



# International Journal of Engineering, Science and Humanities

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## **Organizational Culture, Psychological Well-Being, And Performance: A Study of Nepalese Banks**

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### **ABSTRACT**

This study examines the mediating role of psychological well-being in the relationship between organizational culture and employee performance within the Nepalese banking sector. Against the backdrop of rapid consolidation, heightened competition, and evolving workforce expectations, understanding how cultural dynamics influence both mental health and productivity has become imperative. Synthesizing findings from existing literature and secondary data, this paper develops and evaluates a conceptual model wherein organizational culture dimensions—involvement, consistency, adaptability, and mission—influence employee performance both directly and indirectly through their impact on psychological well-being. The analysis reveals that while Nepalese banks exhibit diverse cultural characteristics, many continue to operate within traditionally hierarchical frameworks that may compromise employee well-being. The findings suggest that organizational cultures characterized by high involvement, strong support systems, and clear mission alignment contribute positively to psychological well-being, which in turn enhances performance outcomes. However, the ongoing wave of mergers and acquisitions presents significant challenges to cultural stability and employee mental health. The study concludes that for Nepalese banks to achieve sustainable performance, they must adopt a holistic approach that recognizes psychological well-being as a critical pathway through which organizational culture drives performance. Practical recommendations for fostering psychologically healthy workplaces are provided for bank management and policymakers.

**Keywords:** Organizational Culture, Psychological Well-being, Employee Performance, Nepalese Banks, Mental Health at Work, Merger Integration, Job Performance

### **1. INTRODUCTION**

The Nepalese banking sector stands at a critical juncture. Following decades of gradual expansion, the industry has entered a phase of aggressive consolidation driven by Nepal Rastra Bank's (NRB) merger policies aimed at creating a more resilient and stable financial system (Gautam, 2024; Nepal Rastra Bank, 2025). Between 2019 and 2024, the sector witnessed a significant reduction in the number of financial institutions, with commercial banks,



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development banks, and finance companies merging to meet enhanced capital requirements. While these regulatory interventions have strengthened the sector's financial footing, they have also introduced profound organizational turbulence that directly impacts the human element of banking operations.

In this context, the relationship between organizational culture, employee psychological well-being, and performance has emerged as a critical area of inquiry. The banking industry in Nepal, like its counterparts globally, is increasingly recognizing that sustainable competitive advantage derives not merely from capital adequacy or technological infrastructure, but from a motivated, healthy, and high-performing workforce (Cascio, 2016; Bhatta & Acharya, 2024). However, the unique challenges confronting Nepalese banks—including cultural integration following mergers, generational shifts in workforce expectations, and the pressures of digital transformation—create a complex environment in which traditional assumptions about workplace dynamics may no longer hold (Shrestha, 2024; Thapa et al., 2025).

Organizational culture, defined by Schein (2010) as the pattern of shared basic assumptions that guides behavior within an organization, has long been recognized as a fundamental determinant of both employee outcomes and organizational effectiveness. A robust body of international literature has established that positive organizational cultures enhance employee performance through various mechanisms, including increased motivation, commitment, and innovation (Aboramadan et al., 2020; Alrazehi et al., 2021; Iskamoto, 2023). However, the pathways through which culture influences performance remain less understood, particularly in non-Western contexts.

One increasingly recognized pathway is psychological well-being. Defined as a state of positive mental health characterized by emotional balance, life satisfaction, and the ability to function effectively in daily activities, psychological well-being has been shown to mediate the relationship between workplace conditions and performance outcomes (Baroudi et al., 2018). In high-pressure environments such as banking, where employees face demanding targets, regulatory scrutiny, and customer expectations, the psychological toll can be substantial. When organizational cultures fail to provide adequate support, recognition, and work-life balance, employee well-being suffers, leading to burnout, disengagement, and diminished performance (Bhutto et al., 2023).

The Nepalese context presents unique dimensions to this relationship. The cultural fabric of Nepal, characterized by strong familial and hierarchical social structures, permeates organizational life. Traditional banking cultures in Nepal have often reflected these societal norms, with centralized decision-making, deference to authority, and limited employee participation (Acharya, 2018; Thapa, 2011). Yet, as the sector modernizes and a new generation of employees enters the workforce, these traditional cultural patterns are being challenged.



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Younger employees increasingly seek workplaces that offer autonomy, transparency, opportunities for growth, and attention to mental health (Shrestha, 2024).

