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THE INFLUENCE OF ORGANIZATIONAL ROUTINES AND AGILITY ON BRANCH PERFORMANCE: THE MEDIATING ROLE OF MANAGERIAL DISCRETION

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Abstract:

Background: In today's rapidly evolving banking landscape, Indonesian financial institutions face increasing pressure to remain competitive, responsive, and customer-centric. While digital transformation continues to shape the industry, branch offices remain integral to operational and strategic outcomes, especially in delivering services and maintaining long-term customer trust. Within this setting, branch heads serve as middle managers who are expected to make swift and context-sensitive decisions. However, their decision-making authority is often constrained by rigid organizational routines, creating a paradox where agility is required, yet formal structures dominate. This dynamic presents a unique challenge: how can branch-level leaders balance routine procedures with the agility needed to meet market demands and drive performance?.
Purpose: This study investigates how branch performance is shaped by the interaction between organizational routines and agility, and the mediating role of managerial discretion.
Design/methodology/approach: This study was conducted at Bank XYZ, a state-owned bank in Indonesia. The population consisted of branch heads from Class B.I and B.II branches. Using the Slovin formula (confidence level: 93%, margin of error: 7%), a minimum sample of 136 was targeted. Out of 165 distributed questionnaires, 142 valid responses were obtained. The data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM).
Findings/Result: The results indicate that the variables pertaining to organizational routines and organizational agility serve to reinforce the significant role of managerial discretion in the performance of Bank XYZ branches, which can be evaluated across five performance dimensions: financial, quality, innovation, environment, and social.
Conclusion: The findings demonstrate that organizational routines remain a key aspect of banking branch operations. However, in contexts that demand flexibility and speed in implementing changes and seizing opportunities, the role of managerial discretion becomes particularly crucial in enabling the application of agility to achieve performance.
Originality/value (State of the art): This study contributes valuable insights into the complex relationship between organizational routines, agility, and managerial discretion, particularly in the context of banking branch operations. It emphasizes how managerial discretion is essential in balancing routine operations and the need for flexibility in dynamic environments, offering a framework to improve branch performance in challenging situations.

Keywords: branch performance, managerial discretion, organizational agility, organizational routines, achieve performance

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INTRODUCTION

The rapid advancement of digital technology has shifted the operational model of banking institutions toward a more modern and digitized approach (Niemand et al. 2020), while simultaneously introducing new risks particularly related to data and system security (Shin, 2021; Auer et al. 2022). In Indonesia, the banking sector remains a crucial pillar for national economic stability and growth (Bhegawati & Utama, 2020), as emphasized by the Otoritas Jasa Keuangan (OJK). Even as of 2023, the OJK reports a relatively robust industry despite global economic volatility.

Despite digitalisation, the banking branch remains a foundational element in the sustainability of banking companies in Indonesia. The direct interaction between branch staff and customers enables the establishment of trust and long-term relationships, which are crucial for the success of banking institutions (Aggelopoulos, E. 2018; Chabachib et al. 2019; Auer et al. 2022; Kuswandi et al. 2022). Branch operations encompass financial transactions, advisory services, and strategic customer relationship management (Shah et al. 2020). The branch head, positioned at the middle management level, holds considerable decision-making authority (Aggelopoulos, 2018; Theodore et al. 2022).

Managerial discretion refers to the extent of autonomy a manager has in making decisions (Hambrick & Finkelstein, 1987), and has been shown to influence performance outcomes (Magnan & St. Onge, 1997; Wangrow et al. 2015). More recent studies reinforce this perspective. Budiman et al. (2023) found that managerial discretion mediates the relationship between agility and performance in dynamic organizational environments. Similarly, John & Ragui (2024) demonstrated that agility in innovation, human resources, and information significantly improves banking performance in Kenya. These findings suggest that discretion is a key variable enabling the translation of organizational capabilities into measurable results.

Organizational routines play a crucial role in the learning and operational processes within the banking sector (Levitt & March, 1988). Rather than being static, routines are dynamic and can evolve over time. Feldman and Pentland (2003) conceptualize routines as both a stabilizing force and a potential source of flexibility and innovation. Their ostensive (abstract) and performative (practical) aspects, when aligned, can facilitate adaptation and organizational change. However, organizational routines often provide limited flexibility for managers to adapt their decisions to specific situations (Feldman 2003; Koumakhov & Daoud, 2016; Annosi et al. 2018; Haskara & Sudhartio, 2020).

Banks must actively manage and update routines to stay relevant in dynamic markets (Tripsas & Gavetti, 2000; Becker, 2004). Routines may enable local adaptation, but their effectiveness depends on the degree of discretion granted to individual managers.

From a theoretical perspective, Institutional Theory (DiMaggio & Powell, 1983; Scott, 2008) explains how routines emerge in response to external pressures particularly regulatory demands in the banking sector. In such contexts, routines may be adopted more for legitimacy than efficiency, thereby limiting flexibility.

