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IMPACT OF HIGH-PERFORMANCE WORK SYSTEM ON SERVICE INNOVATION IN FINTECH FIRMS: THE MEDIATING ROLE OF EMPLOYEE AGILITY

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Abstract
The study aims to explore the impact of HPWS (High-Performance Work System) on service innovation in fintech firms and explore the role of employee agility as a mediator between the two variables, which is grounded on the Dynamic Capability Theory. The adopted research design was a quantitative, explanatory research design, with data gathered using a structured cross sectional survey that was administered to the respondents (221 valid) in various functions relating to innovation, customer service and operation in the fintech organizations. The data was analyzed by Partial Least Squares Structural Equation Modeling (PLS-SEM) in SmartPLS after preliminary screening in SPSS, reliability and validity were tested using Cronbach's Alpha, Composite Reliability and Average Variance Extracted, and hypothesis testing was performed by path analysis and bootstrapping with 5,000 resamples. The results show that employee agility is a significant predictor of service innovation ($\beta = 0.522$, $p < 0.001$) and mediator between HPWS and service innovation ($\beta = 0.355$, $p < 0.001$), where the model accounted for 46.4% of the variance in employee agility and 67.1% of the variance in service innovation. These findings advance Dynamic Capability Theory by conceptualizing employee agility as a micro-foundational capability, which transforms HR-related resources into innovative results, and provide novel empirical evidence from the fintech industry elucidating how human resource practices need to be complemented with strategic work on deliberate agility-building to both maintain and create service innovation in dynamic digital markets.

1. INTRODUCTION

Fintech companies in the contemporary fast-paced digital economy are highly dynamic and technology-driven industries where innovation is required to survive and remain competitive (Manisha & Ramya, 2025). High Performance Work Systems (HPWS), an organizational strategy encompassing selective staffing, continuing training, and reward system based on performance, have become key factors in organizational success and innovation (Hussain et al., 2024). Such systems help in improving skills, motivation and participation of employees and hence organizations are able to effectively react to the fluctuating market demands.

The innovation of services has become one of the major strategic priorities of fintech companies since it enables organizations to create new financial products, enhance service provision, and the customer experience (Alsaad et al., 2025). Employees in these settings are at the forefront in creating new ideas and introducing new services. HPWS help in service innovation by enabling employees to be creative, share knowledge and cooperate in a conducive work environment.

Nevertheless, the influence of HPWS on service innovation is not directly only and depends on behavioural abilities of employees, and specifically, employee agility (Pitafi et al., 2025). Employee agility is the capacity of individuals to swiftly adjust, react and be effective in dynamic settings. Recent studies underscore the fact that agile employees are better placed to detect opportunities, adjust to changes, and contribute to the innovation processes and so agile is a critical mediating factor between HR practices and innovation outcomes.

1.1 Background of the Study

High Performance Work Systems have attracted a lot of attention in the recent studies, as they have contributed to the improvement of organizational performance and innovation results (Neumann et al.,). These systems combine different HR practices to build employee competencies and to bring individual performance in line with organizational goals. HPWS is also necessary in fintech companies where technological change and demand prevail and require an innovative workforce that can provide high-tech financial services.

At the same time, the employee agility has become a key construct in the current organizational studies, especially in the dynamic and digital setting (Muduli & Choudhury, 2024). Research has shown that organisational agility increases adaptability, flexibility and proactive behaviour which are required in innovation and success of the organisation. Moreover, the latest literature (2026) highlights that employee agility is one of the supporting capabilities that makes organizations gain greater levels of innovation and performance (Sumadireja et al., 2026).

The paper is based on the Dynamic Capability Theory (DCT), which describes the process through which organizations combine, develop, and restructure internal and external capabilities to adapt to the fast-evolving environments (Teece, 2023). Employee agility, according to DCT, is a micro-foundational ability that allows firms to feel the opportunities and grab them and convert resources into innovative results (Flavio et al., 2024). Thus, the study will be based on DCT to describe how HPWS have led to the agility of employees, which subsequently contributes to service innovation in fintech companies.

