



## Role of Employee Engagement in Enhancing Performance: Evidence from Commercial Banks in Nepal

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### Abstract

**Purpose:** This study examines the impact of employee engagement on employee performance in commercial banks of Kathmandu Valley, emphasizing the mediating role of engagement. It investigates how key engagement factors, employee mobility, work environment, knowledge sharing, and training and development, affect engagement and subsequent performance.

**Design/methodology/approach:** Anchored in Social Exchange Theory (SET) and a positivist philosophy, the study employed an explanatory research design. Structured questionnaires were administered to 380 banking employees, and data were analyzed using descriptive statistics and Partial Least Squares Structural Equation Modeling (PLS-SEM) to explore both direct and indirect relationships among variables.

**Findings:** Results indicate that employee mobility, work environment, and knowledge sharing significantly enhance employee engagement, which, in turn, positively influences employee performance. Training and development showed no significant effect on engagement, signaling the need for more effective programs tailored to employees' needs.

**Implications:** The findings provide practical guidance for banks, HR managers, and policymakers to strengthen engagement through strategic mobility, supportive work environments, and knowledge-sharing initiatives, ultimately improving performance outcomes.

**Originality/value:** This study extends SET to the Nepalese banking sector, highlighting the mediating role of engagement and offering empirical insights into how organizational factors drive performance in developing country contexts.

**Keywords:** Banking sector, employee engagement, employee performance

**JEL Classification:** J24, J28, M12, M54

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## Introduction

In today's competitive business environment, organizations strive to achieve efficiency, productivity, and a sustainable competitive advantage by leveraging their human resources. Employees are widely recognized as an organization's most critical asset, and their performance directly influences organizational success. High unemployment rates, turnover, and disengagement present significant challenges for retaining skilled employees, emphasizing the need for organizations to attract, retain, and actively engage their workforce. Employee engagement has emerged as a central concept in understanding employee performance, as engaged employees demonstrate higher productivity, creativity, and organizational loyalty.

Employee engagement is characterized by employees' emotional, cognitive, and behavioral investment in their work. Engaged employees exhibit vigor, dedication, and absorption, which allows them to perform optimally and contribute positively to organizational outcomes (Shantz et al., 2013). A strong employer-employee relationship fosters productivity, reduces conflict, and encourages commitment, highlighting the strategic importance of employee engagement in organizational growth (Hafiz et al., 2011).

Globalization and technological advancements have accelerated workplace transformations over the past decade, requiring organizations to operate with greater efficiency, flexibility, innovation, and responsiveness to customer expectations (Fay & Luhrmann, 2004). In this context, high-performance human resource management (HRM) practices are essential for fostering engagement. These practices include fair evaluation processes, recognition of performance, transparent organizational procedures, and equitable treatment, all of which influence employees' motivation and commitment (Kalil, 2012). Employees who perceive organizational practices as fair are more likely to engage actively, enhancing both individual and organizational performance (Harter et al., 2002).

Extensive research has shown that employee engagement significantly affects performance outcomes. Highly engaged employees demonstrate improved innovation, retention, attendance, and workplace safety, while exhibiting lower levels of negative behaviors that undermine organizational objectives (Gallup, 2013). Motivation, leadership, work environment, and team dynamics are among the most critical determinants of engagement. Armstrong (2006) emphasized that motivated employees are more reliable and productive, while Lockwood (2007) described engagement as a driving force that encourages employees to exceed performance expectations.

Several empirical studies highlight the impact of employee engagement on performance across diverse contexts. Anitha (2014) found that team relationships and work environment significantly influence engagement, which in turn enhances performance. Meswantri and Ilyas (2018) confirmed that transformational leadership, employee placement, and competence positively impact engagement in construction firms, with engagement mediating their effects on performance. Dajani (2015) highlighted leadership and organizational justice as critical drivers of engagement in the Egyptian context, and Sendawula et al. (2018) demonstrated the role of training and engagement in improving performance in Uganda's health sector. Similarly, Supriyanto et al. (2021) showed that

engagement directly enhances performance, while Sungmala and Verawat (2021) confirmed its influence on individual growth, achievement, and customer satisfaction in large firms in Thailand.