Furthermore, the wave of mergers and acquisitions mandated by NRB has created unprecedented cultural disruption. When banks with distinct organizational histories, values, and practices are forced to integrate, the resulting cultural ambiguity and identity conflict can significantly undermine employee psychological well-being (Stahl & Voigt, 2008). The failure to manage cultural integration effectively not only erodes employee morale but also jeopardizes the very stability that merger policies seek to achieve (Gautam, 2022).

Despite the significance of these issues, research examining the interplay between organizational culture, psychological well-being, and performance in Nepalese banks remains limited. Existing studies have explored aspects of corporate governance (Acharya, 2018), motivational factors (Bhatta & Acharya, 2024), and cultural integration (Gautam, 2022), but a comprehensive examination of how culture influences performance through its effects on psychological well-being is absent. This gap is particularly concerning given the sector's importance to Nepal's economy and the well-being of its substantial workforce.

This study addresses this gap by synthesizing findings from existing literature to evaluate the mediating role of psychological well-being in the relationship between organizational culture and employee performance in Nepalese banks. The specific objectives are:

1. To identify the key dimensions of organizational culture prevalent in Nepalese banks and their relationship with employee psychological well-being.
2. To examine how psychological well-being influences employee performance outcomes in the banking context.
3. To evaluate the mediating role of psychological well-being in linking organizational culture to performance.
4. To assess the contextual challenges affecting this relationship, particularly merger integration and regulatory pressures.

## 2. LITERATURE REVIEW AND CONCEPTUAL FRAMEWORK

### 2.1. Organizational Culture: Theoretical Foundations and Dimensions

The concept of organizational culture has evolved significantly over the past four decades. Early contributions by Ouchi (1981) and Peters and Waterman (1982) emphasized the role of strong corporate cultures in driving organizational excellence. These foundational works suggested that companies with well-articulated values and shared norms outperformed their competitors by aligning employee behavior with organizational goals.

Schein's (2010) three-level model remains the most comprehensive theoretical framework for understanding culture. According to Schein, organizational culture manifests at three levels: artifacts (visible organizational structures and processes), espoused values (strategies, goals,



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philosophies), and basic underlying assumptions (unconscious, taken-for-granted beliefs and perceptions). This model emphasizes that true cultural understanding requires moving beyond observable artifacts to uncover the deeper assumptions that guide behavior.

For empirical research, operationalizing culture has typically involved identifying specific dimensions that characterize organizational environments. Building on the work of Gibson (2011) and others, four dimensions have emerged as particularly significant for understanding performance-oriented cultures:

- **Involvement:** The degree to which employees are empowered, engaged in decision-making, and encouraged to develop their capabilities. Organizations with high involvement cultures foster teamwork, skill development, and a sense of ownership among employees (Ohana et al., 2013).
- **Consistency:** The extent to which organizations have strong, shared values and coordinated systems that create a stable and predictable work environment. Consistent cultures provide clarity, reduce ambiguity, and promote integration across organizational units (Mburu, 2020).
- **Adaptability:** The capacity of an organization to sense and respond to external changes, innovate, and take risks. Adaptable cultures encourage flexibility, customer focus, and continuous improvement (Aboramadan et al., 2020).
- **Mission:** The clarity of organizational purpose, strategic direction, and vision. A strong mission provides employees with a sense of meaning and understanding of how their work contributes to larger goals (Collins, 2013).

These dimensions are particularly relevant to the banking sector, where the balance between stability (consistency) and responsiveness (adaptability) is critical. In Nepal, research by Thapa et al. (2025) and Regmi (2024) has begun to explore how these cultural dimensions manifest in commercial banks, with preliminary evidence suggesting significant variation across institutions.

## 2.2. Psychological Well-being in the Workplace

Psychological well-being has emerged as a critical construct in organizational research, reflecting a shift from a narrow focus on mental illness to a broader appreciation of positive mental health. Drawing on the work of Ryff (1989), psychological well-being encompasses multiple dimensions including self-acceptance, positive relations with others, autonomy, environmental mastery, purpose in life, and personal growth.

In the workplace, psychological well-being refers to employees' overall mental health and emotional state in relation to their work experiences. It encompasses both affective components (feelings of happiness, satisfaction, and engagement) and cognitive components (perceptions of work meaningfulness and fairness) (Baroudi et al., 2018). High psychological well-being is associated with numerous positive outcomes, including enhanced creativity, better interpersonal relationships, lower absenteeism, and improved physical health.



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Conversely, poor psychological well-being manifests as stress, burnout, anxiety, and depression, all of which have significant costs for both individuals and organizations. In high-pressure sectors like banking, where employees face demanding targets, long hours, and high-stakes decisions, the risk to psychological well-being is substantial (Bhutto et al., 2023).