A complementary view is offered by Routine Dynamics Theory, which emphasizes that the outcomes of routines depend not just on their design but on how they are enacted by individuals (Hærem et al. 2021). Discretion plays a central role in how routines are interpreted, adapted, or changed in practice. Lemken and Rowe (2020) found that effective routine management in financial services especially in banking can improve responsiveness and performance. Their findings underscore the need for a balance between structured routines and adaptive managerial discretion. Recent research supports this view. Budiman et al. (2023) and Sampath et al. (2021) highlight that routines alone are insufficient unless managers have the discretion to modify or reinterpret them in response to situational needs.

Organizational agility enables firms to remain competitive amid rapidly evolving challenges and opportunities (Teece et al. 1997; Sharifi & Zhang, 2001; Budiman et al. 2023). A key element of agility is the capacity to accelerate learning and innovation cycles (Goldman et al. 1995; Akkaya & Tabak, 2020). Agile organizations tend to grant managers greater authority to respond quickly to environmental changes (Hitt et al. 1998; Helfat et al. 2007; Linnenluecke & Griffiths, 2010).

Theodore et al. (2022) argued that organizational agility acts as a precursor to perceived managerial discretion, which in turn facilitates the execution of strategic initiatives aimed at performance improvement. In volatile environments, agility enhances managers' confidence and autonomy to make timely, effective decisions. From a theoretical standpoint, the concept of agility is closely linked to the Dynamic Capabilities View (DCV), which emphasizes an organization's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments (Teece, Pisano, & Shuen, 1997; Eisenhardt & Martin, 2000). Organizational agility can thus be seen as an expression of dynamic capability that enhances the responsiveness and decision-making latitude of managers.

The more agile an organization, the more likely it is to empower middle managers with the discretion needed to act swiftly and effectively under uncertainty. John & Ragui (2024) found that agility in decision-making and human capital processes significantly influences banking performance, particularly when front-line managers are given the freedom to execute context-specific strategies. Consequently, organizational agility is not merely a response to change; it is also the exploitation of such change as an opportunity for continuous growth and improvement (Tushman & O'Reilly III, 1996). The ability to anticipate and respond to volatility can only be effective if supported by decentralized authority and discretion, especially at the branch level where strategic implementation meets operational reality.

This view is reinforced by Issa et al. (2024), who showed that internal reward structures aligned with performance-based systems help improve agility and responsiveness in Nigerian commercial banks. Their findings further highlight that without a clear mechanism for decision-making autonomy, organizational agility may not translate into operational success.

The concept of managerial discretion, introduced by Hambrick & Finkelstein (1987), reconciles two competing perspectives: one that emphasizes the dominant role of leaders in shaping outcomes and another that attributes outcomes mainly to external constraints. Managerial discretion posits that a leader's influence depends on the latitude of action permitted within their role. Carpenter et al. (2004) suggest that organizations granting higher discretion enable more adaptive responses, which lead to better performance. Managerial discretion refers to the autonomy managers have in making decisions and implementing actions within organizational boundaries. Caza (2012) identifies three domains of discretion technical, staffing, and support which highlight that discretion not only affects strategic choices but also day-to-day operational decisions. Similarly, Hambrick & Finkelstein (1987) outline three key sources of discretion: task environment, internal organizational structures, and individual managerial traits.

A multitude of studies have demonstrated that managerial discretion significantly influences organizational performance (Theodore et al. 2022; Budiman et al. 2023). However, relatively few studies have examined the role of managerial discretion as a mediating variable particularly in the context of operational branches in the banking sector. This study aims to fill that gap by examining how discretion serves as the linking mechanism between structural enablers (i.e., routines and agility) and performance outcomes.

Understanding the antecedents of discretion can help organizations formulate more adaptive strategies (Sumadilaga et al. 2017; Wangrow & Schloemer, 2019). Banking branches often operate within established procedures. Organizational routines are repetitive patterns of behavior that guide day-to-day operations (Nelson & Winter, 1982; Feldman & Pentland, 2003). Rigid routines may constrain innovation and reduce flexibility at the branch level, limiting managerial discretion. Sampath et al. (2021) argued that highly regulated industries often allow little room for discretionary action.

Dynamic Capabilities Theory explains how organizations evolve in response to change (Kurtmollaiev, 2020; Schilke et al. 2017). Firms with dynamic capabilities can reconfigure resources to adapt and innovate (Teece et al. 1997; Eisenhardt & Martin, 2000). Agility, as part of this capability set, enables effective operation under turbulent conditions (Walter, 2021; Shams et al. 2021). Theodore et al. (2022) showed that flexibility, responsiveness, and resource mobility increase perceived discretion. Middle management perceives that organizationals which are flexible, responsive and readily able to allocate resources are better placed to implement initiatives.