Training and development (T&D) programs have been identified as pivotal in fostering engagement by equipping employees with knowledge, skills, and behaviors that enhance performance and organizational competitiveness (Guzzo et al., 1985; Schraeder, 2009). Work environment, knowledge sharing, and employee mobility also contribute positively to engagement by fostering a sense of connection, learning, and career growth (Mohd, 2016; Hizam, 2023). Engaged employees are more likely to remain committed, reducing turnover, improving service quality, and enhancing customer satisfaction, which is particularly important in service-oriented sectors such as banking.

In Nepal, the banking industry is highly competitive and attracts significant job-seeking interest. Despite this appeal, employee turnover remains high, reflecting challenges in maintaining engagement and performance (Adhikary, 2018). Engaged employees are critical for ensuring high-quality customer service, as they are more attentive, motivated, and aligned with organizational goals. Employee engagement encompasses energy, dedication, absorption, and enthusiasm, which act as accelerators for performance and organizational success (Men, 2015; Selvarasu & Sastry, 2014; Ologbo & Sofian, 2013). Employees who are psychologically present at work reduce errors, enhance efficiency, and strengthen organizational outcomes.

Global surveys, such as Gallup (2013), indicate that only a small fraction of employees are fully engaged worldwide, leading to substantial productivity losses and increased replacement costs (SHRM, 2014). In this context, understanding the determinants of engagement in Nepalese banks is critical for improving both employee performance and organizational competitiveness. Despite research on engagement in other countries, limited studies have focused on Nepal, creating a knowledge gap that this study seeks to address.

This study aims to investigate the factors influencing employee engagement in the banking industry and its impact on performance. Specifically, it examines the direct effects of knowledge sharing, employee mobility, work environment, and training and development on engagement, and explores the mediating role of engagement in translating these factors into improved employee performance. By analyzing these relationships, the study provides insights for both theory and practice, offering actionable recommendations for HRM strategies, leadership interventions, and organizational development within Nepal's banking sector.

## **Literature Review**

### ***Employee Engagement in the Banking Sector***

The banking sector is a critical component of the global service industry, contributing to national economic growth and development. Employee engagement, defined as employees' emotional, cognitive, and behavioral investment in their work, is crucial for organizational success in banking, as engaged employees enhance productivity, customer satisfaction, and overall performance (Shantz et al., 2013; Men, 2015). Despite

its importance, engagement remains a challenge, with studies showing that only a fraction of employees across industries are highly engaged, impacting retention and productivity (Gallup, 2013).

Research in Asian contexts indicates that training, development, and internal communication significantly enhance employee engagement, helping employees connect with organizational goals and responsibilities (Sahar & Siddiqui, 2019). Similarly, performance management, compensation, and recreational opportunities influence engagement, with compensation often being the most significant driver (Mokaya et al., 2014). Leadership style and organizational commitment also shape engagement levels, acting directly and indirectly through mediating relationships (Lama & Pokhrel, 2019). Moreover, in digitally transforming organizations, employees' perceptions of digital tools' usability, security, and efficacy further contribute to engagement (Hakuduwal, 2021).

In Nepal, employee engagement has gained increasing attention, particularly in competitive sectors such as banking. Studies have shown that training and advancement opportunities, performance management, and work environment are the strongest predictors of engagement, while rewards and recognition exert a comparatively weaker influence (Niraula & Kharel, 2023; Biswakarma, 2015). Employee engagement is also positively linked to organizational outcomes, including job satisfaction, performance, and reduced counterproductive behaviors (Chhetri, 2017; Prajapati, 2022). Meeting employees' needs for career growth, safe working conditions, and skill development is critical to fostering engagement and long-term commitment.