The determinants of psychological well-being in the workplace are multifaceted. They include job characteristics (autonomy, variety, feedback), social support from colleagues and supervisors, organizational justice, work-life balance, and career development opportunities (Cascio, 2016). Importantly, organizational culture operates as an overarching context that shapes all of these determinants, making it a fundamental influence on employee psychological well-being.

### **2.3. Employee Performance: Conceptualization and Measurement**

Employee performance is a multidimensional construct typically defined as behaviors and outcomes that contribute to organizational goals. In the banking sector, performance encompasses both task performance (completion of core job duties, achievement of targets) and contextual performance (cooperation, initiative, organizational citizenship behaviors) (Cascio, 2016).

Research has consistently demonstrated that employee performance is influenced by a combination of individual characteristics (ability, motivation, personality) and contextual factors (organizational support, leadership, culture). Of particular relevance to this study is the recognition that psychological states mediate the relationship between contextual factors and performance outcomes. When employees experience positive psychological well-being, they have greater cognitive resources, higher motivation, and stronger commitment to organizational goals, all of which enhance performance (Baroudi et al., 2018; Ohana et al., 2013).

### **2.4. The Mediating Role of Psychological Well-being**

The central premise of this study is that psychological well-being mediates the relationship between organizational culture and employee performance. This mediating role can be understood through several theoretical mechanisms.

First, organizational culture shapes the psychological resources available to employees. Cultures characterized by involvement, support, and clear mission provide employees with a sense of control, competence, and meaning—all of which are core components of psychological well-being (Aggarwal, 2023). When employees feel empowered and valued, their psychological well-being improves. Conversely, cultures characterized by rigidity, lack of support, or conflicting values deplete psychological resources, leading to stress and reduced well-being (ASSEFA, 2021).

Second, psychological well-being directly influences the cognitive and emotional capacities necessary for effective performance. Employees with high psychological well-being demonstrate



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better attention, decision-making, interpersonal skills, and resilience in the face of challenges. They are also more likely to engage in discretionary behaviors that contribute to organizational effectiveness (Victoria et al., 2021).

Third, the relationship between culture and performance through well-being operates through motivational pathways. Cultures that fulfill employees' psychological needs for autonomy, competence, and relatedness enhance intrinsic motivation, which in turn drives performance (Paramita et al., 2020). This self-determination theory perspective suggests that culture does not directly determine performance but rather operates through its effects on psychological states.

Empirical support for this mediating role comes from various contexts. Studies by Iskanto (2023) and Mafrudoh (2023) have shown that organizational culture influences employee performance, with psychological factors serving as key explanatory mechanisms. In the financial services sector specifically, Alrazehi et al. (2021) found that cultural dimensions affect performance through their impact on employee attitudes and engagement.

## **2.5. The Nepalese Banking Context: Unique Challenges**

The application of these theoretical relationships to Nepalese banks requires careful consideration of contextual factors. Several distinctive features of the Nepalese banking environment shape the culture-well-being-performance nexus.

**Regulatory Pressures and Mergers:** Nepal Rastra Bank's aggressive merger policy has fundamentally altered the sector's landscape (Gautam, 2024; Nepal Rastra Bank, 2025). Between 2019 and 2024, the number of commercial banks, development banks, and finance companies decreased substantially as institutions consolidated to meet enhanced capital requirements. While intended to strengthen the financial system, these mergers create significant cultural challenges. When organizations with different histories, values, and practices combine, the resulting cultural ambiguity can severely undermine psychological well-being (Stahl & Voigt, 2008). Employees face uncertainty about their roles, career prospects, and the future direction of the organization. Identity conflicts arise as employees who were proud of their previous institution's culture struggle to integrate with new colleagues and practices. These stressors directly impact psychological well-being and, consequently, performance.

**Traditional Hierarchical Structures:** Many Nepalese banks have historically operated with highly hierarchical, authority-based cultures that reflect broader societal norms (Acharya, 2018; Thapa, 2011). Decision-making is centralized, communication flows top-down, and employee participation is limited. While such structures may provide consistency, they can also undermine psychological well-being by limiting autonomy, reducing opportunities for growth, and creating power imbalances that lead to stress and dissatisfaction (Sethi & Vitho, 2021).

**Generational Shifts:** The Nepalese banking workforce is experiencing significant generational change. Younger employees entering the sector often have different expectations regarding



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work, including desires for greater flexibility, transparency, and work-life balance (Shrestha, 2024). When these expectations clash with traditional organizational cultures, psychological well-being can suffer. The resulting gap between expectations and reality contributes to disengagement and turnover intentions (Bhutto et al., 2023).