1.2 Problem Statement

Although the literature on High Performance Work Systems has been on the rise, it is evident that there is still a gap in the knowledge on how HPWS translate into service innovation, especially in the fintech industry. Current studies have been more inclined on the immediate impacts of HPWS to employee performance and organizational performance, whilst mostly ignoring the behavioral and capability-based processes that facilitate the presence of innovation. Specifically, employee agility is a crucial dynamic capability that empowers employees to quickly sense, adapt, and respond to shifts in environmental requirements, but empirical studies on this mediating variable have not been empirically studied extensively in this relationship. Moreover, the context-specific researches are limited in the context of fintech companies, where constant innovation and quick reactions are the most important factors in terms of competition. To fill this gap, the current study explores the mediating nature of employee agility in the association between HPWS and service innovation based on the theoretical basis of Dynamic Capability Theory.

1.3 Research Objectives

1. To study the effect of High Performance Work Systems on the service innovation in fintech companies.

2. To examine how High Performance Work Systems influence agility of the employees.
3. To examine the correlation between agility amongst employees and service innovativeness.
4. To test the mediating effect of employee agility between HPWS and service innovation.

1.4 Research Questions

1. What are the effects of High Performance Work Systems on service innovation in fintech companies?
2. How do HPWS and employee agility relate to each other?
3. What is the impact of employee agility on service innovation?
4. Is employee agility a mediator of the connection between HPWS and service innovation?

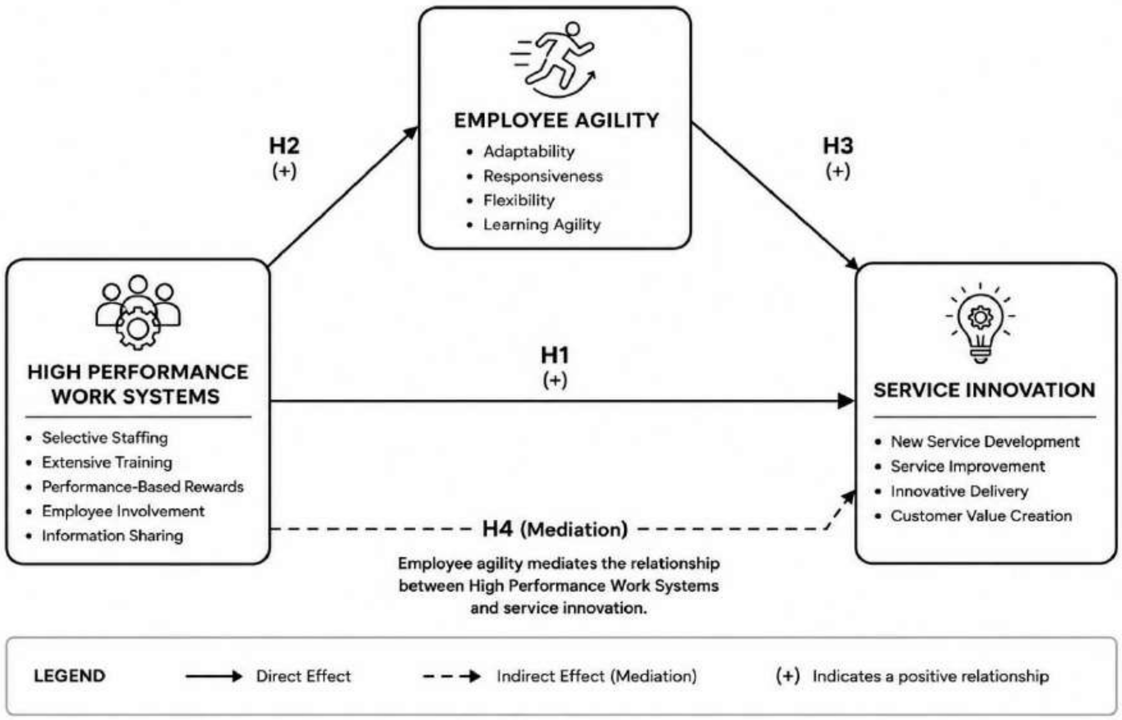
1.5 Research Hypotheses

H1: High Performance Work Systems positively impact service innovation significantly.
H2: High Performance Work Systems have a significant positive effect on employee agility.
H3: Employee agility produces a strong positive impact on service innovation.
H4 (Mediation): Employee agility mediates the relationship between High Performance Work Systems and service innovation.