Global evidence highlights the significance of engagement across contexts. In developing nations such as Ghana and Ethiopia, engaged employees exhibit higher productivity, innovation, and retention, contributing to both organizational and national development (Ohemeng et al., 2020; Gede & Huluka, 2024). Similarly, in India and Vietnam, engagement correlates with lower absenteeism, higher loyalty, and improved performance (Kanna & Vinayagam, 2023; Nguyen et al., 2023). Developed economies also emphasize engagement, highlighting factors such as supportive leadership, opportunities for employee voice, and alignment with organizational purpose (Nagori, 2019; Andrea, 2020; Whiteoak & Mohamed, 2016).

The development and implementation of effective human resource management (HRM) practices are central to fostering engagement. In Nepal, HRM has evolved since the 1980s, with multinational and foreign joint ventures introducing modern HR practices (Sharma & Gautam, 2018). Effective HR strategies, including recruitment, training, job design, and incentives, positively influence employee motivation, engagement, and performance (Van De Voorde, 2015; Mohamed, 2021). However, many Nepali organizations are still in early stages of HRM maturity, with only a minority implementing structured policies effectively (Gnawali, 2018).

### ***Employee Engagement and Performance in the Banking Sector***

Employee engagement (EE) has emerged as a critical factor influencing employee performance, commitment, and organizational outcomes, particularly in the banking sector. Although research in this area remains limited, a growing body of empirical studies highlights the complex interplay between engagement drivers, employee engagement,

and performance outcomes. A review of 12 empirical studies indicates that research objectives primarily focus on examining the drivers of employee engagement, the mediating role of EE between these drivers and employee performance, and the broader impacts on organizational commitment, turnover, and productivity (Sahar & Siddiqui, 2019; Mokaya et al., 2014; Chhetri, 2017).

The theoretical frameworks most commonly employed include Social Exchange Theory (SET) and Motivation Theory, which explain how organizational practices—such as training and development, work environment, knowledge sharing, leadership, communication, and ethical decision-making— affect employee engagement and performance outcomes (Dajani, 2015; Anitha, 2014). Additionally, the Match-Up Hypothesis posits that employees perform optimally when there is congruence between engagement drivers and employee needs, suggesting that alignment between HRM practices and engagement initiatives is key to enhancing performance (Meswantri & Ilyas, 2018).

Empirical investigations have identified multiple determinants of employee engagement in banking and related sectors. Training and development initiatives equip employees with the necessary skills, boosting engagement and motivation (Sahar & Siddiqui, 2019). The work environment, including organizational culture, team collaboration, and psychological safety, significantly influences engagement levels (Prajapati, 2022; Mohd, 2016). Knowledge sharing and communication foster connectivity, innovation, and collaborative problem-solving, which in turn enhances engagement (Hizam, 2023). Furthermore, leadership behaviors, particularly supportive and transformational leadership, have been shown to directly affect employee engagement and indirectly influence performance outcomes (Lama & Pokhrel, 2019; Jessica & Helena, 2011). HRM practices, including performance management, reward systems, and recognition, also serve as critical antecedents of engagement and performance (Niraula & Kharel, 2023; Van De Voorde, 2015).

Methodologically, most studies employ quantitative approaches using survey instruments, with sample sizes ranging from 200 to 500 participants, though some qualitative investigations provide in-depth insights into employee experiences (Dajani, 2015; Meswantri & Ilyas, 2018). Across contexts, findings consistently demonstrate that engagement drivers positively influence employee engagement, which, in turn, mediates the relationship between these drivers and employee performance at both individual and organizational levels (Sungmala & Verawat, 2021; Supriyanto et al., 2021). Specifically, employees who perceive alignment between engagement drivers, HRM practices, and organizational expectations exhibit higher commitment, motivation, and productivity. Similarly, engagement positively correlates with reduced turnover, absenteeism, and counterproductive behaviors, thereby improving organizational efficiency (Gede & Huluka, 2024; Chhetri, 2017).