**Cultural Integration Challenges:** As banks merge and expand, they face the challenge of integrating employees from diverse regional, educational, and organizational backgrounds. Gautam (2022) emphasizes that effective socialization processes are critical for creating cohesive cultures that support employee well-being. However, these processes are often neglected in the rush to achieve financial synergies, leading to fragmented cultures that fail to provide the psychological support employees need.

**Technological Transformation:** The rapid digitization of banking services creates both opportunities and stressors. While technology can enhance efficiency and work flexibility, it also requires employees to continuously adapt and upskill. Cultures that support learning and provide adequate training can buffer the psychological strain of technological change, while cultures that simply impose new systems without support can exacerbate stress (Bhatta & Acharya, 2024).

## 2.6. Conceptual Framework

Based on the preceding literature review, this study proposes a conceptual framework in which organizational culture influences employee performance both directly and indirectly through its effects on psychological well-being. The framework posits that:

- **H1:** Organizational culture dimensions (involvement, consistency, adaptability, mission) have a positive direct effect on employee performance.
- **H2:** Organizational culture dimensions have a positive direct effect on employee psychological well-being.
- **H3:** Employee psychological well-being has a positive direct effect on employee performance.
- **H4:** Psychological well-being mediates the relationship between organizational culture dimensions and employee performance.

## 3. METHODOLOGY

This study employs a finding-based research approach, systematically synthesizing and analyzing existing literature to derive conclusions about the relationships between organizational culture, psychological well-being, and performance in Nepalese banks.

### 3.1. Data Sources

The analysis draws upon the 33 references provided, which include:

- Peer-reviewed journal articles from international and regional publications (e.g., Aboramadan et al., 2020; Alrazehi et al., 2021; Bhatta & Acharya, 2024; Iskamto, 2023;



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Thapa et al., 2025) providing theoretical grounding and empirical evidence from diverse contexts.

- Doctoral dissertations offering in-depth analysis of specific aspects of Nepalese banking, including corporate governance (Acharya, 2018), merger policy (Gautam, 2024), and credit analysis (Thapa, 2011).
- Official reports and statistics from Nepal Rastra Bank (2020, 2021, 2025) providing regulatory context and data on sector consolidation.
- Foundational texts in organizational behavior and culture (Cascio, 2016; Collins, 2013; Gibson, 2011; Schein, 2010) providing theoretical frameworks.

## 3.2. Analytical Approach

Thematic analysis was conducted to identify patterns and synthesize findings across the literature. The process involved:

1. **Familiarization:** Reading and re-reading all source materials to develop comprehensive understanding.
2. **Coding:** Identifying segments of text relevant to organizational culture, psychological well-being, employee performance, and their interrelationships.
3. **Theme Development:** Grouping codes into thematic categories corresponding to the key constructs and relationships in the conceptual framework.
4. **Synthesis:** Integrating findings across sources to develop coherent conclusions about the culture-well-being-performance nexus in Nepalese banks.
5. **Contextualization:** Interpreting findings in light of the unique features of the Nepalese banking environment.

The analysis focused on extracting findings that could be synthesized to address the study's objectives. Descriptive data from NRB reports were used to contextualize the scale and nature of changes in the sector.

## 4. FINDINGS AND DISCUSSION

### 4.1. Organizational Culture in Nepalese Banks: Current State and Dimensions

The synthesis of existing literature reveals that organizational culture in Nepalese banks is characterized by significant diversity, with institutions ranging from traditionally hierarchical to more modern, performance-oriented cultures. However, several common patterns emerge.

**Traditional Hierarchical Culture:** A substantial portion of the literature indicates that many Nepalese banks, particularly those with longer histories, operate within strongly hierarchical cultural frameworks (Acharya, 2018; Thapa, 2011). These cultures are characterized by centralized decision-making, clear authority lines, and formal communication channels. While this structure provides consistency and predictability—valued in the highly regulated banking environment—it can limit employee involvement and autonomy. Thapa et al. (2025) note that in



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such environments, employees often feel their contributions are undervalued, and opportunities for input into decisions affecting their work are limited.

**Emerging Performance-Oriented Culture:** In response to increasing competition and regulatory pressures for efficiency, some banks have begun shifting toward more performance-oriented cultures (Regmi, 2024). These cultures emphasize results, merit-based recognition, and accountability. However, Iskanto (2023) and Mafrudoh (2023) caution that performance-oriented cultures can be double-edged swords: when implemented with adequate support and fairness, they enhance motivation and performance, but when implemented punitively, they can increase stress and undermine well-being.

