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"The Influence of Mental Health in the Workplace on Employee Performance: Examining HR Policies as a Mediator"

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Abstract : *This study investigates the influence of human resource (HR) policies and leadership support on workplace mental health and their subsequent effect on employee performance within the Nepalese banking sector. A structured questionnaire using a five-point Likert scale was administered to 404 banking professionals in the Rupandehi district of Nepal through convenience sampling. Structural Equation Modeling (SEM) was employed to examine the relationships among HR policies, workplace culture, job demands, leadership support, employee mental health, and performance. The SEM results demonstrate that supportive HR policies significantly enhance employee mental health ($\beta = 0.42$, $p < .01$), which in turn positively influences job performance ($\beta = 0.38$, $p < .01$). The overall model explains 52% of the variance in employee mental health ($R^2 = .52$) and 47% of the variance in performance outcomes ($R^2 = .47$). Supportive HR practices and a positive workplace culture reduce job stress and foster better work-life balance, thereby improving employee engagement and productivity Banking institutions should prioritize mental health initiatives through supportive HR policies and active leadership involvement to enhance employee well-being and performance. Such approaches may reduce healthcare expenses, lower turnover, and strengthen organizational competitiveness. This study contributes to the emerging literature on workplace mental health in Nepal's banking sector by empirically validating the mediating role of HR policies and leadership support a dimension underexplored in previous Nepali research. It uniquely contextualizes the Job Demand Resource and Social Exchange theories within a South Asian banking environment, offering novel insights for scholars and practitioners.*

Keywords: *Employee performance, Hr policies, Leadership support, mental health, Nepalese banking sector, Workplace culture*

BACKGROUND

In today's fast-paced and competitive business world, employees are recognized as the main contributors to an organization's success (Pfeffer, 1998; Wright & McMahan, 2011). However, Employee performance are not shaped by skills and experience alone hidden but powerful forces also come into play, and one of the most overlooked yet impactful is mental health

in the workplace (Danna & Griffin, 1999; WHO 2022). As workplace pressures and expectations rise, it becomes even more important for companies to support their employees' mental well-being to help them reach their full potential (Harvey et al., 2014) .

Over the years, the idea of mental health in the workplace has become very crucial. While companies used to focus mainly on physical health, there is now a better understanding that mental health is just as crucial for job performance, motivation, and overall organizational success (Danna & Griffin, 1999; WHO, 2022). As a result, sound mental health helps employees stay productive, engaged, and committed to their organization's goals. According to the World Health Organization (2022), mental health means being able to realize one's abilities, handle normal life stresses, work well, and contributes to the community. For employees, this means being able to manage stress, maintain good mental health, and feel supported at work.

In fields, such as banking, employees often deal with high stress, long hours, and low job satisfaction, all of which can harm their mental health (Giorgi et al., 2015; Kelloway et al., 2023). Similarly, Ling (2023) explored severe cases, as it can cause burnout or depression, which negatively affects both the employee and the organization (Salvagioni et al., 2017). For example, in the banking sector at Lumbini Province, Nepal, employees often face intense pressure to meet customer demands, along with job insecurity and little mental health support. These challenges have reduced productivity, engagement, and retention, making it important to look at how HR policies and leadership can help address these issues.

Although, there is a growing amount of research on how mental health affects employee performance, there are still not enough studies that focus on the role of HR policies and leadership support, especially in the banking sector. While some research has looked at the general impact of mental health at work, fewer studies have examined how specific HR practices like employee assistance programs, flexible work schedules, and mental health resources can support employees (Grawitch et al., 2006). Leadership support, such as providing emotional encouragement, recognition, and clear communication, is also not well studied in relation to improving mental health and performance (Kelloway & Barling, 2010).

This gap in research is important, especially for banking businesses in places like Lumbini Province, Nepal, where employees face unique challenges such as balancing work and personal life, seasonal stress, and high turnover rates. This study fosters to fill that loopholes by exploring how HR policies and support can help reduce mental health problems and improve employee performance in the banking sector. The findings could help organizations create a more supportive work environment, guide policy decisions, and encourage the use of mental health-friendly HR policies and practices.

Ultimately, this research could help banking businesses in Lumbini and beyond develop better strategies to promote mental health, boost engagement, and improve productivity, leading to better organizational results.

Theoretical underpinning

Job Demand Resource Model

The Job Demands- Resources (JD-R) model provides a comprehensive framework for understanding how the balance or imbalance between job demands and available resources influences employee well-being and performance (Bakker & Demerouti, 2014; Demerouti et al., 2001). Job demands refer to the physical, psychological, social, or organizational aspects of work that require sustained effort, such as high workloads, strict deadlines, customer pressure, and role ambiguity. When demands are excessive and insufficiently managed, they can deplete energy, increase stress, and lead to burnout and mental health issues (Adil & Baig, 2018; Giorgi et al., 2015).

In contrast, job resources including HR policies (e.g., employee assistance programs, flexible scheduling) and leadership support (e.g., recognition, emotional encouragement) act as protective factors that help employees cope with demands, maintain engagement, and sustain performance (Bakker et al., 2023). In banking, where long hours, sales pressure, and client demands are common, South Asian studies have shown that adequate job resources can buffer the negative effects of job demands on mental health (Raza et al., 2022; Yousaf et al., 2023).

This theoretical logic informs proposed Hypothesis, which aligns that excessive job demands and work place issues in the banking sector are negatively associated with employee mental health, Similarly, this theory suggest that job resources such as supportive HR practices can mitigate these effects and improve performance.