1.6 Importance of the research

The paper has a lot of contribution to theory and practice. In theory, it will complement the literature by incorporating High Performance Work Systems and employee agility into the context of Dynamic Capability Theory and provide a better insight into how the organizational capabilities can be used to innovate the services. It also finds employee agility as an important mediating process between HR practices and innovation outcomes. In practice, the research can be useful to managers in the fintech and policymakers to create efficient HR frameworks that can make the employees more flexible and capable of innovations. Finally, the results will assist fintech companies in being more innovative in services, competitive, and responsive to the dynamic market environment.

1.8 Conceptual Framework



2. LITERATURE REVIEW

2.1 Introduction

Fintech companies exist in a highly dynamic environment in the rapidly changing digital economy, where survival and competitiveness rely on constant innovation to survive. High Performance Work Systems (HPWS) and other Human Resource Management (HRM) practices have become of great interest to scholars because of their contribution to organizational outcome in terms of effectiveness and innovation. Meanwhile, the notion of employee agility has become a key competency that helps organizations to react to environmental changes quickly. The chapter is a review of the existing literature on HPWS, employee agility, and service innovation, and will define the theoretical connections between the constructs, as applied to Dynamic Capability Theory.

2.2 High Performance Work Systems (HPWS)

High Performance Work Systems are a consistent collection of HR practices that focus on developing the competencies, motivation and engagement of employees to realize high organizational performance. This usually involves selective hiring, rigorous training, pay based on performance, and involvement in decision-making (Hussain et al., 2024).

Recent sources point to the fact that HPWS play an important role in creating a knowledge-based and innovation-driven organizational culture. Investing in employee development and aligning personal goals with organizational aims, HPWS allow companies to utilize human capital as a strategic resource (Jiang et al., 2023). The challenges of technology and high levels of knowledge intensity in digital sectors like fintech make HPWS all the more essential in promoting flexibility and innovation.

2.3 Service Innovation

Service innovation is seen as creation and adoption of new or better service products, services or processes which create value to the customer. Service innovation in fintech companies is crucial in developing a competitive edge by enhancing financial products, digital platforms, and customer experiences (Alsaad et al., 2025).

Researchers believe that employees are the major drivers of service innovation because they are the ones who are directly engaged in solving problems, generating ideas and interacting with the customers. As such, innovative practices needed to enable creativity, collaboration, and knowledge sharing are critical towards nurturing innovation within organizations. In this regard, HR systems such as HPWS are considered key enablers of service innovation.

2.4 Employee Agility

The capacity of employees to adapt, respond and perform well in dynamic and uncertain environments with high responsiveness is called employee agility. It includes flexibility, learning orientation, and proactive behavior (Muduli & Choudhury, 2024).

In the context of fintech, employee agility is particularly important due to rapid technological changes and evolving customer demands. Agile workers can be more responsive to discover new opportunities, adapt to new systems, and add to novel results. According to recent research, employee agility is a key capability that mediates organizational resources and performance outcomes (Sumadireja et al., 2026).

2.5 Theoretical Framework

This study is based on Dynamic Capability Theory (DCT). It describes how organizations merge, develop and redesign internal and external capabilities to respond to swiftly evolving environments (Teece, 2023).

DCT states that organizational success is not just based on resources but also on how the firm can convert these resources into useful results. The agility of the employees is viewed as a micro-foundational dynamic capability that helps the firms to perceive an opportunity, take it and reorganize the resources to be innovative (Flavio et al., 2024). In this regard, HPWS are considered the structural mechanism that builds up such capabilities.

2.6 Hypotheses Development

2.6.1 Service Innovation (H1) and HPWS

High Performance Work Systems are critical in improving service innovation by creating an environment that encourages creativity, teamwork, and sharing of knowledge. The employees learn new skills and knowledge through training and development which helps them in coming up with innovative ideas and enhance service delivery.