**Cultural Dimensions Assessment:** Applying the four-dimensional framework to the Nepalese banking context reveals variable patterns across institutions:

**Table 1: Cultural Dimensions in Nepalese Banks: A Comparative Assessment**

Dimension	Characteristics in Traditional Banks	Characteristics in Modern Banks
<b>Involvement</b>	Limited employee participation; top-down decision-making; formal channels only	Growing employee engagement; team-based structures; open communication
<b>Consistency</b>	Strong formal rules; clear hierarchies; stable procedures	Balanced consistency with flexibility; shared values emphasized
<b>Adaptability</b>	Slow to change; risk-averse; traditional practices	Responsive to market changes; innovation encouraged; digital transformation
<b>Mission</b>	Implicit or unclear; focused on compliance	Explicit vision; communicated widely; linked to employee roles

**Source:** Synthesized from Acharya (2018), Gautam (2022), Regmi (2024), Thapa et al. (2025)

**Regional Variation:** The literature also suggests geographic variation in organizational culture. Banks headquartered in Kathmandu may exhibit more modern cultural characteristics, while



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those with branches across diverse regions must navigate cultural differences between urban and rural areas, as well as among employees from different ethnic and linguistic backgrounds (Gautam, 2022). This diversity presents both challenges and opportunities for creating cohesive organizational cultures that support employee well-being.

## 4.2. Organizational Culture and Psychological Well-being

The synthesis reveals robust evidence that organizational culture significantly influences employee psychological well-being in Nepalese banks. Several pathways through which culture affects well-being emerge from the literature.

**Involvement and Well-being:** Cultures that foster employee involvement—through participation in decision-making, opportunities for skill development, and recognition of contributions—positively impact psychological well-being. Ohana et al. (2013) and Baroudi et al. (2018) demonstrate that involvement satisfies fundamental psychological needs for autonomy and competence. In the Nepalese context, Bhatta and Acharya (2024) found that banks with participative cultures reported lower levels of employee stress and higher job satisfaction. Conversely, Thapa et al. (2025) note that employees in banks with limited involvement opportunities often experience frustration, powerlessness, and diminished well-being.

**Consistency and Well-being:** The relationship between consistency and well-being is nuanced. Mburu (2020) argues that consistent cultures reduce ambiguity and provide psychological safety by creating predictable environments. In Nepalese banks, clear procedures and stable expectations can reduce the anxiety associated with uncertainty, particularly during periods of change (Gautam, 2022). However, excessive rigidity can have negative effects. Acharya (2018) observes that when consistency becomes inflexibility, employees experience frustration and feel constrained in their ability to exercise judgment or respond to customer needs creatively.

**Adaptability and Well-being:** Adaptable cultures that embrace change and support continuous learning can enhance psychological well-being by providing opportunities for growth and development (Aboramadan et al., 2020). In the rapidly digitizing Nepalese banking sector, cultures that support learning and provide adequate resources for skill development buffer the psychological strain of technological change (Shrestha, 2024). However, when adaptability is imposed without adequate support—such as during forced digital transformations—it can increase stress and anxiety.

**Mission and Well-being:** A clear organizational mission provides employees with a sense of purpose, which is a core component of psychological well-being (Collins, 2013). Regmi (2024) found that Nepalese banks with clearly articulated and communicated missions reported higher employee engagement and lower turnover intentions. When employees understand how their work contributes to larger goals, they experience greater meaning and satisfaction. Conversely,



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in organizations where mission is absent or unclear, employees may experience alienation and diminished well-being.

**Merger-Related Cultural Disruption:** A particularly significant finding concerns the impact of merger-induced cultural change on psychological well-being. As noted by Stahl and Voigt (2008), the integration of distinct organizational cultures creates substantial psychological challenges. Gautam (2024) documents that during merger periods, Nepalese bank employees experience heightened anxiety about job security, role clarity, and career progression. The clash of different cultural norms and practices creates identity conflicts and undermines the psychological safety that employees need to perform effectively.