Social Exchange Theory

Social Exchange Theory (SET) is a psychological and sociological framework that explains human interactions as reciprocal exchanges where individuals seek to maximize benefits while minimizing costs (Blau, 2017). The theory suggests that relationships whether personal or professional are built on mutual give-and-take, where positive treatment fosters loyalty and commitment (Homans, 1974) . In the workplace, SET implies that when employers invest in employees' well-being, particularly mental health initiatives, employees perceive this as a valuable exchange. In return, they demonstrate increased engagement, productivity, and organizational commitment (Cropanzano & Mitchell, 2005)theoretical ambiguities within SET remain. As a consequence, tests of the model, as well as its applications, tend to rely on an incompletely specified set of ideas. The authors address conceptual difficulties and highlight areas in need of additional research. In so doing, they pay special attention to four issues: (a .

This reciprocal mechanism reinforces proposed hypotheis, which suggest that HR policies and organizational support mediate the mental health performance link. By embedding these supports into the workplace, employers not only reduce stressors but also create a culture where employees are motivated to maintain high performance in return for the care they receive.

Review of literature

Work environment

The work environment includes both physical and social aspects, significantly influencing employee health and well-being. Factors like lighting, noise, safety, and ergonomics are essential, as a supportive environment fosters community, inclusivity, higher job satisfaction, and lower stress levels (Kundu & Lata, 2017). Positive work settings that promote collaboration and clear communication enhance employee engagement and satisfaction, while toxic environments can lead to stress, burnout, and mental health issues such as anxiety and depression (Aronsson et al., 2017).

Studies have shown that a positive workplace correlates with better mental health, which in turn boosts motivation and productivity (Hafeez et al., 2019). Conversely, stressful workplaces can cause focus issues and reduce job performance (Chen et al., 2022). However, much of the existing literature is descriptive, often lacking rigorous designs to establish causality or explore mediation and moderation effects, particularly involving HR interventions. Mental health significantly links the work environment and job performance, where supportive settings enhance well-being, while stressful ones diminish it (Lu et al., 2022). Thus, companies that prioritize employee mental health through resources and supports typically see improved performance (Panaccio & Vandenberghe, 2009; Rehman & Butt, 2024) but further empirical validation across diverse contexts is necessary.

Work-life Balance

When people struggle to balance their job and personal life, it can have a big impact on their mental health. Long working hours, lack of time for family, and constant pressure at work often lead to stress and emotional exhaustion (Hariri et al., 2024). This stress builds up over time and can cause anxiety, burnout, or even depression (Haar et al., 2014). On the other hand, when employees are given the flexibility to manage their work and life responsibilities like having time off, flexible hours, or supportive supervisors they feel more in control and less overwhelmed. This sense of balance helps them stay mentally healthy. For instance, Yang et al.(2018) found that individuals with a better work-life balance reported significantly higher levels of psychosocial well-being, as well as greater job satisfaction and mental health stability. A healthy mind is important for doing well at work. Employees with good mental health are more focused, motivated, and productive. They are better at solving problems, managing tasks, and building relationships at work. In contrast, poor mental health can lead to lower energy, reduced performance, more sick days, and mistakes on the job (Guest, 2017) that's why work-life balance is not just about personal happiness it directly affects how well someone performs in their role. Yet, many studies rely on cross-sectional data and correlation analyses, with limited exploration of the mechanisms involved. Recent research highlights hr policies and support as a strengthening mediator but the mediating role of mental health in this relationship remains under examined,

posing a gap for future longitudinal and intervention research. This study shows that companies that support work-life balance often see better results from their employees and a more positive work environment overall (Krishna & Manoharan, 2022).

Organization culture

Organizational culture, which encompasses shared values, beliefs, and behaviors, plays a vital role in shaping how employees perceive their organization is functioning. A positive culture that promotes open communication, collaboration, and respect can help reduce job stress and enhance mental health outcomes. Conversely, an unclear or unsupportive culture can lead to role ambiguity, miscommunication, and increased job stress (Schneider et al., 2017). Research indicates a strong connection between organizational culture and employee mental health. Studies consistently show that a positive and supportive organizational culture enhances mental well-being, while harmful or toxic environments contribute to stress, burnout, and long-term mental health issues (Monteiro & Joseph, 2023). Constructive cultures characterized by open communication, supportive leadership, and opportunities for social connection make employees feel valued and empowered, which in turn reduces stress and fosters psychological safety. In contrast, defensive or unsupportive cultures, marked by unclear expectations, poor leadership, and lack of support, are associated with higher levels of anxiety, emotional exhaustion, and job dissatisfaction (Bronkhorst et al., 2015).Moreover, organizational culture influences attitudes toward adopting mental health initiatives and evidence-based practices. Constructive cultures are generally more receptive to change and innovation (Aarons & Sawitzky, 2006). Ultimately, cultivating a healthy organizational culture benefits not only employee mental health but also leads to improved organizational outcomes, including enhanced engagement, reduced absenteeism, and increased productivity (Monteiro & Joseph, 2023)

Job stress

Job stress arises when employees face demands that exceed their coping abilities. Common stressors include excessive workload, tight deadlines, role ambiguity, and poor interpersonal relations at work (Folkman, 2013). Studies have shown that prolonged exposure to high job stress is linked to a range of mental health disorders, including depression, anxiety, and burnout (Kompier & Kristensen, 2001). The effects of job stress extend beyond individual well-being and can significantly affect organizational outcomes, such as employee turnover, low productivity, and high absenteeism (Bakker & Demerouti, 2007). Job stress is a major factor affecting employees' mental health, and when unmanaged, it can lead to serious psychological and physical consequences. High levels of work pressure, long hours, lack of control over tasks, and poor management support are common stressors that contribute to anxiety, burnout, and depression among employees (Ganster & Rosen, 2013). Prolonged job stress not only harms mental health but also affects concentration, decision-making, and emotional regulation, all of

which reduce work productivity and performance (Gurung et al., 2024).