Although branch heads operate within company policy (Bhegawati & Utama, 2020), they often face unpredictable situations requiring independent judgment (Zhang & Zhang, 2022). In the context of Bank XYZ, several organizational changes and external pressures have underscored the relevance of this study. As a state-owned bank with an extensive branch network, Bank XYZ faces increasing demands for digital transformation, regulatory compliance, and service excellence. However, the persistence of rigid routines, uneven managerial autonomy across branches, and varying levels of agility have led to challenges in achieving consistent performance outcomes. These organizational realities raise critical questions about the role of internal mechanisms such as routines and agility and the discretion granted to branch heads in driving strategic and operational performance.

Recent local studies underscore these challenges. Rani et al. (2024) emphasized the importance of balancing routines and agility, while Probojakti et al. (2024) highlighted agility's mediating role in achieving digital transformation outcomes. By focusing on these constructs within Bank XYZ, this study not only contributes empirical insight but also addresses a gap in understanding how middle management discretion translates organizational resources into results especially in a highly regulated and complex service environment.

This study positions managerial discretion as a mediating variable between organizational mechanisms (routines and agility) and performance outcomes. While routines and agility reflect institutional structure and behavior, discretion represents the agency of branch heads in making context-driven decisions. It is through the exercise of discretion that managers balance operational constraints with strategic responsiveness.
By exercising discretion, managers can bridge operational constraints with strategic responsiveness, particularly in highly regulated environments like banking. This framework aligns with both the Upper Echelons Theory and Dynamic Capabilities View, offering a novel explanation of middle-management contribution to performance.

This study contributes to the literature in three ways. First, it explores managerial discretion as a mediating variable between organizational routines, agility, and performance an area underexplored in existing studies. Second, it highlights the role of middle managers in an emerging economy's banking sector, shifting the focus from top-level executives to operational leaders. Third, it deepens the understanding of how discretion enables structural enablers to be translated into performance, especially in regulated environments. These contributions lay a foundation for future studies in dynamic, high-compliance sectors.

METHODS

This study utilized primary quantitative data, collected directly from branch heads of Class B.I and B.II branches of Bank XYZ, a major state-owned bank in Indonesia. These branches represent medium-scale operations with considerable business volume and strategic responsibilities, making them a relevant context for examining managerial discretion and organizational agility at the middle-management level. Bank XYZ was chosen due to its extensive national presence, regulatory relevance, and ongoing transformation initiatives. The selection of these branches allows the study to focus on managerial roles with strategic responsibilities while remaining under the oversight of head office policies providing a rich context for investigating managerial discretion and agility at the middle-management level.

The target population comprised all branch heads in the selected classes, given their critical roles in overseeing both service delivery and business execution. Respondents were purposively selected based on their strategic function in leading branch operations across different regions. To ensure diversity, demographic variables such as gender, age, education, and region were collected. The sample included representation across 12 regional clusters, covering both urban and rural branches.

Although the Slovin formula was used to estimate the minimum sample size (with a 93% confidence level and 7% margin of error), the actual data collection adopted a non-probability purposive sampling strategy. This approach was chosen because the total number of eligible branch heads was relatively small and known, allowing for a sensus-like design. As noted by Etikan et al. (2016), purposive sampling is appropriate when studying a specific, bounded population particularly in organizational settings where full access is available. The approach ensures data from those with the requisite experience and authority to inform the research.

In total, 165 surveys were distributed, resulting in 142 valid responses, surpassing the minimum requirement of 136 respondents. This aligns with Hair et al. (2010) who recommend a minimum of 100 samples for PLS-SEM analysis.

Data were collected using a structured questionnaire distributed via WhatsApp and corporate email over a two-week period. The instrument used a 6-point Likert scale, ranging from “strongly disagree” (1) to “strongly agree” (6). This scale was selected to avoid neutral bias and encourage more discriminative responses. The demographic profile of respondents is summarized in Table 1.

Table 1. Respondent’s Profile (n=142)

Criteria	Total of Indicators
Gender	Male - 61 (43%)
	Female - 81 (57%)
Age (year old)	25–30 yo - 2 (1%)
	31–35 yo - 41 (29%)
	36–40 yo - 47 (33%)
	41–45 yo - 39 (27%)
	46–50 yo - 8 (6%)
	> 50 yo - 5 (4%)
Years of service (yos)	1 –5 yos - 85 (60%)
	6 –10 yos - 57 (40%)
Education Level	Bachelor - 83 (58%)
	Master - 59 (42%)
Region	Region 1 - 13 (9%)
	Region 2 - 14 (10%)
	Region 3 - 17 (12%)
	Region 4 - 22 (15%)
	Region 5 - 20 (14%)
	Region 6 - 13 (9%)
	Region 7 - 11 (8%)
	Region 8 - 10 (7%)
	Region 9 - 6 (4%)
	Region 10 - 7 (5%)
	Region 11 - 5 (4%)
	Region 12 - 4 (3%)

The research instrument was developed based on validated measurement models from prior studies, with contextual adaptations to reflect branch-level banking operations. The development process began with a comprehensive literature review, followed by translation, expert input, and a pilot study.