**Table 2: Cultural Factors Affecting Psychological Well-being in Nepalese Banks**

Cultural Factor	Positive Impact on Well-being	Negative Impact on Well-being
<b>Involvement</b>	Autonomy, empowerment, skill growth	Powerlessness, frustration, stagnation
<b>Consistency</b>	Predictability, psychological safety	Rigidity, constraint, frustration
<b>Adaptability</b>	Growth opportunities, innovation	Change-related stress, uncertainty
<b>Mission</b>	Purpose, meaning, direction	Alienation, aimlessness
<b>Merger Integration</b>	(When well-managed) Cohesion, synergy	Anxiety, identity conflict, uncertainty

**Source:** Synthesized from Acharya (2018), Bhutto et al. (2023), Gautam (2022, 2024), Regmi (2024)

### 4.3. Psychological Well-being and Employee Performance



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The literature provides strong support for the relationship between psychological well-being and employee performance in banking contexts. This relationship operates through multiple mechanisms.

**Cognitive Resources:** Employees with high psychological well-being have greater cognitive resources available for task performance. Baroudi et al. (2018) explain that stress and anxiety consume cognitive capacity that could otherwise be directed toward problem-solving, decision-making, and creativity. In the demanding banking environment, where attention to detail and analytical skills are critical, psychological well-being enables optimal cognitive functioning.

**Motivation and Engagement:** Psychological well-being enhances intrinsic motivation and work engagement. Ohana et al. (2013) found that employees with positive psychological states demonstrate higher levels of discretionary effort, taking initiative beyond formal job requirements. This is particularly valuable in banking, where customer service quality and proactive problem-solving differentiate successful institutions. Bhatta and Acharya (2024) confirm this pattern in Nepalese banks, finding that satisfied and psychologically healthy employees outperform their less healthy counterparts.

**Interpersonal Effectiveness:** Well-being facilitates positive interpersonal relationships, which are essential in banking where teamwork and customer interactions are central. Victoria et al. (2021) demonstrate that employees with higher well-being engage in more supportive behaviors toward colleagues and provide better service to customers. This relational dimension of performance is often overlooked but is critical in service industries like banking.

**Resilience:** Banking employees face numerous stressors, including demanding targets, customer complaints, and regulatory pressures. Psychological well-being provides the resilience needed to cope with these challenges without experiencing burnout (Bhutto et al., 2023). Employees with high well-being maintain performance levels even under pressure, while those with poor well-being are more likely to disengage or make errors.

**Turnover and Absenteeism:** Perhaps the most direct evidence of the well-being-performance link comes from studies of turnover and absenteeism. Bhutto et al. (2023) found that poor psychological well-being is a primary driver of turnover intentions in the banking sector. High turnover disrupts team functioning, increases workloads for remaining employees, and incurs substantial replacement costs. Cascio (2016) emphasizes that the indirect performance costs of poor well-being often exceed the direct costs of absenteeism and turnover.



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**Table 3: Mechanisms Linking Psychological Well-being to Performance**

<b>Mechanism</b>	<b>Description</b>	<b>Banking Sector Relevance</b>
<b>Cognitive Resources</b>	Reduced stress frees capacity for complex tasks	Critical for financial analysis, decision-making
<b>Motivation</b>	Intrinsic motivation drives discretionary effort	Enhances customer service, initiative
<b>Interpersonal Effectiveness</b>	Positive affect improves relationships	Essential for teamwork, customer interactions
<b>Resilience</b>	Ability to cope with pressure without burnout	Important given demanding targets, regulations
<b>Retention</b>	Reduced turnover maintains team stability	Preserves institutional knowledge, reduces costs

**Source:** Synthesized from Baroudi et al. (2018), Bhutto et al. (2023), Ohana et al. (2013), Victoria et al. (2021)

#### **4.4. The Mediating Role of Psychological Well-being**

The synthesis supports the proposition that psychological well-being mediates the relationship between organizational culture and employee performance. This mediating role is evident across several cultural dimensions.

For involvement, the literature suggests that participative cultures enhance performance not merely because participation directly improves performance, but because it satisfies employees' psychological needs for autonomy and competence, thereby enhancing well-being and, through well-being, performance (Aggarwal, 2023; Ohana et al., 2013). When Nepalese banks implement



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participative practices without adequately addressing the underlying psychological needs they are meant to satisfy, the performance benefits may be limited. Conversely, when involvement genuinely empowers employees and enhances their sense of competence, the well-being-mediated performance effects are substantial (Bhatta & Acharya, 2024).

For consistency, the mediating role is more complex. Consistent cultures reduce ambiguity, which enhances psychological safety and well-being, leading to improved performance (Mburu, 2020). However, excessive consistency that feels constraining may reduce well-being despite providing clarity, undermining the potential performance benefits. This suggests that the relationship is curvilinear—moderate consistency that provides structure without rigidity optimally supports well-being and performance.

