting psychological well-being in the workplace through mental health resources, positive leadership, and a supportive culture further strengthens the employee-organisation relationship. When employees feel that their mental and emotional health is valued, they are more inclined to reciprocate by engaging in behaviours that benefit the organisation. These include higher job satisfaction, reduced turnover intention, and greater discretionary effort. Scholars have widely applied Social Exchange Theory to explore various organisational dynamics. Prior research has consistently shown that Social Exchange Theory is a meaningful framework for understanding the relationship between perceived organisational support, psychological empowerment, and key workplace outcomes (Lin et. al., 2024; Meira & Hencer, 2021; Jose & Mampilly, 2015). Building on these insights, the present study adopts the Social Exchange Theory as its theoretical framework to examine flexible work arrangements and work-life balance, which influence employee job satisfaction in the Malaysian banking industry.

2.2 Conceptual framework

This study establishes a theoretical foundation by employing Social Exchange Theory to develop a conceptual model tailored to the research context while maintaining the core principle of reciprocity in employee-employer relationships. Figure 1 illustrates the conceptual framework guiding this research, which illustrates both the direct and indirect pathways linking work arrangements to job satisfaction. Four research hypotheses were proposed to empirically examine the model. Specifically, flexible work arrangements are hypothesised to influence both psychological well-being and job satisfaction directly. Additionally, psychological well-being is expected to mediate the relationship between flexible work arrangements and job satisfaction while also exerting a direct impact on job satisfaction.

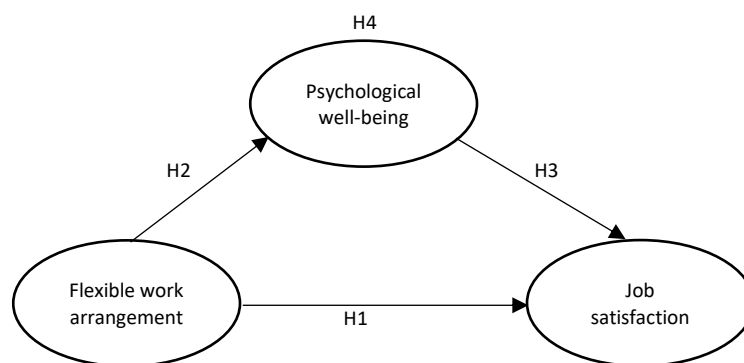


Figure 1. Proposed conceptual framework

2.3 Hypothesis development

Most studies have consistently demonstrated that flexible work arrangements positively influence job satisfaction across various industries and regions. For instance, Nurhidayah and Nurjanah (2022) found that flexible work arrangements significantly improve job satisfaction, with work-life balance serving as a mediator in Indonesian firms. Similarly, Indradewa and Prasetyo (2023) demonstrated that flexible work arrangements has a substantial direct effect on job satisfaction among professionals in Indonesia's metropolitan areas. George and Poluru (2024) also confirmed that flexible work arrangements reduce turnover intention by increasing job

satisfaction in the UAE power sector. Rajaram and Jha (2024) concluded that flexible work arrangements significantly boost job satisfaction in the corporate environment through enhanced flexibility and balance. Ahdianita and Setyaningrum (2024) further explained that flexible work arrangements have a direct positive impact on job satisfaction when they are supported by strong employee engagement. Thus, the following hypothesis is proposed:

H1: Flexible work arrangements positively influence job satisfaction.

Psychological well-being refers to a state of mental and emotional well-being that encompasses job satisfaction and overall life happiness (Dhanabhakym & Sarath, 2023). Empirical studies have increasingly highlighted the impact of flexible work arrangements on employees' psychological well-being. Flexible work arrangements reduce job-related stress and emotional fatigue by providing flexibility and control to manage competing demands on employees' time. Nikmah and Martdianty (2021) found that flexible work arrangements enhance psychological well-being by reducing the effect of job insecurity on performance and engagement. Simultaneously, Chong et al. (2023) demonstrated that flexible conditions contribute to psychological resilience by promoting psychological flexibility among nurses and reducing the adverse mental health effects of burnout. Hence, flexible work arrangements are presumed to influence employees' psychological well-being, and the following hypothesis is proposed:

H2: Flexible work arrangements positively influence psychological well-being.