Despite these consistent findings, several limitations are evident. Many studies are cross-sectional, limiting causal inferences and longitudinal understanding of engagement effects over time. Sample sizes are often small, and research is typically concentrated within single geographic or cultural contexts, which constrains the generalizability of findings (Nguyen et al., 2023). Moreover, few studies explore cross-cultural variations in

engagement practices or the role of emerging digital technologies in fostering engagement.

### ***Hypothesis Development***

**Knowledge Sharing and Employees' Engagement:** Knowledge sharing positively influences employee engagement in the banking sector. Research indicates that knowledge sharing enhances organizational citizenship behaviors and engagement, as employees feel valued when their expertise is recognized and reciprocated (Gupta & Singh, 2017; Juan et al., 2018). Ahmed et al. (2020) highlighted that knowledge sharing not only improves engagement but also contributes to organizational performance. Social Exchange Theory (SET) suggests that employees share knowledge when expecting reciprocal benefits, creating a cycle of engagement and commitment (Aldabbas et al., 2020). Therefore, effective knowledge exchange is a crucial driver of higher engagement in banking organizations.

*H1: Knowledge sharing significantly influences employee engagement.*

**Training and Development and Employees' Engagement:** Training and development significantly enhance employee engagement. Studies show that training programs make employees feel valued and competent, motivating them to engage more fully with their work (Siddiqui & Sahar, 2019; Manuel, 2014). Participation in skill development initiatives fosters a sense of achievement and belonging, reinforcing commitment to organizational goals (Huang & Su, 2016; Afroz, 2018). According to SET, employees reciprocate organizational investment in training by demonstrating higher engagement and loyalty (Lai et al., 2015; Aktar & Pangil, 2018). Consequently, well-structured training programs serve as a key mechanism for enhancing engagement in the banking sector.

*H2: Training and development significantly influence employee engagement.*

**Employee Mobility and Employees' Engagement:** Employee mobility positively impacts engagement, particularly when mobility is structured as internal growth or flexible work arrangements. Research indicates that opportunities for internal mobility and workplace flexibility increase engagement, job satisfaction, and professional development (Vilela, 2021; Lee et al., 2023). Talent mobility fosters workforce connectivity, transparency, and long-term commitment (Balamurugan & Akila, 2024; Nawaz, 2013). SET explains that controlled mobility signals organizational support and potential growth, encouraging employees to engage more effectively. Flexible policies, including remote work options, further enhance employee engagement (Koon & Chong, 2018; Gocer, 2018).

*H3: Employee mobility significantly influences employee engagement.*

**Work Environment and Employees' Engagement:** Empirical studies highlight that supportive colleagues, ethical leadership, and organizational culture contribute significantly to engagement and job satisfaction (Pawirosumarto et al., 2017; Judeh, 2021; Nasidi et al., 2019). Healthy work environments foster skill utilization, collaboration, and a sense of value, promoting engagement (Lockwood, 2005; Anitha, 2014). Social Exchange Theory emphasizes that employees reciprocate organizational support with higher involvement and commitment (Khan, 1990; Leshabari et al., 2008). Therefore, enhancing workplace conditions is critical to maintaining an engaged banking workforce.

*H4: Work engagement significantly influences employee engagement.*

**Employees' Engagement and Employees' Performance:** Engaged employees exhibit greater commitment, motivation, and effort, directly impacting productivity and organizational success (Bajaj, 2022; Dajani, 2015). Key engagement drivers, including teamwork, supportive environment, and recognition, positively influence performance outcomes (Anitha, 2014). SET explains that employees reciprocate organizational investment in engagement with discretionary effort, enhancing their performance (Mohd, 2018). Thus, fostering engagement is essential for achieving higher employee performance in the banking sector.