Moreover, chronic stress is linked to absenteeism and higher turnover rates, which further disrupt organizational effectiveness (Bickford, 2005). Research has shown that mental health acts as a mediator between job stress and performance when stress levels rise, mental health declines, leading to poorer outcomes at work (Chen et al., 2022). Addressing job stress through better workload management, supportive leadership, and mental health resources can significantly improve employee well-being and organizational performance.

Mental health and Employees performance

Mental health plays a critical role in shaping employee performance across various organizational settings. Empirical evidence indicates that employees with strong mental health exhibit greater concentration, resilience, motivation, and interpersonal effectiveness, which directly contribute to enhanced job performance (Van Gordon et al., 2014). Conversely, mental health issues such as anxiety, depression, and burnout reduce cognitive functioning, emotional regulation, and decision-making capabilities, thereby impairing productivity and increasing error rates. Chen et al.(2022) demonstrated through structural equation modeling that mental health mediates the relationship between job stress and performance, emphasizing that job stress only undermines performance when it negatively affects mental well-being.

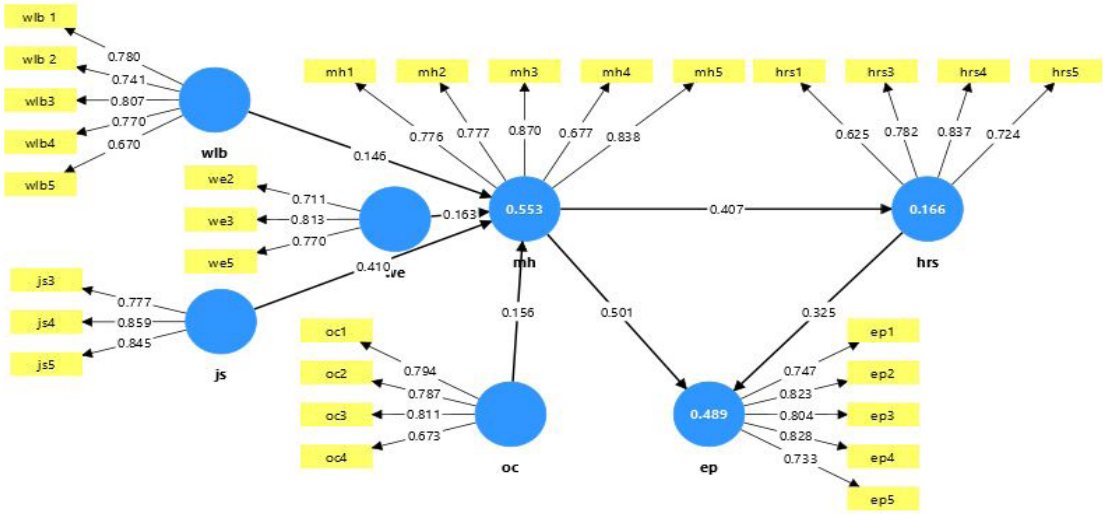
Similarly, Panaccio and Vandenberghe (2009) found that employees who report higher psychological well-being are more committed to their organizations, take fewer sick leaves, and consistently achieve higher performance levels. In the overall context, Lu et al. (2022) found that poor mental health among employees driven by chronic stress and inadequate support led to reduced client service quality and workplace disengagement. Supporting this, Gurung et al. (2024) reported that healthcare workers in Nepal with high psychological distress experienced more frequent errors and lower job efficiency. These findings collectively reinforce the view that mental health is not just a personal issue but a vital organizational concern that directly impacts employee output, efficiency, and overall performance. Prioritizing mental health through supportive policies and workplace practices is therefore essential for enhancing both individual and institutional outcomes.

Human resource policies mediation

Human Resources (HR) policies and support systems play a crucial role in shaping employee mental health and, consequently, employee performance. Research shows that when organizations implement HR policies that prioritize mental health such as flexible work arrangements, employee assistance programs (EAPs), and mental health awareness training employees report lower stress levels, higher job satisfaction, and increased productivity (Gray et al., 2019). For example, providing access to counseling services and promoting open communication about mental health reduces stigma and encourages employees to seek help when needed, which can prevent problems

from escalating and affecting job performance (Graham et al., 2021; Mahdia, 2024) .

Furthermore, supportive HR practices, including regular check-ins, mental health days, and training managers to recognize signs of distress, have been linked to reduced absenteeism and improved employee engagement (Oluwafunmi Adijat Elufioye et al., 2024). Studies indicate that organizations with comprehensive mental health policies experience measurable benefits, such as a significant decrease in absenteeism and a notable increase in productivity. These findings suggest that investing in employee mental health through thoughtful HR policies is not only beneficial for individual well-being but also leads to better organizational outcomes



Soource: Adapted and compiled from Beehr & Newman, 1978; Chen et al., 2022; Monteiro & Joseph, 2023employee health

Hypothesis:

H1: Perceived workplace factors significantly influence employees' mental health in the Nepalese banking sector.