Several studies have supported a significant positive relationship between psychological well-being and job satisfaction. Yang et al. (2024) stated that psychological well-being directly influences job satisfaction, which acts as a mediator in improving performance outcomes. Jacob and Kiranbabu (2021) demonstrated that teachers with higher psychological well-being tend to have greater job satisfaction. Similarly, Vershinina et al. (2024) explained that psychological well-being and job satisfaction are interconnected, particularly in work environments that foster employee engagement. Han (2022) found that job satisfaction was an important predictor of psychological well-being in the education sector. Therefore, the following hypothesis is proposed:

H3: Psychological well-being positively influences job satisfaction.

Flexible work arrangements, such as flexible time schedules and telecommuting, are crucial for promoting psychological well-being (Beckel & Fisher, 2022; Henke et al., 2016) and enhancing employee job satisfaction (Nurhidayah & Nurjanah, 2022). For example, Mwaniki (2022) highlights that flexible work arrangements significantly reduce employee stress levels and improve their psychological well-being. Similarly, Mandal and Goswami (2022) stated that employees with higher levels of psychological well-being tend to have increased motivation and job satisfaction, thereby enhancing their job performance. It can be concluded that work arrangements promote psychological well-being and subsequently improve job satisfaction. Thus, the following hypothesis is proposed:

H4: Psychological well-being mediates the relationship between work arrangements and job satisfaction.

3. Methodology

This study employed a quantitative research method by collecting primary data through the distribution of a survey questionnaire. According to statistical data from The Association of Banks in Malaysia (2024), the highest concentration of banks is found in Kuala Lumpur and Selangor. Therefore, these two regions were selected as sampling locations. A pre-test was conducted to ensure the validity and reliability of the instruments. This involved expert reviews by professionals in banking-related fields. A pilot study was conducted to assess internal consistency using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree). Data were collected between March and June 2024 using an online questionnaire designed using Google

Forms. The survey link was converted into a Quick Response (QR) code and distributed through social platforms to increase accessibility and reach. A purposive sampling method was employed to target banking employees. According to Krejcie and Morgan (1972), a sample size of at least 384 is sufficient when the population exceeds 75,000 people. Given that there are approximately 167,493 banking employees in Malaysia (The Association of Banks in Malaysia, 2025), a target of 400 responses was set. After screening for incomplete data, 375 complete and usable responses were retained, resulting in a 96.25% response rate. The sample size was deemed adequate for advanced statistical analysis, including partial least squares structural equation modelling (PLS-SEM), as recommended by Fauzi (2022).

Measurement instruments were adapted from validated scales used in prior research. Flexible Work Arrangements were measured using 10 items adapted from Legesse Bekele and Mohammed (2020). One sample item was "I can choose when to start and end my working hours". The scale showed strong reliability, with a Cronbach's alpha value of 0.938. Psychological well-being was assessed using eight items adapted from Diener and Biswas-Diener (2008). One of the sample items was "I lead a purposeful and meaningful life", with a Cronbach's alpha value of 0.935, showing good reliability. The nine items of job satisfaction by Spector (1997) were also used. Sample items included: "My salary is competitive compared to similar positions in other companies", "I am satisfied with the opportunities for promotion available to me", and "I enjoy the tasks and responsibilities of my job". The Cronbach's alpha value for job satisfaction was 0.916, demonstrating good reliability for each item.

The demographic profile, as shown in Table 1, of the respondents revealed that the majority were aged 18 – 29 (28.5%), followed by those aged 50 – 59 (21.1%), 30–39 (20.3%), 40–49 (20.0%), and 60 and above (10.1%). In terms of gender, more than half of the respondents were male (57.1%), while the remaining were female (42.9%). Most participants were Chinese (37.9%) and married (43.7%). Furthermore, the largest group held a bachelor's degree (46.1%), and many had over 10 years of work experience (35.5%). Most respondents occupied senior executive or supervisory roles (40.8%), and a significant portion reported earning an annual income between RM 60,001 and RM 100,000 (28.0%).

4. Results and findings

For data analysis, the study employed a partial least squares structural equation modelling (PLS-SEM) approach, which is particularly suitable for predictive and exploratory research because it maximises the explained variance of the model (Hair et al., 2011). The analysis was conducted using SmartPLS software, applying a two-stage analytical procedure. The first stage involved assessing the measurement model to examine the constructs' reliability and validity. The second stage focused on evaluating the structural model to test the hypothesised relationships among the variables, following the guidelines established by Ringle et al. (2015).

4.1 Measurement model assessment

The measurement model in this study illustrates the relationships between the latent constructs and their respective indicators, all of which were specified as reflective. Construct validity was assessed to evaluate the adequacy of the measurement models. As presented in Table 2, most indicator loadings exceeded the recommended threshold of 0.7, indicating strong individual item reliability (Hair et al., 2017). Furthermore, both composite reliability and Cronbach's alpha

values for all constructs surpassed the minimum acceptable value of 0.7, confirming the internal consistency of the scales (Gefen et al., 2000). These findings collectively support convergent validity, suggesting that the indicators reliably measure their corresponding latent constructs and that the measurement model is statistically sound.