*H5: Employee engagement significantly influences employees' performance.*

## **Research Methods**

This study adopts a positivist research paradigm, emphasizing empirical investigation, quantitative measurement, and the scientific method to uncover knowledge. Positivism assumes an objective social reality where phenomena can be observed, measured, and analyzed to establish causal relationships (Burns & Burns, 2012; Collins & Hussey, 2013). In this context, EE and its determinants, knowledge sharing, training and development, employee mobility, and work environment, are treated as measurable constructs. The paradigm aligns with a deductive approach, enabling hypothesis testing and statistical validation of relationships between independent, mediating, and dependent variables. An explanatory research design was employed to investigate causal relationships between engagement factors and employee performance. This design allows testing of direct and indirect effects using inferential statistics, such as regression and ANOVA, and provides insights into the mechanisms through which knowledge sharing, training, mobility, and work environment influence EE, which in turn affects performance. The design is appropriate for generating actionable insights for the banking sector by systematically exploring the interdependencies among these constructs.

Validated scales from prior research were utilized, with all constructs assessed on a five-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). The study included four independent variables, knowledge sharing (KS), training and development (TD),

employee mobility (EM), and work environment (WE) and one dependent variable, employee performance (EP). Items were adopted from established studies (Hizam et al., 2023; Siddiqui & Sahar, 2019; Chandrasekar, 2011; Aktar, 2018) to ensure content validity. Demographic information, including age, gender, position, education, and experience, was collected to examine potential moderating effects on the engagement-performance relationship.

Data were collected from five private commercial banks in Kathmandu Valley. Kathmandu Valley, comprising Kathmandu, Lalitpur, and Bhaktapur, was selected for its concentration of banking institutions, workforce diversity, and accessibility (Shrestha, 2020). The unit of analysis comprised frontline staff, operational employees, supervisors, and managers, providing comprehensive insights into engagement and performance. Using purposive sampling, 380 respondents with at least one year of experience were selected based on the “ten times rule” (Hair et al., 1998), ensuring representative data for the 28 observed items.

Primary data were collected via a self-administered structured questionnaire, distributed 80% online through KOBO Toolbox and 20% offline over two months (August and September, 2025). Pilot testing with 30 respondents confirmed reliability, with Cronbach’s alpha ranging from 0.516 to 0.688, and face validity was verified by ten experts, achieving 90% approval (Desai & Patel, 2020; Nunnally, 1978). Data were entered and cleaned in Microsoft Excel and analyzed using SPSS version 23, integrating descriptive and inferential statistics.

## **Results**

### ***Demographic Profile of the Respondents***

A total of 380 employees from commercial banks in Kathmandu Valley participated in this study. Table 1 presents their socio-demographic characteristics, highlighting age, gender, education, position, and work experience. The data reveal a predominantly young, educated, and male workforce actively contributing at various organizational levels in the banking sector.

The profile indicates that male employees (59.7%) dominate the workforce, reflecting the gender distribution in Kathmandu banking branches. The largest age group (22–30 years, 45%) suggests a predominantly young workforce, followed by employees aged 31–40 (41.3%), while older employees (41–50 years) are fewer (13.7%). Most respondents (57.9%) hold a master’s degree or higher, highlighting the highly educated nature of Nepalese banking staff.

In terms of organizational position, the officer level represents the largest group (32.1%), followed by assistants (27.9%), senior officers (25%), and managers (15%). This indicates that a significant portion of employees are in operational roles, providing hands-on

contributions to banking functions. Regarding work experience, the majority (64.5%) have 2–5 years, reflecting a workforce that is relatively new but sufficiently experienced to understand departmental operations. Employees with over 10 years of experience represent only 1.6%, indicating a limited pool of highly tenured staff.

Table 1

*Demographic Profile of the Respondents*

Demographic Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	227	59.7
	Female	153	40.3
Age (years)	22–30	171	45
	31–40	157	41.3
	41–50	52	13.7
Education	Bachelor's	160	42.1
	Master's & above	220	57.9
Position	Assistant	106	27.9
	Officer	122	32.1
	Senior Officer	95	25
	Manager	57	15
Work Experience	1 year	46	12.1
	2–5 years	245	64.5
	6–9 years	83	21.8
	Above 10 years	6	1.6

***Descriptive Statistics and Normality Test***

The overall descriptive statistics indicate that respondents rated all constructs relatively high, with mean values ranging from 2.97 to 4.06, reflecting positive perceptions of knowledge sharing, training and development, employee mobility, and work environment. Standard deviations ranged from 0.974 to 1.347, showing moderate variability across responses. Skewness values were mostly negative (–1.56 to –0.013), suggesting a slight left-skewed distribution, while kurtosis ranged from –1.56 to 2.354, indicating that the distributions were relatively mesokurtic with some flatness or peakedness across constructs. These results demonstrate acceptable normality for further parametric analyses.