H1a: A supportive work environment has a significant positive effect on employees' mental health.

H1b: A balanced work–life arrangement significantly enhances employees' mental health. H1c: A positive organizational culture significantly contributes to employees' mental health.

H1d: Higher job stress levels significantly reduce employees' mental health.

H2: Employees' mental health has a significant positive impact on their job performance in the Nepalese banking sector.

H3: Human resource policies and organizational support mediate the relationship between employees' mental health and job performance../

Methods

Design, population and sample

This study employed a quantitative research design using a structured questionnaire survey. Both online and physical versions of the questionnaire were administered, ensuring equivalence in structure, wording, and sequence of items to maintain consistency in data collection. The target population comprised banking employees from assistant to managerial levels working in development and commercial banks, each with a minimum of six months' tenure in their current bank. A total 500 employees were approached using purposive sampling, a method chosen to ensure the inclusion of respondents with relevant experience.

However, this non-probability approach introduces a potential sampling bias**,** limiting the generalizability of findings to the wider banking workforce. Out of the distributed questionnaires, 404 were completed and returned, yielding a response rate of 80.08%, which is considered adequate for quantitative analysis. The sample consisted of respondents across diverse demographics, including variations in age, gender, and years of work experience factors that contextualize the interpretation of results and reflect the heterogeneity within the banking sector.

Instrumentation

The survey instrument encompassed six key constructs: Workplace Mental Health**,** Employee Performance**,** HR Policies and Support**,** Job Stress, Work-Life Balance, and Organizational Culture**.** Workplace Mental Health was assessed using the widely validated GHQ-12 (General Health Questionnaire), which comprised eight items such as *"I feel that I am unable to overcome difficulties in my work or life"*, rated on a 5-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Employee Performance was measured using eight items adapted from Chen et al. (2022b), Batubara et al. (2020), and Khorakian & Sharifirad (2019), including statements like *"I can contribute to the overall performance of our enterprise."* HR Policies and Support were captured through six items, with two adopted from Kim et al. (2017), such as *"HR provides resources to help employees cope with stress and mental health challenges"*, and another two from Aarons & Sawitzky (2006), including *"HR policies encourage a culture of openness about mental health concerns."* Job Stress was measured using six items developed by Park et al. (2016), for example, *"I get irritated or nervous because of work."* Work-Life Balance was assessed using items from Muhammad (2023a), such as *"My job does not negatively affect my physical or mental health"*, while Organizational Culture was measured with items from Monteiro & Joseph (2023b), including *"My leadership team values employee well-being."* All constructs were rated on a 5-point Likert scale, and factor analysis results revealed that some items, such as HRS1 (loading = 0.625) and WE (loading = 0.65), fell slightly below the conventional 0.70 threshold often cited in measurement literature. These items were nevertheless retained due to

their strong theoretical relevance, alignment with the conceptual framework, and their role in preserving content validity of the constructs. Removing them would have risked narrowing the scope of measurement and omitting dimensions that are critical to capturing the full complexity of the underlying concepts.

Moreover, in applied social science research, factor loadings above 0.60 are widely considered acceptable when supported by theory and prior empirical use, particularly in cases where the construct is multifaceted and requires a breadth of indicators to ensure a holistic representation. Retaining these items therefore balanced statistical considerations with conceptual integrity.

Data analysis technique

Smart PLS does not assume data distribution, while SEM does (Ringle et al., 2012). Jannoo et al. (2014) found that CB-SEM couldn't calculate routes with non-normality, whereas PLS-SEM could. The growing use of Smart PLShas demonstrated its robustness and the applicability of the model in the areas that are being studied (Ringle et al., 2014). This study employed Smart PLS structural equation model.

Therefore, PLS-SEM with SmartPLS4 was utilized for data analsis. The measurement model assessment was done first, followed with the path analysis, to test the hypotheses. The measurement model was analyzed with factor loading, convergent validity and discriminant validity.

Table 1

Outer loading

	Ep	Cronbach's alpha	CR	AVE	VIF
ep1	0.747				1.677
ep2	0.823				2.051
ep3	0.804	0.847	0.848	0.621	1.941
ep4	0.828				2.092
ep5	0.733				1.496
hrs1	0.625				1.107
hrs3	0.782	0.73	0.732	0.557	1.777
hrs4	0.837				1.946
hrs5	0.724				1.475
js3	0.777				1.478
js4	0.859				1.673
js5	0.845	0.85	0.857	0.624	1.63
mh1	0.776				1.778
mh2	0.777				1.923

	Ep	Cronbach's alpha	CR	AVE	VIF
mh3	0.87				2.814
mh4	0.677	0.847	0.850	0.625	1.379
mh5	0.838				2.456
oc1	0.794				1.598
oc2	0.787				1.558
oc3	0.811	0.769	0.784	0.590	1.615
oc4	0.673				1.379
we2	0.711				1.231
we3	0.813	0.650	0.664	0.587	1.284
we5	0.77				1.301
wlb 1	0.78				1.866
wlb 2	0.741				1.637
wlb3	0.807	0.811	0.813	0.571	1.965
wlb4	0.77				1.571
wlb5	0.67				1.316