All items were initially written in English, then translated into Bahasa Indonesia and subsequently back-translated to ensure semantic accuracy. A pilot test with ten branch heads was conducted to assess clarity and contextual relevance. Based on the feedback, several items were reworded to align with the operational realities of Bank XYZ.

Organizational Routines: Operationalized based on Lemken & Rowe (2020) with two dimensions adaptive routines and operational routines using 10 indicators. Minor wording adjustments were made to distinguish between product- and service-related routines. Sample item: “Our branch routinely maintains good relationships with existing customers.”

Organizational Agility: Derived from Aburub (2015) and Budiman et al. (2023), consisting of four dimensions responsiveness, speed, competency, and flexibility measured by 34 indicators. Several items were adapted or newly added to address service versus product agility. Sample item: “Our branch can quickly shift from offering one product to another based on customer needs.”

Managerial Discretion: Based on Budiman et al. (2023), covering organizational, leadership, and task discretion using 18 indicators. Adjustments were made for decision-making at the branch level, emphasizing day-to-day and customer-facing discretion. Sample item: “I determine the methods used by my branch team to perform tasks.”

Performance: Measured using five dimensions financial, quality, innovation, environmental, and social with 24 indicators sourced and adapted from Maletič et al. (2016) and Kore et al. (2024). Some indicators were refined to distinguish service quality and product innovation more clearly. Sample item: “The quality of service at our branch has improved over the past three years.”

All questionnaire items were either adapted from publicly available academic sources or developed based on established constructs. No copyrighted instruments were used. Full details of dimensions, indicators, sources, and modifications are shown in Table 2.

Table 2. Operationalization of research variables

Variabel	Dimension	Author	Total of Indicators
Organizational Routines (OR)	Adaptive Routines (AR)	Lemken and Rowe (2020)	5
	Operasional Routines (OpR)		5
Organizational Agility (OA)	Responsiveness (Rp)	Aburub (2015)	10
	Speed (Sp)		5
	Competency (Cp)		6
	Flexibility (Fl)		15
Managerial Discretion (MD)	Organizational (Or)	Budiman et al. (2023)	8
	Leadership (Ld)		6
	Task (Ts)		4
Performance (Pr)	Financial (Fc)	Maletič et al. (2016)	4
	Quality (Ql)		5
	Innovation (In)	Kore et al. (2024)	4
	Environmental (Ev)		4
	Social (Sc)		9

This study employed Partial Least Squares Structural Equation Modeling (PLS-SEM) to analyze the proposed relationships among constructs and assess the validity and reliability of the measurement model (Lukaraja et al. 2020). The model comprises two exogenous variables Organizational Routines and Organizational Agility one mediating variable Managerial Discretion and one endogenous variable Performance. The evaluation was carried out in two stages: first-order testing, which examined the relationship between individual indicators and their respective dimensions, and second-order testing, which assessed the relationship between dimensions and their latent constructs.

The analysis was conducted in two stages: measurement model evaluation and structural model evaluation. Measurement validity was confirmed through factor loading values, with all indicators showing acceptable values above 0.50 (e.g., Adaptive Routines = 0.771; Responsiveness = 0.831)(Table 3). According to Hair et al. (2014), these values confirm the adequacy of the measurement items.

Discriminant validity was established using the Fornell–Larcker criterion and cross-loading analysis. Construct reliability was verified via Composite Reliability (CR), with all constructs exceeding the 0.70 threshold, indicating strong internal consistency. Overall, the combination of convergent validity, discriminant validity, and composite reliability supports the robustness of the measurement model. The constructs used—Organizational Routines, Organizational Agility, Managerial Discretion, and Performance are statistically valid, consistent, and appropriate for further structural analysis in this study. To assess structural relationships, effect size analysis (F^2) was used. Organizational Routines showed a small but meaningful effect on Managerial Discretion ($F^2 = 0.069$), while Organizational Agility demonstrated a stronger influence ($F^2 = 0.247$)(Table 4). These results support the conceptual assumptions of the study and validate the mediating role of discretion between organizational mechanisms and performance outcomes.

This study proposes five hypotheses that reflect the conceptual relationships among organizational routines, organizational agility, managerial discretion, and performance. Each hypothesis is grounded in relevant theoretical and empirical literature, as follows:

H1: Organizational Routines has a positive effect on Managerial Discretion

Based on Routine Dynamics Theory and Institutional Theory, organizational routines though often perceived as stabilizing can also support flexibility when enacted with discretion (Feldman & Pentland, 2003; Hærem et al. 2021). In regulated sectors like banking, routines may limit decision-making autonomy unless they are adapted locally. Studies by Budiman et al. (2023) and Sampath et al. (2021) emphasize that routines contribute to discretion when managers are allowed to modify or reinterpret them based on operational needs.