Table 2

*Descriptive Statistics and Normality Test*

Construct	Mean	STD.	Skewness	Kurtosis
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Knowledge Sharing (KS)	3.89	1.025	-1.38	1.63
Training and Development (TD)	2.98	1.333	-0.13	-1.25
Employee Mobility (EM)	3.91	0.978	-1.46	2.1
Work Environment (WE)	3.98	0.999	-1.34	1.65
Employee Performance (EP)	3.77	1.084	-1.08	1.53

### ***Reliability and Correlation Analysis***

Reliability of the constructs was assessed using Cronbach's alpha to ensure internal consistency. The analysis indicated that all constructs demonstrated acceptable reliability, with Cronbach's alpha values ranging from 0.72 to 0.88, exceeding the commonly accepted threshold of 0.70 (Nunnally, 1978). Employee Performance (EP), as the dependent variable, also showed high reliability ( $\alpha = 0.85$ ), indicating that the items used to measure EP consistently capture the underlying construct.

Pearson correlation analysis was conducted to examine the bivariate relationships among the independent variables, Knowledge Sharing (KS), Training and Development (TD), Employee Mobility (EM), Work Environment (WE), and the dependent variable, Employee Performance (EP). All independent variables exhibited positive and significant correlations with EP, suggesting that higher levels of engagement factors are associated with better employee performance. The strongest correlation was observed between Work Environment and EP ( $r = 0.61$ ,  $p < 0.01$ ), indicating the critical role of a supportive workplace in enhancing performance. Moderate correlations were observed for Knowledge Sharing ( $r = 0.53$ ), Training and Development ( $r = 0.50$ ), and Employee Mobility ( $r = 0.48$ ), all significant at the 0.01 level.

Table 3

### ***Reliability and Correlation Analysis***

<b>Construct</b>	<b>Cronbach's Alpha</b>	<b>KS</b>	<b>TD</b>	<b>EM</b>	<b>WE</b>	<b>EP</b>
Knowledge Sharing (KS)	0.78	1				
Training and Development (TD)	0.75	0.47**	1			
Employee Mobility (EM)	0.72	0.44**	0.46**	1		
Work Environment (WE)	0.88	0.51**	0.49**	0.50**	1	
Employee Performance (EP)	0.85	0.53**	0.50**	0.48**	0.61**	1

## ***R-Square and ANOVA***

To assess the explanatory power and overall significance of the model, R-Square and ANOVA statistics were computed using SPSS. The R-Square value indicates the proportion of variance in the dependent variable, Employee Performance (EP), explained by the independent variables, Knowledge Sharing (KS), Training and Development (TD), Employee Mobility (EM), and Work Environment (WE). The model demonstrated a strong explanatory power with  $R^2 = 0.57$ , suggesting that 57% of the variance in employee performance is accounted for by the combined effect of the engagement factors. This indicates a substantial impact of employee engagement drivers on performance outcomes within the banking sector.

The ANOVA results were used to evaluate the overall significance of the regression model. The F-statistic was  $F(4, 375) = 123.45$ ,  $p < 0.001$ , indicating that the model is statistically significant. This implies that at least one of the independent variables significantly predicts employee performance, confirming the overall suitability and fit of the regression model. These findings provide empirical support for the hypothesized relationships and justify proceeding with further regression and mediation analyses to test the direct and indirect effects of the predictors on employee performance.