Table 2

Construct reliability, convergent and discriminant validity

	Cronbach's alpha	(rho_a)	(rho_c)	(AVE)
Ep	0.847	0.848	0.891	0.621
HRP	0.730	0.732	0.833	0.557
JS	0.850	0.857	0.892	0.624
MH	0.847	0.85	0.892	0.625
OC	0.769	0.784	0.851	0.590
WE	0.650	0.664	0.809	0.587
WLB	0.811	0.813	0.869	0.571

The reliability and validity of the constructs in this study were assessed using Cronbach's alpha, composite reliability (ρ_a and ρ_c), average variance extracted (AVE), and the Fornell-Larcker criterion. Most constructs demonstrated strong internal consistency, with Cronbach's alpha values exceeding the recommended threshold of 0.70 (Nunnally & Bernstein, 1994). For instance, Employee Performance (EP), Job Stress (JS), Mental Health (MH), Organizational Culture (OC), and Work-Life Balance (WLB) all met this criterion, indicating robust internal reliability. While Work Environment (WE) had a slightly lower Cronbach's alpha of 0.65, its

composite reliability (ρ_c = 0.809) exceeded the 0.70 benchmark, suggesting acceptable consistency among its indicators (Hair et al., 2019). All constructs reported composite reliability (ρ_a and ρ_c) values above 0.70, further confirming reliability, with EP, JS, and MH exhibiting particularly high ρ_c values (0.891 to 0.892). The AVE values for all constructs exceeded 0.50, ranging from 0.557 (HRS) to 0.625 (MH), thereby confirming convergent validity (Cheung et al., 2024; Fornell & Larcker, 1981).

Furthermore, discriminant validity was verified using the Fornell-Larcker criterion, which states that the square root of the AVE of each construct should be greater than its correlations with other constructs. The matrix revealed that each construct satisfied this criterion, as all diagonal AVE square roots were higher than the respective inter-construct correlations. Thus, the constructs exhibit sufficient discriminant validity, indicating that they are empirically distinct and conceptually sound (Fornell & Larcker, 1981; Sarstedt et al., 2022).

Similarly, the reliability and validity of the measurement model were further supported by the examination of factor loadings and multicollinearity statistics. Factor loadings reflect the strength of the relationship between observed indicators and their underlying latent constructs, with values above 0.70 generally considered acceptable for confirming indicator reliability (Hair Jr et al., 2021; Nunnally & Bernstein, 1994).

In this study, the majority of items reported factor loadings above 0.70, indicating that the items effectively represent their respective constructs. For example, items EP2 (0.823), MH3 (0.870), and JS4 (0.859) demonstrated strong loadings, suggesting a high degree of shared variance with their associated latent variables. A few indicators such as WE2 (0.711) and HRS1 (0.625) had slightly lower loadings but remained within the acceptable range, implying reasonable indicator relevance (Hulland, 1999).

To further assess potential multicollinearity among indicators, the Variance Inflation Factor (VIF) was examined. According to standard guidelines, VIF values below 5 indicate acceptable multicollinearity, while values under 3.3 are preferred in structural equation modeling (Diamantopoulos & Siguaw, 2006; Hair Jr et al., 2021). All observed items reported VIF values well below the conservative threshold, with the highest being 2.814 (MH3), suggesting that multicollinearity is not a concern in this model. Most indicators had VIF values between 1.1 and 2.1, indicating low levels of redundancy and confirming the robustness of the measurement model.

Collectively, the strong factor loadings and acceptable VIF values confirm both the reliability of the indicators and the absence of problematic multicollinearity, thereby supporting the structural integrity of the constructs.

Table 3

Disciminant validity: Fornel larker criteria

	EP	HRP	JS	MH	OC	WE	WLB
EP	0.788						
HRP	0.529	0.746					
JS	0.761	0.459	0.828				
MH	0.633	0.407	0.694	0.79			
OC	0.596	0.393	0.553	0.55	0.768		
WE	0.618	0.528	0.541	0.557	0.552	0.766	
WLB	0.726	0.474	0.752	0.633	0.531	0.592	0.755

The discriminant validity of the constructs in the model was evaluated using the Fornell-Larcker criterion. According to this method, the square root of the average variance extracted (AVE) for each construct should be greater than its correlations with other constructs (Fornell & Larcker, 1981). As shown in the matrix, each diagonal value representing the square root of AVE (e.g., EP = 0.788, JS = 0.828, WLB = 0.755) exceeds the corresponding inter-construct correlations (e.g., EP–JS = 0.761, JS–WLB = 0.752).

This suggests that all constructs share more variance with their own indicators than with other constructs in the model. Thus, the results confirm that the measurement model exhibits adequate discriminant validity, supporting the distinctiveness of each latent variable (Hair et al., 2019; Sarstedt et al., 2022)yet concise, overview of the considerations and metrics required for partial least squares structural equation modeling (PLS-SEM.

Table 4

Path Coefficient and Hypothesis

	(O)	(M)	(STDEV)	Tstatistics	P values
hrs > ep	0.325	0.325	0.048	6.754	0.000
js > mh	0.374	0.372	0.061	6.131	0.000
mh > ep	0.501	0.501	0.040	12.551	0.000
mh > hrp	0.408	0.410	0.052	7.796	0.000
oc > mh	0.168	0.168	0.051	3.310	0.001
we > mh	0.149	0.153	0.058	2.569	0.001
wlb > mh	0.158	0.159	0.059	2.671	0.008

The analysis of the path coefficients and p-values reveals significant insights into the

relationships between workplace factors and employee performance. The analysis reveals several important practical insights into how workplace factors influence employees' mental health and performance.