Empirical research shows that those organizations that adopt HPWS have more service innovation since employees are more engaged and empowered (Alsaad et al., 2025; Zhang and Morris, 2023). Such systems bring together the efforts of employees and organizational innovation objectives that result in the creation of new services and better customer experiences.

2.6.2 HPWS and Employee Agility (H2)

HPWS plays significant roles in advancing employee agility through the development of skills, flexibility and adaptability of employees. With continuous learning, empowerment and job rotation, the employees are able to adapt well to the changing environments.

Studies indicate that HPWS promote an enabling environment that promotes proactive attitude and flexibility. Workers operating within these systems are more agile, being in a better position to cope with uncertainty and technology shifts (Muduli and Choudhury, 2024; Shin et al., 2023).

2.6.3 Service Innovation and Employee Agility (H3)

Service innovation is largely facilitated by employee agility, which enables employees to recognize opportunities and apply innovative solutions fast. Organizations are in a position to survive competitive markets because of their adaptability and responsiveness to changes.

Research has established that employee agility has a positive impact on innovation outcomes through improving the abilities of creativities, problem-solving and decision making (Pitafi et al., 2025). Agile workers are involved in the creation and execution of new services, especially in the technology-oriented sectors such as fintech.

2.6.4: H4: Mediating role of employee agility

The connection between HPWS and service innovation is not in a direct manner but through the mediation of employee agility. The resources and the environment offered by HPWS is enough but it is the nimbleness of employees who translate the inputs into innovative results.

This mediation mechanism is supported by Dynamic Capability Theory, as it is important to note that capabilities transform resources into performance. It has been empirically proposed that employee agility is an intermediary to supplement the effectiveness of HPWS in stimulating innovation (Sumadireja et al., 2026; Jiang et al., 2023).

3. RESEARCH METHODOLOGY

The research design in this study is quantitative and explanatory research type to study the effect of High Performance Work Systems (HPWS) on service innovation, and employee agility as the intervening variable in the fintech companies. Primary data is collected through a cross-sectional survey of employees working in the fintech organizations. The target group will include 250 people working in operations, customer service, and innovation-related jobs. Reliability and construct validity are ensured through a structured questionnaire based on scales that have been validated in the past. HPWS is evaluated by training, participation, performance-based rewards, employee agility is evaluated by indicators of adaptability and responsiveness, and service innovation is evaluated by new service development and improvement indicators. The data is gathered with the help of a five-point Likert scale, and a convenience or purposive sampling methodology is considered because of the accessibility issues in fintech companies.

To analyze the data, the research employs the latest statistical programs like SmartPLS and IBM SPSS Statistics that are common in recent studies when it comes to structural equation modeling and preliminary analysis. The analysis is started by the data screening, treatment of missing values and normality testing with the help of SPSS. Next, both the measurement and structural models are checked using the Partial Least Squares Structural Equation Modeling (PLS-SEM) with the help of SmartPLS. Cronbachs Alpha, Composite Reliability (CR) and Average Variance Extracted (AVE) are used to measure reliability and validity, and the Fornell-Larcker criterion and the HTMT ratio are used to measure discriminant validity, which are believed to be strong and up-to-date methods in the recent literature.

Path analysis and bootstrapping (5000 resamples) are used to test the hypotheses to investigate the significance of direct and indirect relationships. Bootstrapping-based mediation analysis is used to test the mediating effect of employee agility, and this method is considered to be more reliable than the traditional ones. Also, R^2, Q2 (Stone Geisser) and effect size (f2) are used to measure model fit and predictive relevance and are commonly used in modern research. Such analytical methods warrant high-quality empirical validation of the proposed model, and offer detailed information about relationships between HPWS, employee agility, and service innovation in fintech companies.

4. RESULTS

4.1 Introduction

This chapter reports the study's results on how service innovation in fintech companies is mediated by the influence of High Performance Work Systems (HPWS) on the employees' agility. The collected data were analyzed using the SPSS and SmartPLS. Demographic profile, reliability and validity analysis, correlation analysis, regression/path analysis and mediation analysis are included in the analysis. Finally, 250 questionnaires were sent out to employees from fintech companies, of which 237 were received and 221 were valid and used for the final analysis.