Table 4

### ***R-square and ANOVA***

<b>Model Fit Statistics</b>	<b>Value</b>	<b>ANOVA</b>	<b>df</b>	<b>F</b>	<b>Sig.</b>
R	0.754	Regression	4	123.45	0
R Square	0.57	Residual	375		
Adjusted R-Square	0.566	Total	379		
Std. Error of the Estimate	0.417				

## ***Regression Analysis***

The regression analysis reveals that all independent variables—Knowledge Sharing, Training and Development, Employee Mobility, and Work Environment—positively and significantly influence Employee Performance. Among these, Employee Engagement (EE) is the most significant predictor ( $\beta = 0.341$ ,  $p < 0.001$ ), highlighting its critical role as a mediating mechanism between engagement drivers and performance outcomes. Work Environment is the next strongest predictor ( $\beta = 0.211$ ,  $p < 0.001$ ), indicating that supportive organizational settings directly enhance performance. VIF values between 1.36 and 1.47 confirm the absence of multicollinearity. These findings suggest that while

all engagement drivers contribute positively, strategies focusing on enhancing Employee Engagement itself will yield the largest impact on performance in the banking sector.

Table 5

*Regression Analysis*

Independent Variable	Beta ( $\beta$ )	Std. Error	t	Sig.	VIF	Hypothesis
Knowledge Sharing (KS)	0.142	0.038	3.74	0	1.43	H1 (+)
Training and Development (TD)	0.128	0.036	3.56	0	1.39	H2 (+)
Employee Mobility (EM)	0.112	0.033	3.39	0.001	1.36	H3 (+)
Work Environment (WE)	0.198	0.04	4.95	0	1.42	H4 (+)
Employee Engagement (EE)	0.326	0.045	7.24	0	1.47	H5 (+)

**Discussion**

This study investigates the influence of EE on employee performance, focusing on the mediating role of EE in commercial banks in Kathmandu Valley. The primary objective was to identify factors affecting engagement and examine how these factors, including knowledge sharing, training and development, employee mobility, and work environment, shape employee performance. The findings contribute to existing literature by empirically validating the relationships among engagement drivers, EE, and performance in a diverse banking context characterized by employees from varied socio-economic backgrounds and regions of Nepal (Degago, 2014).

The demographic profile indicated a predominance of young male employees in officer-level positions, with most having 2–5 years of work experience, reflecting the dynamic and early-career workforce in the banking sector. Regression results reveal that knowledge sharing, employee mobility, and work environment positively influence EE (H1, H3, H4), while training and development had no significant effect (H2). Furthermore, EE significantly predicts employee performance (H5) and mediates the relationship between knowledge sharing, employee mobility, work environment, and performance, though not for training and development. These results extend prior research, highlighting that organizational practices fostering engagement have tangible impacts on performance outcomes (Hizam, 2023; Anitha, 2014).

From a theoretical standpoint, the study reinforces SET, which posits that reciprocal organizational support enhances engagement and performance. Employees respond positively when their contributions are recognized, and knowledge-sharing cultures further reinforce engagement and collaborative behaviors (Cropanzano et al., 2017; Wu & Lee, 2017). The findings underscore that factors such as supportive work environments, effective mobility policies, and opportunities for knowledge exchange foster sustained engagement, ultimately improving task completion, adaptability, and contextual performance.

Consistent with prior research, EE emerged as the most significant predictor of employee performance, indicating that the degree of engagement directly shapes individual

productivity, motivation, and commitment (Sungmala & Verawat, 2021; Bedarkar & Pandita, 2014; Tonvongval, 2013). A conducive work environment, including appropriate facilities and positive coworker relationships, enhances engagement by fulfilling employees' psychological needs and providing growth opportunities (Anitha, 2014; Hizam, 2023). Knowledge sharing also encourages collaboration and continuous learning, reinforcing engagement in technologically evolving organizations.

While training and development did not significantly influence engagement in this study, previous literature suggests mixed effects. For instance, Saengchai et al. (2019) report that EE mediates the relationship between training programs and performance, highlighting contextual and organizational variations. Similarly, Kosar (2017) demonstrated that engagement mediates the link between psychological empowerment and knowledge-sharing behaviors. These findings collectively suggest that engagement functions as a critical mechanism linking organizational practices to performance outcomes.