Table 1: Demographic profile of respondents

		n=375	
Variable	Item	Frequency	Percentage
Sex	Male	161	42.9
	Female	214	57.1
Age Group	18 – 29	107	28.5
	30 – 39	76	20.3
	40 – 49	75	20.0
	50 – 59	79	21.1
	60 and above	38	10.1
Race	Malay	117	31.2
	Chinese	142	37.9
	Indian	97	25.9
	Others	19	5.1
Marital Status	Single	120	32.0
	Married	164	43.7
	Divorced	54	14.4
	Widowed	37	9.9
Education Level	Professional Certificate	90	24.0
	Bachelor's Degree	173	46.1
	Master's Degree	106	28.3
	Doctorate's Degree	6	1.6
	Others	0	0.0
Length of Service in Banking Industry	Less than 1 year	42	11.2
	1 – 5 years	87	23.2
	6 – 10 years	113	30.1
	More than 10 years	133	35.5
Level of Position in Banking Industry	Clerical	81	21.6
	Executive/Officer	110	29.3
	Senior Executive/Supervisor	153	40.8
	Managerial Level	31	8.3
Annual Income Range	RM 18,000 – RM 30,000	23	6.1
	RM 30,001 – RM 60,000	74	19.7
	RM 60,001 – RM 100,000	105	28.0
	RM 100,001 – RM 150,000	104	27.7
	RM 150,001 – RM 200,000	49	13.1
	RM 200,001 – RM 250,000	10	2.7
	Above RM 250,000	10	2.7

Discriminant validity was assessed using two widely accepted approaches: the Fornell and Larcker criterion (Fornell & Larcker, 1981; Chin, 2010) and the heterotrait-monotrait (HTMT) ratio of correlations (Henseler et al., 2015). As shown in Table 3, the square root of each construct's Average Variance Extracted (AVE) exceeded all the correlations with the same rows and columns, thereby fulfilling the Fornell and Larcker criterion.

For the heterotrait-monotrait (HTMT) ratio, all HTMT values in this study were well below the cutoff of 0.85, as recommended by Kline (2011). This indicates satisfactory discriminant validity. These results, together with other validation measures, confirm that the measurement model demonstrates adequate discriminant validity (Table 3).

Table 2: Measurement model result

Constructs	Items	Loadings	AVE	CR	CA
Flexible work arrangements (FWA)	FWA1	0.729	0.642	0.942	0.938
	FWA2	0.824			
	FWA3	0.785			
	FWA4	0.799			
	FWA5	0.881			
	FWA6	0.772			
	FWA7	0.719			
	FWA8	0.819			
	FWA9	0.839			
	FWA10	0.833			
Psychological well-being (PWB)	PWB1	0.815	0.684	0.958	0.935
	PWB2	0.827			
	PWB3	0.818			
	PWB4	0.868			
	PWB5	0.756			
	PWB6	0.846			
	PWB7	0.785			
	PWB8	0.894			
Job satisfaction (JS)	JS1	0.736	0.684	0.927	0.916
	JS2	0.844			
	JS3	0.810			
	JS4	0.803			
	JS5	0.838			
	JS6	0.802			
	JS7	0.777			
	JS8	0.789			
	JS9	0.736			

Notes:

AVE: Average Variance Extracted;

CR: Composite Reliability;

CA: Cronbach's Alpha

Table 3: Discriminant Validity Test

	Fornell-Larcker Criterion			Heterotrait-Monotrait Ratio (HTMT)		
	FWA	JS	PWB	FWA	JS	PWB
FWA	0.802					
JS	0.526	0.777		0.550		
PWB	0.549	0.488	0.827	0.555	0.479	

Notes: FWA: Flexible Work Arrangements; JS: Job Satisfaction; PWB: Psychological Well-Being

4.2 Structural model assessment

The structural model was evaluated in the second stage of the analysis using the bootstrapping technique with 375 resamples. Table 4 presents the hypothesised relationships between the variables. The results revealed that work arrangements positively influence job satisfaction ($\beta = 0.370$, $t\text{-value} = 6.393$, $p < 0.05$), supporting H1. Flexible work arrangements also have a positive influence on psychological well-being ($\beta = 0.549$, $t\text{-value} = 13.076$, $p < 0.05$), thus supporting H2. Furthermore, psychological well-being was found to have a positive influence on job satisfaction ($\beta = 0.285$, $t\text{-value} = 4.438$, $p < 0.05$), supporting hypothesis H3. Lastly, the mediation analysis showed that psychological well-being mediates the relationship between work arrangements and job satisfaction ($\beta = 0.157$, $t\text{-value} = 4.937$, $p < 0.05$), supporting H4.