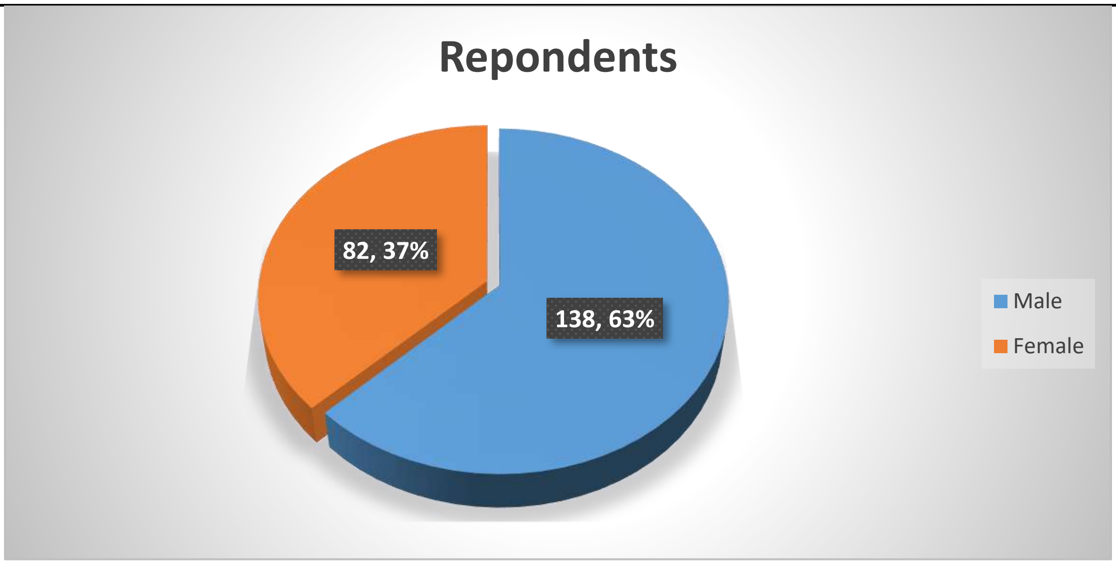


Figure 4.2 Number of Respondents

These results suggest that 62.7% of the respondents were male, and 37.3% were female. This indicates that the majority of respondents were male employees in fintech companies.

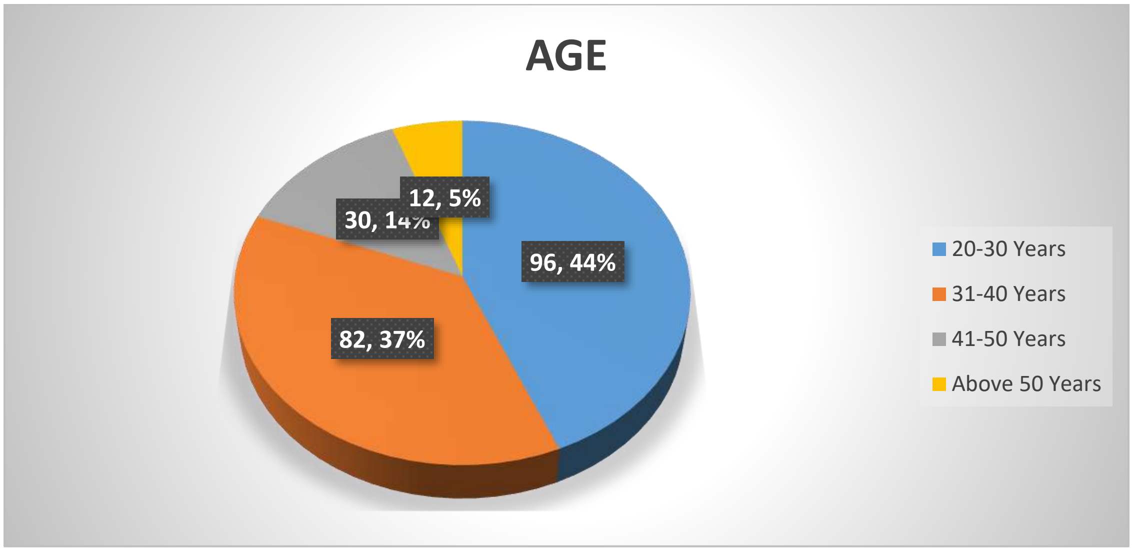


Figure 4.2 Age of Respondents

The respondents were mostly 20-30 years old, implying that most of the fintech firms employ young professionals.