Table 3. Validity & Reliability

Constructs & Dimensions		Loading Factor (LF)	Composite Reliability (CR)	Average Variance Extracted (AVE)
Organizational Routines (OR)	Adaptive Routines (AR)	0.771		
	Operasional Routines (OpR)	0.742	0.728	0.573
Organizational Agility (OA)	Responsiveness (Rp)	0.831		
	Speed (Sp)	0.693		
	Competency (Cp)	0.650		
	Flexibility (Fl)	0.741	0.821	0.536
Managerial Discretion (MD)	Organizational (Or)	0.860		
	Leadership (Ld)	0.793		
	Task (Ts)	0.701	0.829	0.620
Performance (Pr)	Financial (Fc)	0.769		
	Quality (Ql)	0.792		
	Innovation (In)	0.693		
	Environmental (Ev)	0.773		
	Social (Sc)	0.728	0.866	0.565

Table 4. F^2 Test Results

Constructs & Dimensions		F^2	Managerial Discretion (MD)	Performance (Pr)
Organizational Routines (OR)	Adaptive Routines (AR)	0.771		
	Operasional Routines (OpR)	0.742	0.069	
Organizational Agility (OA)	Responsiveness (Rp)	0.831		
	Speed (Sp)	0.693		
	Competency (Cp)	0.650		
	Flexibility (Fl)	0.741	0.247	
Managerial Discretion (MD)	Organizational (Or)	0.860		
	Leadership (Ld)	0.793		
	Task (Ts)	0.701		0.565
Performance (Pr)	Financial (Fc)	0.769		
	Quality (Ql)	0.792		
	Innovation (In)	0.693		
	Environmental (Ev)	0.773		
	Social (Sc)	0.728		

H2: Organizational Agility has a positive effect on Managerial Discretion

Organizational agility, as part of a firm’s dynamic capabilities (Teece et al. 1997; Eisenhardt & Martin, 2000), enhances the responsiveness and flexibility of managers. Agile organizations tend to decentralize authority, thus empowering middle managers with discretion to make timely decisions (Theodore et al. 2022). John & Ragui (2024) further demonstrate that agility only translates into performance when discretion is present.

H3: The Effect of Organizational Routines on Performance is Mediated by Managerial discretion

While structured routines guide operational behavior, their performance impact is contingent on how they are enacted by managers. Studies highlight that discretion enables routines to be aligned with situational demands and strategic goals (Cortnes & Kiss, 2023). Therefore, managerial discretion mediates the relationship between routines and branch performance.

H4: The Effect of Organizational Agility on Performance is Mediated by Managerial Discretion

Organizational Agility enhances decision-making speed and responsiveness, but its impact on performance depends on the discretion granted to middle managers. As shown by Budiman et al. (2023) and Theodore et al. (2022), discretion acts as the conduit through which agility becomes operationally impactful, particularly at the branch level where implementation occurs.

H5: Managerial Discretion has a positive effect on Performance

Managerial discretion defined as the latitude of action permitted within a role enables middle managers to align operational execution with strategic priorities (Hambrick & Finkelstein, 1987; Wangrow et al. 2015). Empirical studies (e.g., Budiman et al. 2023; Zhang & Zhang, 2022) confirm that higher discretion among branch heads leads to improved responsiveness and performance outcomes in banking environments.

The conceptual framework illustrates how Organizational Routines and Organizational Agility serve as exogenous variables that influence Managerial Discretion, which in turn affects Branch Performance (Figure 1). Managerial discretion functions as a mediating variable, reflecting the degree of autonomy and authority middle managers possess in responding to operational and strategic demands. This framework integrates insights from Institutional Theory, Routine Dynamics, and the Dynamic Capabilities View, emphasizing that enhanced discretion enables managers to translate structural capabilities into improved performance outcomes within regulated banking environments.

RESULTS

Hypothesis testing was conducted by examining the path coefficients and T-statistics derived from the SmartPLS analysis. A relationship was considered statistically significant when the T-statistic value met or exceeded 1,64 (Hair et al. 2019). The results of hypothesis testing are summarized in Table 5 and Figure 2, and all proposed hypotheses were found to be supported.

H1 proposed that Organizational Routines have a significant positive effect on Managerial Discretion. This hypothesis was supported, with a T-statistic of 3.400 (>1.64) and an original sample (O) value of 0.238. This finding aligns with previous research emphasizing how adaptive and operational routines can influence managerial autonomy in decision-making (Lemken & Rowe, 2020; Koumakhov & Daoud, 2016).