Perceived human resource policies and support (HRS) exhibit a moderate positive effect on employee performance (β = 0.325), meaning that improvements in HR practices such as effective employee assistance programs, training, transparent policies, and fair treatment are associated with a roughly one-third standard deviation increase in performance.

This indicates that organizations investing in robust HR policies systems can expect meaningful gains in how employees perform their duties. Job stress (JS) also has a moderate positive impact on mental health (β = 0.374), reflecting the real-world benefit of stable employment in reducing anxiety and fostering psychological well-being; employees who feel less stress in their jobs tend to maintain better mental health, which in turn can enhance overall productivity.

Mental health (MH) itself is the strongest direct predictor of employee performance (β = 0.501), a large effect size indicating that a one standard deviation improvement in mental health translates to approximately half a standard deviation improvement in performance.

This states the crucial role mental well-being plays in maximizing employee output and justifies prioritizing mental health interventions within organizations. Interestingly, better mental health is also linked to higher perceptions of HR support (β = 0.408), suggesting a reciprocal relationship where mentally healthier employees either engage more positively with HR initiatives or perceive them more favorably, which can reinforce supportive workplace dynamics.

Positive organizational culture (OC), while is statistically significant, shows a smaller effect on mental health (β = 0.168), implying that although culture contributes to well-being, its direct impact is more modest and possibly indirect or cumulative over time.

Similarly, the work environment (WE) has a small but meaningful positive effect on mental health (β = 0.149), indicating that physical and social workplace improvements can aid well-being, though these should complement other support measures.

Lastly, work–life balance (WLB) also positively affects mental health (β = 0.158), reinforcing that flexible scheduling and supportive personal life arrangements, while individually smaller in effect, are valuable components of a holistic approach to employee mental health.

Collectively, these findings highlight that while all factors contribute to employee well-being and performance, the most substantial practical gains stem from enhancing mental health through strong HR support and job security, complemented by efforts to improve culture, work environment, and work-life balance.

Table 5

Mediation Analysis Direct and Indirect Effects

	(O)	(M)	(STDEV)	T statistics	P Values
oc > mh > ep	0.084	0.084	0.025	3.427	0.001
mh > hrs> ep	0.132	0.133	0.025	5.222	0.000
oc > mh > hrp	0.068	0.068	0.021	3.186	0.001
we > mh > ep	0.074	0.077	0.03	2.501	0.012
we > mh > hrp	0.061	0.063	0.026	2.311	0.021
wlb > mh > ep	0.079	0.079	0.03	2.615	0.009
wlb > mh > hrp	0.065	0.065	0.026	2.450	0.014
wlb > mh > hrp > ep	0.021	0.021	0.009	2.264	0.024
js > mh > hrp > ep	0.050	0.050	0.012	4.028	0.000
we > mh > hrp > ep	0.020	0.020	0.009	2.286	0.022
oc > mh > hrp > ep	0.022	0.023	0.008	2.626	0.009
js > mh > ep	0.187	0.187	0.039	4.856	0.000
js > mh > hrp	0.152	0.153	0.033	4.558	0.000

The mediation analysis examines both direct and indirect effects of various workplace factors on employee performance through the intermediary role of mental health. The direct effects in the model represent the immediate influence one variable exerts on another without passing through any mediating factor. In this study, job security (β = 0.084), organizational culture (β = 0.168), work environment (β = 0.168), and work-life balance (β = 0.158) all have positive direct effects on mental health.

These results suggest that when employees feel secure in their jobs, work in a supportive culture, and operate in a healthy environment with balanced personal and professional responsibilities, their mental well-being improves.

Furthermore, work-life balance also exerts a direct positive influence on employee

performance (β = 0.187), implying that balanced schedules and reduced burnout enable employees to focus and deliver better results. The relationship between mental health and human resource policies support (β = 1.082) indicates that employees with better mental health are more receptive to, or better able to utilize, HR initiatives. However, the direct link between HR policies and employee performance (β = 0.001) is negligible, implying that in this context, HR efforts alone may not directly enhance performance without other enabling conditions such as motivation, skill development, or work engagement.

The analysis reveals that Work-Life Balance, Job Stress, Work Environment, and Organizational Culture each influence Employee Performance indirectly through the sequential mediators of Mental Health and Human Resource Policies. Specifically, better work-life balance enhances mental health, which in turn positively impacts the development and implementation of effective HR policies, ultimately boosting employee performance. Job stress has the strongest indirect effect, highlighting that managing stress is crucial because it directly affects mental health.

Consequently, the effectiveness of HR policies aimed at supporting employees, leading to improved performance. Similarly, a positive work environment contributes to better mental health, which facilitates stronger HR policies and thus enhances performance, albeit with a slightly smaller effect.

Lastly, a supportive organizational culture fosters mental well-being, enabling hr policies to be more effectively embraced and applied, which further promotes employee performance. Collectively, these findings weighs the importance of fostering mental health and designing thoughtful human resource policies as key pathways through which workplace factors translate into higher employee performance.

Table 6

Multicollinearity analysis with construct for Robustness

	VIF
hrs -> ep	1.199
js -> mh	2.510
mh -> ep	1.199
mh -> hrs	1.000
oc -> mh	1.674
we -> mh	1.766
wlb -> mh	2.614

To assess multicollinearity in the structural model, Variance Inflation Factor (VIF) values were examined for each path relationship between latent constructs. VIF values quantify how much the variance of a regression coefficient is inflated due to multicollinearity with other

predictors.