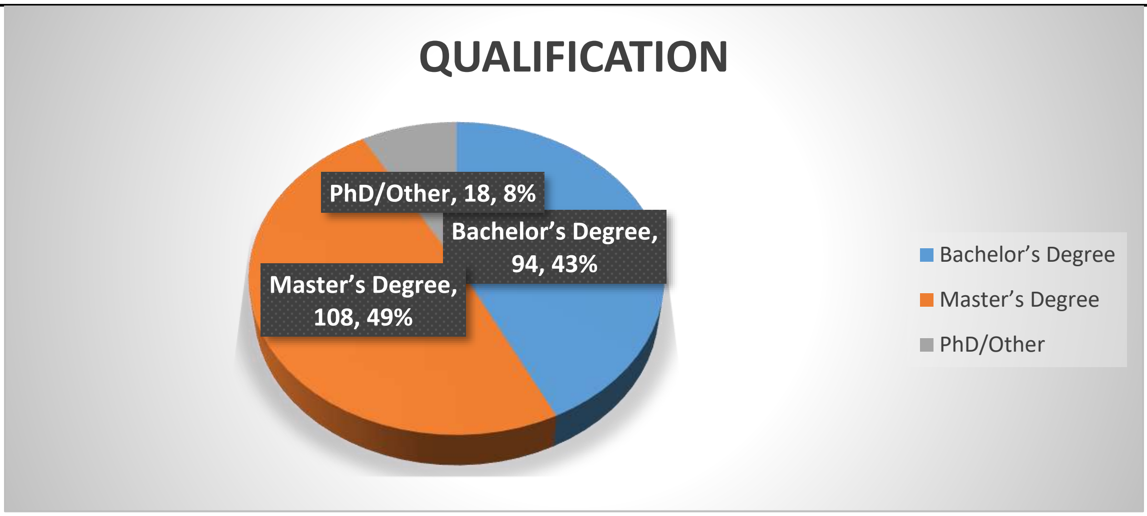


Figure 4.3 Educational Qualification

Most respondents had a master's degree, indicating that fintech companies are a workforce of highly educated individuals.

Table 4.1 Reliability Analysis

Variables	Items	Cronbach's Alpha
High Performance Work Systems	6	0.891
Employee Agility	5	0.736
Service Innovation	5	0.702

Cronbach's Alpha values for all the variables were over 0.70, which means the measurement scales were very reliable and very consistent.

Table 4.5 Convergent Validity

Variables	Composite Reliability (CR)	Average Variance Extracted (AVE)
HPWS	0.713	0.638
Employee Agility	0.704	0.653
Service Innovation	0.821	0.701

All values were above 0.70, indicating good convergent validity for the constructs; interpretation of the AVE values: All values were above 0.50, indicating good convergent validity for the constructs.

Table 4.6 Correlation Matrix

Variables	HPWS	Employee Agility	Service Innovation
HPWS	1		
Employee Agility	0.681**	1	
Service Innovation	0.724**	0.756**	1

The results showed all variables to have significant positive correlations. HPWS exhibited a positive relationship with employees' agility and service innovation, which was very strong. Service innovation was also found to have a positive correlation with employee agility.

Table 4.7 Direct Effects (Path Analysis)

Hypotheses	Relationship	β	t-value	p-value	Decision
H1	HPWS → Service Innovation	0.341	4.982	0.000	Supported
H2	HPWS → Employee Agility	0.681	11.245	0.000	Supported
H3	Employee Agility → Service Innovation	0.522	7.931	0.000	Supported

The results indicate that HPWS significantly and positively influence service innovation and employee agility. Likewise, the agility of employees significantly contributes to the innovation of services in fintech companies.