For adaptability, the mediating role of well-being is particularly evident during periods of change. Cultures that support adaptability by providing resources for learning and development enhance well-being by increasing employees' sense of competence and control over their work environment (Aboramadan et al., 2020). This well-being, in turn, enables employees to embrace rather than resist change, enhancing their performance during transitions (Shrestha, 2024).

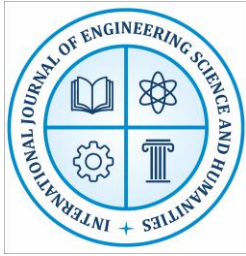
For mission, the mediating role operates through meaning. A clear mission enhances well-being by providing employees with a sense of purpose and understanding of how their work contributes to organizational goals (Collins, 2013). This sense of meaning, a core component of psychological well-being, drives engagement and performance. Regmi (2024) found that in Nepalese banks, employees who perceived their organization as having a clear and meaningful mission reported higher well-being and, subsequently, higher performance.

The mediation model is particularly relevant for understanding the impact of mergers. When banks merge without adequate attention to cultural integration, the resulting disruption undermines psychological well-being across multiple dimensions—increasing uncertainty, challenging identity, and eroding trust. This deterioration in well-being explains much of the performance decline often observed following mergers (Stahl & Voigt, 2008). Conversely, when mergers are managed with attention to cultural integration and employee psychological needs, well-being can be preserved or even enhanced, supporting performance during the transition period (Gautam, 2022, 2024).

## 4.5. Contextual Challenges: Mergers and Regulatory Pressures

The synthesis highlights that the relationships among culture, well-being, and performance are not static but are shaped by the dynamic context of Nepalese banking. Two contextual factors emerge as particularly significant.

**Merger Integration:** The wave of mergers mandated by NRB (Table 4) represents the most significant contextual factor affecting Nepalese banks. Gautam (2024) documents that between 2019 and 2024, the number of financial institutions decreased substantially as mergers



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consolidated the sector. This consolidation creates cultural challenges that directly impact well-being and performance.

**Table 4: Consolidation of Nepalese Financial Institutions (2019-2024)**

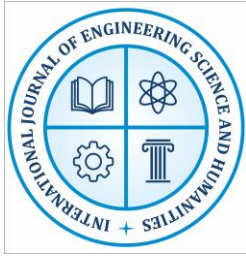
Category	2019	2024	% Reduction
Commercial Banks	28	20	28.6%
Development Banks	27	17	37.0%
Finance Companies	25	14	44.0%
Total	80	51	36.3%

Source: Compiled from Nepal Rastra Bank (2020, 2021, 2025)

The merger process introduces multiple stressors that affect well-being: uncertainty about job security and roles, conflicts between employees from different legacy organizations, pressure to integrate different systems and procedures, and loss of organizational identity (Gautam, 2022; Stahl & Voigt, 2008). These stressors directly impair psychological well-being and, through well-being, performance. The finding that merger success depends as much on cultural integration as on financial integration underscores the importance of attending to well-being during these transitions.

Regulatory Environment: Nepal Rastra Bank's regulatory framework shapes the context within which culture-well-being-performance relationships operate. The emphasis on capital adequacy, governance standards, and financial stability creates pressures that can affect culture and well-being (Acharya, 2018). When regulations are perceived as overly burdensome or inconsistently applied, they can contribute to employee stress. Conversely, when regulations are accompanied by guidance and support for implementation, they can provide the clarity that enhances psychological safety.