Table 4: Structural model results

Hypothesis	Path	β	<i>p</i> -value	<i>t</i> -value	Result
H1	FWA → JS	0.370	0.000	6.393	Supported
H2	FWA → PWB	0.549	0.000	13.076	Supported
H3	PWB → JS	0.285	0.000	4.438	Supported
H4	FWA → PWB → JS	0.157	0.000	4.937	Supported

Notes: FWA: Flexible Work Arrangements; JS: Job Satisfaction; PWB: Psychological Well-Being

5. Discussion

The result for H1 is consistent with the results of past empirical studies by Nurhidayah and Nurjanah (2022), Indradewa and Prasetyo (2023), and Rajaram and Jha (2024). They reported that flexible work arrangements positively contribute to employee job satisfaction. This can be explained by the fact that when employees are given the freedom to manage their own working hours and location, they experience lower stress and anxiety, which in turn enhances their overall job satisfaction. Flexible work arrangements allow employees to balance their personal and professional responsibilities better, creating a more positive work experience. The finding for H2 parallels previous studies by Nikmah and Martdianty (2021) and Chong et al. (2023), demonstrating that flexible work arrangements positively impact employees' psychological well-being. The autonomy provided by flexible work arrangements empowers employees to take greater control over their tasks and schedules, reducing burnout and improving their emotional and psychological states. The result for H3 is consistent with the studies by Yang et al. (2024) and Vershinina et al. (2024), suggesting that employees with high psychological well-being tend to report greater job satisfaction. When employees feel mentally healthy and emotionally stable, they are more likely to find meaning and fulfilment in their roles, directly contributing to higher job satisfaction. Finally, the mediation result for H4 further confirms that psychological well-being serves as an important mechanism linking flexible work arrangements to improved job satisfaction. Specifically, this finding suggests that work arrangements do not directly enhance job satisfaction. Rather, they first improve employees' psychological well-being, which subsequently leads to greater job satisfaction. This highlights psychological well-being as an important pathway linking workplace flexibility to positive employee outcomes.

5.1 Implications

This study makes several important contributions to the theoretical understanding of employee psychological well-being and job satisfaction, particularly in the context of the banking industry in Malaysia. First, it extends the application of Social Exchange Theory (SET) by examining how flexible work arrangements and psychological well-being influence job satisfaction. While Social Exchange Theory has traditionally focused on tangible exchanges, such as monetary bonuses or job promotions, this study demonstrates that non-monetary exchanges, including autonomy, support for well-being, and flexibility, can significantly impact employee attitudes. By confirming that employees reciprocate supportive work policies with positive job attitudes, this study adds empirical evidence to the scope of social exchange theory in modern work environments. From a practical perspective, this study offers valuable guidance for policymakers and financial institutions to enhance employee satisfaction and retention, particularly among banking professionals. These findings support the implementation of flexible work arrangements as a strategic initiative. Options such as telecommuting, flexible time schedules, and compressed workweeks can enhance employees' job satisfaction and psychological well-being, eventually

leading to increased productivity. This is particularly important for employees who may value work flexibility as a tool for managing high stress and demanding work environments.

5.2 Conclusion

Flexible work arrangements are significant in maximising employees' job satisfaction. They enable employees to manage their tasks and promote healthy work-life balance. This study revealed a positive relationship between flexible work arrangements, psychological well-being, and job satisfaction. With psychological well-being as a mediator, this study strengthens the implications of flexible work arrangements and psychological well-being by utilising the theoretical framework of Social Exchange Theory. This study contributes a unique perspective by enriching the findings with relevant variables that are beneficial for human resource development and management in the banking industry.

The limitations of this study create opportunities for future studies. First, this study focused solely on employees in the Malaysian banking industry, which may limit the generalisability of its findings to other sectors. Future research should adopt a cross-sectional design with a broader sample. This study offers insights into the implementation and perception of flexible work arrangements; nevertheless, it remains limited to the problem statement outlined above, and certain contextual factors were not examined in depth in this study. Future research should build upon this study and address the identified gaps to provide a more comprehensive understanding of its broader implications.

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