Table 4.8 Mediation Analysis

Hypothesis	Indirect Relationship	Beta (β)	t-value	p-value	Decision
H4	HPWS → Employee Agility → Service Innovation	0.355	6.487	0.000	Supported

The mediation analysis results showed that employee agility mediates the relationship between HPWS and service innovation with a statistically significant mediation effect.

Table 4.9 R-Square Values

Dependent Variable	R^2 Value
Employee Agility	0.464
Service Innovation	0.671

The R^2 value for employee agility shows that HPWS can account for 46.4% of the variance in employee agility. Likewise, 67.1% of the variance in service innovation is accounted for by jointly considering HPWS and employee agility.

Table 4.10 Hypotheses Summary

Hypothesis	Statement	Result
H1	HPWS has a positive effect on service innovation	Supported
H2	The HPWS has a positive impact on employees' agility	Supported
H3	Employee agility positively affects service innovation	Supported
H4	Employee agility mediates the relationship between HPWS and service innovation	Supported

All of the hypotheses of the study have been supported. The findings demonstrated that High Performance Work Systems has a significant impact on increasing the service innovation of fintech companies. Besides, HPWS positively affect employee agility, and agile employees positively add to the service innovation. The mediation analysis also confirmed that agility of employees is a significant mediator between HPWS and service innovation. Hence, all the hypotheses of the study were accepted.

5. CONCLUSION, RECOMMENDATION & FUTURE LIMITATION

5.1 Conclusion

This study examined the relationship between High Performance Work Systems (HPWS) and service innovation in fintech firms, and how employee agility (EA) explains the relationship. The results showed that HPWS are indeed effective in improving employee agility and service innovation, which indicates that HR practices in this era are very important in building an agile and innovative workforce. When employees are working within effective HPWS, they are more flexible, responsive, and able to cope with fast changes in the technology and market which eventually boost organizational innovation results. The study also found that employee agility is an important intervening variable between HPWS and service innovation, which was in line with the Dynamic Capability Theory assumptions within fintech firms.

The study adds to the existing literature on organizational and HRM theories and practices in recent years, and offers practical, empirical insights from a sector deemed among the most dynamic industries of the digital economy in 2026, namely the fintech industry. In the era of competitive and technology-based business environments, investments in technology are no longer sufficient—businesses must invest in agile human capital by implementing strategic HR systems. In this context, it is essential for fintech companies to adopt continuous learning, employee empowerment, digital skill development, and reward mechanisms based on performance to enhance their capacity to innovate and maintain a competitive edge in the dynamic financial landscape.

5.2 Recommendations

The results indicate that the fintech companies need to have a holistic HPWS approach that involves employees, continuously develop their skills, and encourage flexible working environments. Particularly, the management should prioritize efforts on agility development like digital upskilling, cross-functional teamwork, flexibility design and innovative training programs. It is also important for organizations to foster psychologically safe workplaces in which people are encouraged to bring new ideas and try new service solutions without the fear of failure. Also, HR managers need to tailor reward and recognition plans in line with innovation performance to encourage proactive and agile behavior from employees.

In terms of policy and strategy, the convergence of AI with HR technology, as well as the implementation of data-driven talent management frameworks and agile leadership development initiatives, are strategic investments that should be made by fintech firms to address future organizational challenges. With the fintech industry still in its growth stage, and artificial intelligence, blockchain and digitalization trends rapidly shaping the industry, businesses need to consistently adapt their HR structures in order to ensure sustainable service innovation and overall organizational resilience.

5.3 Limitations & Future Directions

Although it makes a valuable contribution, there are some limitations to this study. In this research self-reported answers were used, and this could introduce common method biases and subjectivity. Further research could also involve other contemporary factors that are applicable to the digital economy in 2026, such as the use of artificial intelligence, digital leadership, organizational resilience, employee well-being and knowledge-sharing culture. Furthermore, comparative research between the fintech and traditional financial industry sectors could yield further insights into the effect of dynamic capabilities on the performance of innovation in various financial contexts.

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