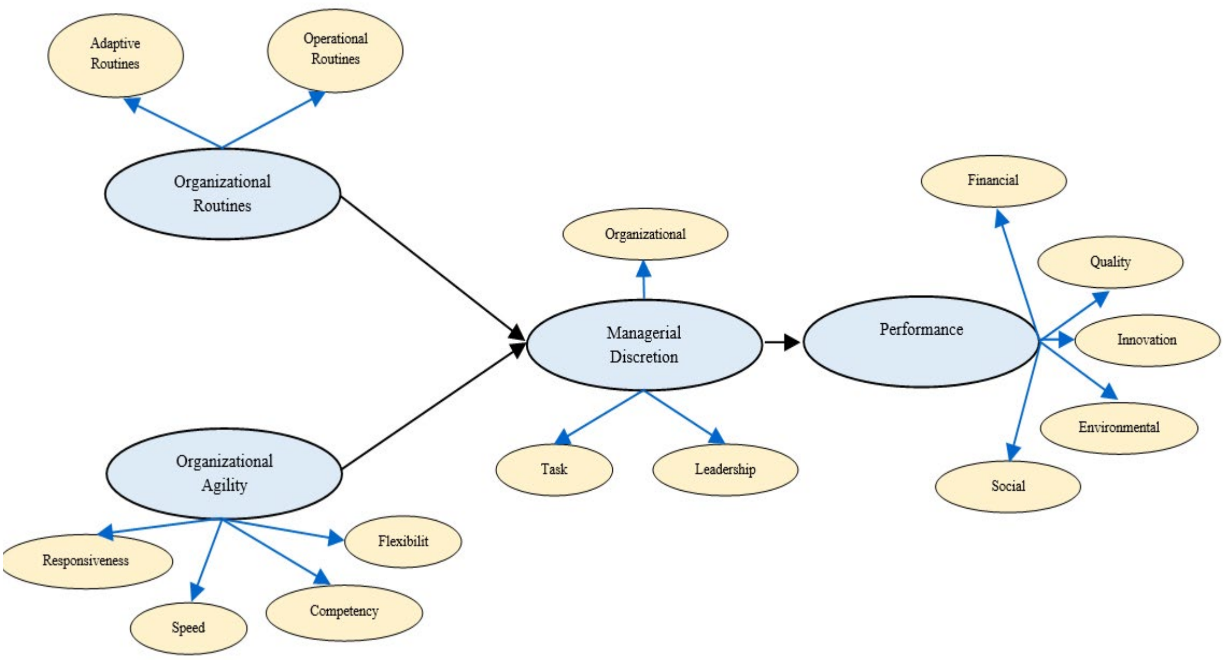

Figure 1. Model Conceptual

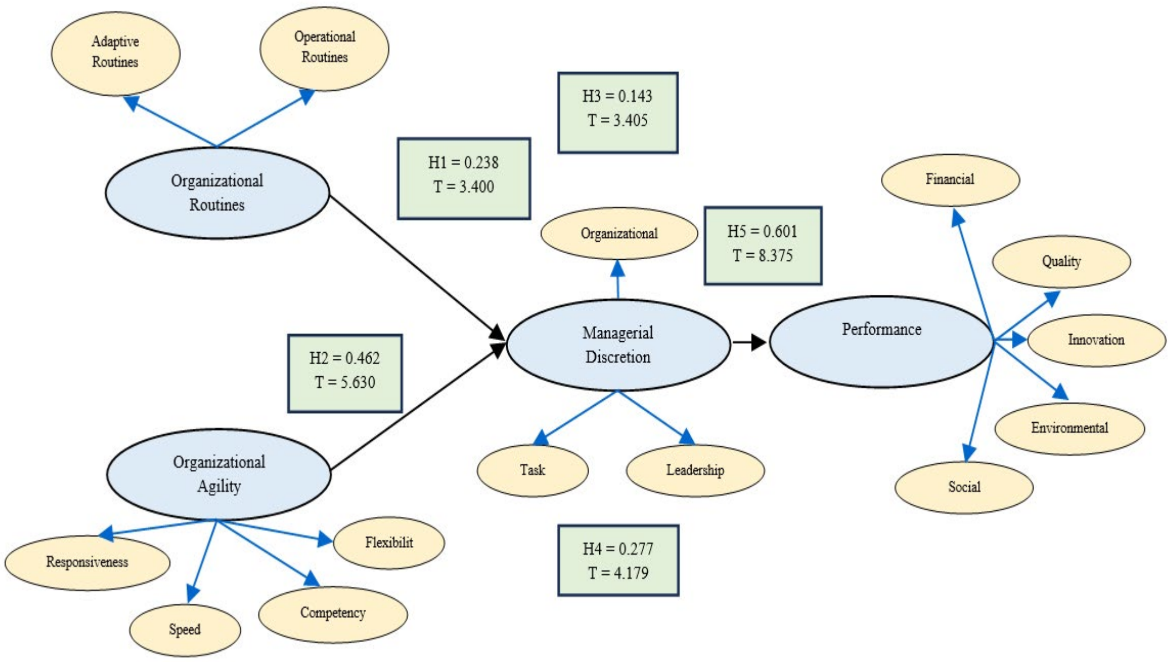

Figure 2. Research Result

Table 5. Summary of hypotheses and significance of relationships among variables

Hypothesis	Original Sample	Sample Mean	Standard Deviation (STDEV)	T-Statistics (|O/STDEV|)	Result
H1	0.238	0.246	0.07	3.400	Accept
H2	0.462	0.463	0.082	5.630	Accept
H3	0.143	0.148	0.042	3.405	Accept
H4	0.277	0.281	0.066	4.179	Accept
H5	0.601	0.601	0.072	8.375	Accept

H2 tested the direct influence of Organizational Agility on Managerial Discretion. The results demonstrated a strong, positive, and significant relationship, indicated by a T-statistic of 5.630 and an O value of 0.462. These findings confirm that agile organizations grant middle managers more room to maneuver, especially in volatile or rapidly changing contexts (Budiman et al. 2023).

H3 examined the mediating role of Managerial Discretion in the relationship between Organizational Routines and Performance. The analysis revealed a significant indirect effect, with a T-statistic of 3.405 and an O value of 0.143. This supports the argument that discretion acts as a translation mechanism that allows organizational routines to be aligned with local performance needs at the branch level.

H4 further examined whether Managerial Discretion mediates the effect of Organizational Agility on Performance. The hypothesis was supported with a T-statistic of 4.179 and an O value of 0.277, indicating a positive and statistically significant mediation effect. This emphasizes that discretion is a necessary link between an organization's agility and its actual performance outcomes.

H5 tested the direct influence of Managerial Discretion on Performance. Results showed a strong and significant effect, with a T-statistic of 8.375 and an O value of 0.601. This finding is consistent with previous literature, highlighting the importance of managerial autonomy in enhancing strategic responsiveness and improving unit performance (Wangrow et al. 2015; Theodore et al. 2022).

The study also confirmed the relevance of the four dimensions of organizational agility responsiveness, speed, competency, and flexibility as theorized in prior studies (Aburub, 2015; Budiman et al. 2023). Branches that are able to respond swiftly to market dynamics, engage in cross-functional coordination, and manage change effectively tend to empower their leaders with greater discretion, which ultimately enhances overall performance.

Furthermore, in line with existing research (Maletič et al. 2016; Kore et al. 2024), this study found that performance is a multi-dimensional construct, incorporating financial, quality, innovation, environmental, and social dimensions. The emphasis on these five performance indicators reflects Bank XYZ's efforts to remain competitive not only financially, but also in terms of social responsibility and environmental sustainability.