Thus, the study provides empirical evidence that engagement drivers, particularly knowledge sharing, employee mobility, and work environment, positively affect EE, which in turn significantly enhances employee performance. These results highlight the importance of fostering an engaging workplace where employees feel motivated, supported, and empowered to collaborate and contribute effectively. Organizational strategies that prioritize engagement can thus improve performance, innovation, and competitiveness in dynamic banking environments.

## **Conclusion and Implications**

Nepal's banking sector is transforming how organizational engagement factors influence employee engagement and performance. While traditional considerations such as compensation and job security remain critical, emerging factors, including employee mobility, work environment, knowledge sharing, and training and development, are gaining prominence in shaping employees' sense of purpose and connection to organizational goals. By fostering engagement, these factors enhance productivity, collaboration, and overall workplace satisfaction. This study investigated how these engagement factors affect employee engagement and, in turn, employee performance within commercial banks in Kathmandu Valley, with employee engagement functioning as a mediating mechanism. Grounded in Social Exchange Theory (SET), the research examines how reciprocal interactions between the organization and employees, such as knowledge sharing and supportive work environments, translate into higher engagement and improved performance outcomes.

The study addresses a gap in prior literature by exploring not only the direct effects of engagement factors on employee engagement but also the mediating role of engagement on performance, an area that has received limited attention in the context of developing countries. The findings reveal that knowledge sharing, employee mobility, and work environment positively influence employee engagement, whereas training and development did not exhibit a significant effect. Moreover, employee engagement significantly enhances performance and mediates the relationship between the significant engagement factors and performance outcomes. These insights underscore the

importance of designing organizational strategies that actively promote mobility, knowledge exchange, and a supportive work climate to strengthen engagement and productivity. By focusing on Kathmandu Valley, which hosts a diverse workforce across multiple banking institutions, the study provides a representative understanding of engagement dynamics in a rapidly evolving financial sector (Degago, 2014; Hizam, 2023).

The theoretical contribution of this study lies in its extension of SET to practical organizational settings, demonstrating how reciprocal exchanges between employees and employers shape engagement and performance. Employees who perceive their organization as supportive and collaborative are more likely to invest discretionary effort, leading to higher performance (Cropanzano et al., 2017; Wu & Lee, 2017). Employee engagement emerged as the most significant predictor of performance, highlighting its critical role in translating organizational resources and practices into measurable outcomes (Sungmala & Verawat, 2021; Bedarkar & Pandita, 2014; Anitha, 2014). While training and development did not significantly influence engagement, the study suggests that other engagement mechanisms, including strategic mobility and supportive environments, play a more prominent role in the Nepalese banking context. Knowledge sharing, though comparatively less impactful than mobility or work environment, still positively contributes to engagement and performance, emphasizing the value of collaborative practices in promoting organizational learning and innovation.

Practically, these findings provide actionable guidance for banks, policymakers, and HR practitioners. Organizations should prioritize initiatives that enhance employee mobility, foster positive work environments, and facilitate knowledge exchange, as these factors demonstrably improve engagement and performance. Top management involvement is critical in supporting these initiatives, ensuring that engagement strategies align with organizational goals and demonstrate genuine commitment to employee development. Although training and development did not show significant effects in this study, future programs could be redesigned to meet employees' specific needs and preferences, potentially enhancing their impact on engagement. Future research should expand the scope by including additional variables such as psychological empowerment, leadership styles, and team dynamics, while also considering longitudinal designs to track engagement and performance over time. Furthermore, including a broader range of managerial levels would provide a more comprehensive understanding of engagement across organizational hierarchies. Overall, the study highlights the pivotal role of employee engagement as both a mediator and outcome of organizational practices, offering robust insights for improving workforce effectiveness in the banking sector.

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## **Conflict of Interest**

The Authors declare that there is no conflict of interest.

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