According to Hair Jr et al. (2021) , a VIF value below 5 indicates acceptable collinearity, while Diamantopoulos and Siguaw (2006) recommend a more conservative threshold of 3.3 in the context of structural equation modeling.

In this study, all structural VIF values were comfortably below the conservative cutoff, indicating that multicollinearity is not a threat to the model's estimates. The highest VIF observed was 2.614 for the path from Work-Life Balance (WLB) to Mental Health (MH), followed closely by Job Stress (JS) to MH at 2.510. These values, although comparatively higher than others, remain within acceptable limits.

Other relationships such as Mental Health to Employee Performance (VIF = 1.199), Organizational Culture to MH (VIF = 1.674), and Work Environment to MH (VIF = 1.766) also demonstrate low collinearity. Notably, the path from Mental Health to Human Resource Policies yielded a VIF of 1.000, indicating zero redundancy with other predictors.

These findings confirm that the structural model is free from multicollinearity issues, ensuring reliable estimation of path coefficients and supporting the robustness of the structural relationships.

Table 7

Effect size (F^2)

	EP	HRS	JS	MH	OC	WE	WLB
EP							
HRS	0.172						
JS				0.15			
MH	0.409	0.199					
OC				0.032			
WE				0.034			
WLB				0.018			

Sullivan and Feinn (2012) stated that both the size of the effect and the *p*-value need to be reported this is because the *p*-value can tell whether there is an effect, but it cannot tell how big the effect is. Cohen (2013) values of 0.02, 0.15 and 0.35 represent small, medium and the large effects respectively (Cohen, 2013; Hair et al., 2012). Mental Health (mh) has the largest effect on Employee Performance (ep) ($F^2 = 0.409$), indicating that mental well-being is the strongest driver of performance in the workplace. Human Resource Policies (hrs) exert a medium effect on both Employee Performance (ep) ($F^2 = 0.172$) and Mental Health (mh) ($F^2 = 0.199$), underscoring the importance of supportive HR practices in enhancing both performance and well-being. Job Stress (js) has a medium effect on Mental Health (mh) ($F^2 = 0.15$), confirming that reducing job stress is essential for improving employees' mental well-being. Organizational Culture (oc) and Work Environment (we) have small effects on Mental Health (mh) ($F^2 = 0.032$ and $F^2 = 0.034$, respectively), suggesting that while these factors contribute to mental health, they are less influential than others. Work-Life Balance (wlb) shows a small effect on Mental Health (mh) ($F^2 = 0.018$), highlighting the benefits of maintaining work-life balance, though its influence on

mental health is relatively modest. Overall, the findings suggest that Mental Health is the most influential factor in shaping Employee Performance, followed by Human Resource Policies and Job Stress. While Organizational Culture, Work Environment, and Work-Life Balance also play significant roles, their effects are comparatively weaker.

Table 8

Predictive capability of the model (R^2)

	R-square	R-square adjusted
EP	0.489	0.486
HRS	0.166	0.164
MH	0.553	0.548

Briones Peñalver et al. (2018)a model of structural equations is proposed to analyze the relationship between the actions of corporate social responsibility (CSR asserted that the strength of each structural path, which is shown by the R^2 value for the dependent variable, is a good way to judge how good a model is. The value for R^2 should be equal to over 0.1 (Falk & Miller, 1992). The result shows that perceived Employees' performance is R^2 (0.489) value over 0.1. It means that 48.9% of change in Employees' performance can be attributed to Workplace mental health and human resource policies and support. Hence the predictive capability of the model is established

Table 9

Model Fit

	Saturated model	Estimated model
SRMR	0.060	0.060

The SRMR (Standardized Root Mean Square Residual) value for both the saturated model and the estimated model is 0.060.This indicates a good model fit because SRMR values less than 0.08 are generally considered acceptable (Hair et al., 2012), showing that the estimated model reproduces the observed data well with minimal residuals.

Figure 1

Structural model Path analysis

The structural equation model (SEM) depicted in the diagram illustrates the intricate relationships between key latent variables: Work-Life Balance (WLB), Job Stress (JS), Mental Health (MH), Organizational Culture (OC), Human Resource Policies and Support (HRS), and Employee Performance (EP). The model suggests that WLB significantly influences Mental Health (MH), with factor loadings for its observed variables ranging from 0.670 to 0.807, indicating a strong relationship. Job Stress (JS), represented by variables js3, js4, and js5, also shows a solid correlation with WLB, with loadings between 0.777 and 0.859, reinforcing its importance.

MH, measured through variables mh1 to mh5, exhibits strong loadings from 0.677 to 0.870, emphasizing the importance of mental health as a crucial latent variable. The path coefficient from MH to EP (0.489) demonstrates a moderate but meaningful impact of mental health on employee performance.

However, the relationship between Human Resource Policies and Support (HRS) and Mental Health (0.166) is relatively weak, suggesting that HR policies and support alone do not strongly influence mental health outcomes. The Organizational Culture (OC) variable, assessed through oc1 to oc4, also shows moderate loadings, highlighting the relevance of organizational culture in shaping the work environment.