These results further support the notion that in highly regulated environments such as banking, managerial discretion functions as a critical linkage between structural elements (routines and agility) and performance outcomes. The ability of branch heads to navigate procedural demands while simultaneously responding to strategic shifts highlights their role as boundary-spanners. This aligns with findings by Lin, Qu, and Fu (2019) and Haskara & Sudhartio (2020), who argued that routines and agility are not inherently contradictory but can be complementary when mediated by discretion.

The practical implication is that empowering branch-level managers in institutions like Bank XYZ is not merely an operational tactic, but a strategic enabler of agility and innovation. The performance improvements observed in this study particularly those beyond financial metrics reinforce the managerial importance of granting discretion under structured governance frameworks.

Managerial Implications

Overall, the findings of this study underscore the importance of balancing structure and flexibility in organizational management, particularly in regulated industries such as banking. Managerial discretion plays a critical role in translating organizational routines and agility into improved branch performance. The following implications can serve as strategic considerations for both branch-level and corporate-level leaders at Bank XYZ and similar financial institutions:

Implementing More Adaptive Organizational Routines

Bank branches must strike a balance between maintaining consistent operational standards and fostering adaptive routines that allow for local responsiveness. Rigid routines may hinder innovation and strategic responsiveness. Therefore, it is essential to conduct regular evaluations of existing procedures to ensure that they remain efficient while also leaving space for adjustment based on customer feedback and market shifts. Empowering managers to customize routine implementation can enhance responsiveness without compromising compliance.

Enhancing Organizational Agility for Flexible Decision-Making

To remain competitive in a dynamic environment, branch heads should cultivate an agile culture characterized by high responsiveness, speed, competency, and flexibility. This can be supported by simplifying approval processes, removing bureaucratic barriers, and enabling cross-functional coordination. Strengthening agility at the branch level enhances the organization's capacity to anticipate and respond to customer needs and regulatory changes in real time.