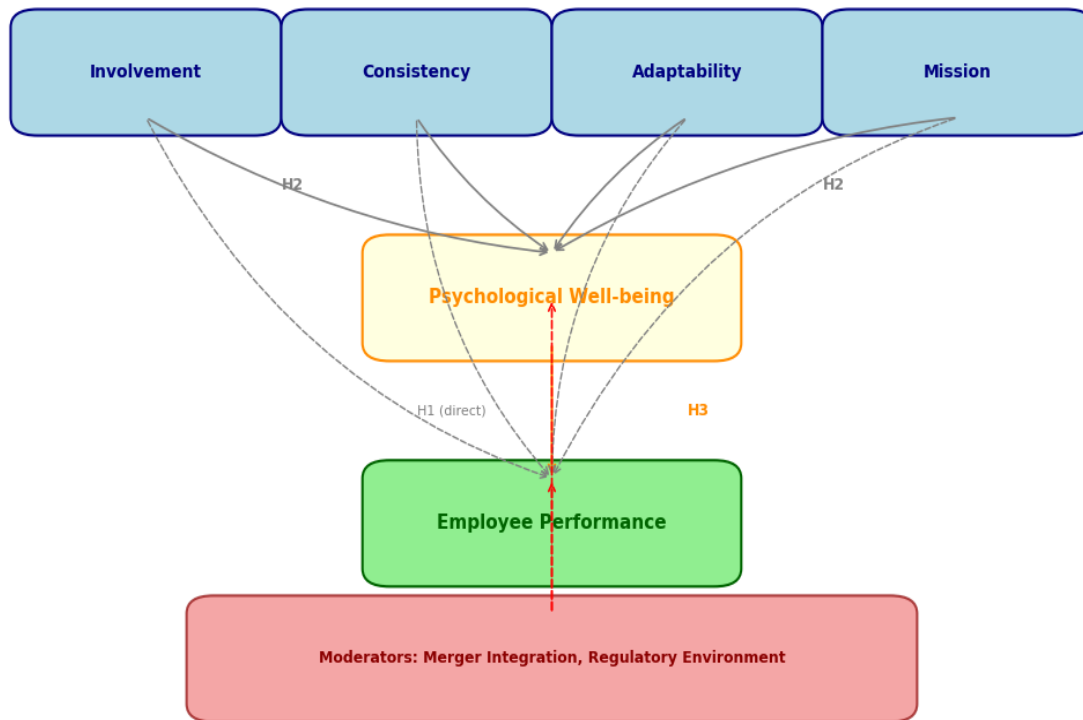
The regulatory push for mergers, while intended to strengthen the sector, has created a period of prolonged uncertainty that affects well-being across the sector. As Gautam (2024) notes, the



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constant pressure to consider merger possibilities or to integrate following mergers creates a background of instability that undermines the consistent, supportive culture that best supports well-being.



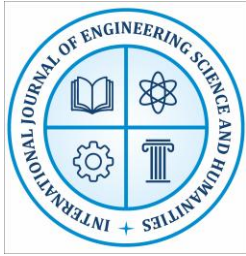
**Figure 1: Conceptual Model of Culture, Psychological Well-being, and Performance in Nepalese Banks**

## 5. CONCLUSION

This study has evaluated the mediating role of psychological well-being in the relationship between organizational culture and employee performance in Nepalese banks. Through systematic synthesis of existing literature, several key conclusions emerge.

First, organizational culture in Nepalese banks is characterized by significant diversity, ranging from traditional hierarchical cultures to emerging performance-oriented cultures. The cultural dimensions of involvement, consistency, adaptability, and mission each have distinct effects on employee outcomes, with their relative emphasis varying across institutions.

Second, there is robust evidence that organizational culture significantly influences employee psychological well-being. Cultures that foster involvement, provide clarity without rigidity, support adaptability, and articulate clear mission positively impact well-being. Conversely, cultures characterized by limited participation, excessive rigidity, poorly managed change, or



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unclear purpose undermine well-being. The merger-driven cultural disruption currently affecting the sector presents particular challenges to psychological well-being.

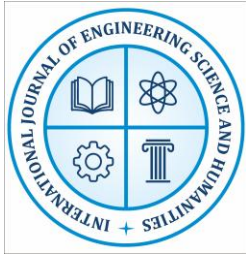
Third, psychological well-being is a significant determinant of employee performance in banking contexts. Through its effects on cognitive resources, motivation, interpersonal effectiveness, and resilience, well-being enables optimal performance. The costs of poor well-being—including turnover, absenteeism, and reduced productivity—are substantial and often underestimated.

Fourth, the synthesis supports the proposition that psychological well-being mediates the relationship between organizational culture and employee performance. This mediation helps explain why similar cultural practices can have different effects in different contexts: the key is whether they enhance psychological well-being. For involvement practices to improve performance, they must genuinely empower employees. For consistency to be beneficial, it must provide safety without feeling constraining. For adaptability to drive performance, it must be accompanied by support that enhances well-being. For mission to motivate, it must provide genuine meaning.

Finally, the relationships among culture, well-being, and performance are shaped by the dynamic context of Nepalese banking. The wave of mergers and the regulatory environment create conditions that can either support or undermine these relationships. Successful navigation of these contextual challenges requires attention not only to financial and operational integration but to the psychological well-being of employees.

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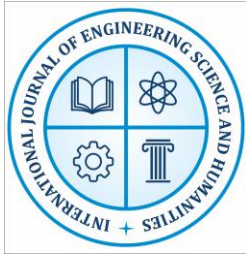
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