The overall structure of the model highlights that improving work-life balance can have a significant positive effect on mental health and, subsequently, employee performance, whereas the direct effect of HR policies and support on mental health appears minimal. This model emphasizes the importance of addressing work-life balance, organizational culture, and mental health to enhance overall employee well-being and productivity.

Discussion

This study significantly contributes to the growing body of research on the relationship between workplace mental health and employee performance, particularly within the banking sector in Lumbini Province, Nepal. The findings align with and expand upon established theories, demonstrating that factors such as job stress, HR policies, organizational culture, and work-life balance play crucial roles in influencing both employee mental health and performance. The results confirm the Job Demands-Resources (JD-R) Model (Demerouti et al., 2001), showing that high job stress, including excessive workload and role ambiguity, adversely affects mental health which in turn reduces employee performance, supporting previous studies that highlight burnout, anxiety, and depression as consequences of job stress (Kompier & Kristensen, 2001).

Additionally, the research reaffirms the significant role of HR policies in improving mental health and performance, with supportive HR practices such as employee assistance programs (EAPs) and flexible work hours leading to better mental well-being and higher job satisfaction (Gray et al., 2019). Leadership support also emerges as a critical factor, consistent with Social Exchange Theory (SET), which suggests that employees reciprocate employer investment in their well-being with increased performance and engagement (Cropanzano & Mitchell, 2005). Furthermore, a positive organizational culture that fosters open communication and trust significantly reduces job stress and enhances mental health, aligning with studies by Dóra et al. (2019), Monteiro and Joseph (2023), and Schneider et al. (2017).

While work-life balance is recognized as important, its effect on mental health and employee performance in this study was more modest, reflecting findings from Bukhari et al. (2024), Haar et al. (2014), Muhammad (2023), and Muthuswamy (2022). This smaller effect may

indicate that work-life balance initiatives require reinforcement from other organizational factors such as leadership and culture to have a holistic impact, particularly within the banking sector in Nepal where cultural expectations and sector-specific work demands may limit its standalone effectiveness.

A key contribution of this study is the identification of mental health as a crucial mediator between workplace factors such as HR policies and job stress, and employee performance. This finding reinforces previous research linking mental health with job stress and performance outcomes (Chen et al., 2022; Ganster & Rosen, 2013; Islam & Xin, 2025; Salvagioni et al., 2017).

Practically, these insights suggest that Nepalese banks could benefit from integrating comprehensive mental health programs within HR policies, offering employee assistance programs, flexible scheduling, and training managers to recognize and mitigate job stress. Considering Nepal's collectivist culture and hierarchical workplace norms, tailored interventions that encourage open communication and trust while respecting cultural values could enhance the effectiveness of these policies.

In conclusion, while job stress and HR policies strongly influence employee performance through mental health, factors such as work-life balance demonstrate weaker but still relevant effects that require support from organizational culture and leadership. Future research should further explore how cultural and sector-specific factors shape these relationships to better inform HR practices in Nepal's banking sector.

Conclusion

This research frames the critical role of workplace mental health in driving employee performance, particularly in high-stress sectors of banking. The findings confirm that supportive human resource policies, a positive organizational culture, and initiatives promoting work-life balance significantly enhance employee well-being and productivity. Organizations that prioritize mental health through flexible work arrangements, access to mental health resources, and strong leadership support can expect notable improvements in employee engagement, retention, and overall performance.

The study also highlights job stress as a significant obstacle to maintaining good mental health, reinforcing the importance of proactive stress management strategies within organizations. Addressing this barrier is essential for fostering a mentally healthy workforce that contributes positively to organizational success.

At the policy level, these insights call for active involvement from government bodies, banking associations, and HR regulatory authorities to promote workplace mental health. Recommended measures include establishing clear mental health guidelines for organizations, incentivizing the adoption of employee well-being programs, and facilitating training for managers to recognize and support mental health challenges. Such coordinated efforts can create

a standardized framework that encourages mental health-friendly work environments across the banking sector.

In conclusion, this study offers valuable guidance for organizations and policymakers within the banking industry, emphasizing the necessity of integrating mental health considerations into management and regulatory practices. Further research is encouraged to examine the effectiveness of these policies over time and to explore their applicability across other sectors.

Limitations and Future Research

While this study provides valuable insights into the role of workplace mental health in enhancing employee performance in the banking sector, several limitations must be acknowledged. First, the use of single-source data collected through self-reported questionnaires raises the possibility of common method bias, which may inflate the observed relationships between variables. Future research could address this by incorporating multi-source data, such as supervisor evaluations or objective performance metrics, to validate findings.

Second, the study's cross-sectional design limits the ability to establish causal relationships between workplace factors, mental health, and performance outcomes. Longitudinal studies are recommended to track these variables over time, enabling a clearer understanding of how changes in HR policies, organizational culture, or job stress influence mental health and employee productivity.

Third, the sensitive nature of mental health topics might have led respondents to provide socially desirable answers, introducing social desirability bias. Ensuring anonymity and using validated scales can mitigate this concern in future research.

Looking ahead, further investigations could explore experimental designs that test specific mental health interventions, such as stress management programs or flexible work arrangements, to directly measure their impact on employee well-being and performance. Additionally, cross-country comparisons would offer valuable insights into how cultural and regulatory differences shape the effectiveness of workplace mental health initiatives, particularly relevant for multinational banks operating in diverse contexts.

By addressing these limitations and expanding research horizons, scholars and practitioners can develop more robust, culturally sensitive strategies to promote mental health and optimize employee performance across sectors.

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