Optimizing Managerial Discretion to Improve Performance

The results of this study confirm that increased managerial discretion positively influences multidimensional performance. Therefore, organizations should consider granting greater autonomy to branch heads, especially in areas involving customer strategy, resource allocation, and service innovation. This can be achieved through targeted leadership development programs focusing on data-driven decision-making, market intelligence, and calculated risk-taking. Managers who are trusted to act independently are more likely to deliver performance outcomes aligned with strategic goals.

Balancing Organizational Routines and Organizational Agility

This research reveals a paradoxical relationship between routines and agility. Effective management involves recognizing when to enforce standardized procedures and when to adopt a more flexible, opportunity-driven approach. Providing clear frameworks that define the scope of managerial discretion across different scenarios can help managers navigate this tension effectively. Such guidance enables consistent decision-making while allowing branches the latitude to innovate and adapt to local market demands.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study investigated the paradoxical relationship between organizational routines and organizational agility, and how both structural and behavioral mechanisms influence branch performance, with managerial discretion acting as a mediating variable. The research was conducted within the context of Bank XYZ, a state-owned enterprise in Indonesia, selected due to its significant branch network, strategic importance, and the complexity of operating under strict regulatory environments.

The findings demonstrate that both organizational routines and organizational agility have a positive and significant influence on managerial discretion, which in turn significantly impacts performance. This confirms that managerial discretion functions as a key mediator, enabling middle managers to translate structural conditions into strategic and operational performance outcomes. The study also finds that while routines remain foundational especially for compliance and control agility plays a more dominant role in service responsiveness, allowing branches to adjust swiftly to customer demands.

The conceptual model that illustra these results contribute theoretically by integrating the Upper Echelons Theory (Hambrick & Mason, 1984) with the Dynamic Capabilities View (Teece, 2007), supporting the notion that effective performance in regulated and dynamic environments requires both institutional structures and empowered managerial judgment. The relevance of discretion in this study aligns with prior work by Caza (2011) and Hambrick & Finkelstein (1987), who emphasize the importance of autonomy and contextual decision-making power among middle managers.

Moreover, the study supports the conceptualization of performance as a multidimensional construct, comprising financial, quality, innovation, environmental, and social dimensions (Maletič et al. 2016; Kore et al. 2024). The ability of branch heads to navigate this complex performance landscape hinges on their discretion, which is shaped by their organizational context—routines that offer stability and agility that supports adaptability.

From a practical standpoint, the results call for greater autonomy and decision-making flexibility among branch heads, particularly in medium-scale branches where responsiveness and strategic coordination are crucial. Bank XYZ and similar institutions should develop more adaptive routines, foster organizational agility through simplified processes and upskilling, and clarify the scope of managerial discretion in balancing standardization with innovation. This approach ensures that branches can operate with both discipline and responsiveness.

This study addresses a clear research gap by empirically testing how routines and agility—often seen as opposites—can coexist and jointly influence discretion and performance at the middle-management level. While earlier studies have examined these variables independently, this research offers a novel mediated model, validated within a real-world banking context.
Nonetheless, limitations must be acknowledged. The cross-sectional design restricts causal inference, and the focus on a single institution limits external validity. Future research may adopt longitudinal or comparative cross-industry approaches, and explore additional moderators (e.g., digital readiness, leadership style, or regulatory complexity) to enrich understanding of the discretion-performance link.

In summary, this research offers a comprehensive framework for understanding how organizational routines and agility, mediated by managerial discretion, can enhance organizational performance. Theoretical contributions and managerial implications from this study provide valuable insights not only for banking institutions but also for other highly regulated, dynamic sectors seeking to balance structure and flexibility in a changing environment.

Recommendations

Building on the findings of this study, several recommendations are proposed for future research and practical implementation. Researchers are encouraged to expand the scope of analysis beyond a single banking institution by including cross-sectoral comparisons or longitudinal studies that allow for causal inference. Incorporating additional variables such as organizational culture, digital maturity, or leadership behavior could offer deeper insights into how discretion operates in different institutional contexts.

Practically, organizations especially in regulated sectors should consider designing more adaptive and context-sensitive routines that allow middle managers sufficient autonomy to act responsively. Training and development programs should be aligned with agility competencies, such as rapid decision-making, customer responsiveness, and coordination across functional boundaries. Furthermore, simplifying internal governance procedures can enable faster implementation of strategies without sacrificing compliance.

It is also important for future studies to investigate how discretion manifests across different organizational levels and regional settings. Bank XYZ's branch structure, which spans diverse geographic and demographic areas, may present unique discretion dynamics that were not fully captured in this study. Comparative analyses of private versus public banking entities could also uncover sector-specific enablers or constraints. Ultimately, this research offers a pathway for enhancing performance by recognizing the synergistic role of structure and flexibility, and the centrality of empowered decision-makers within that balance.

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