

## Emotional Intelligence and Employee Performance in Nepalese Commercial Banks



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### Abstract

*Emotional Intelligence has increasingly been recognized as a crucial predictor of workplace behavior and performance, especially in service-oriented industries such as banking. In Nepalese commercial banks, where employees frequently interact with clients and navigate high-pressure environments, EI may play a vital role in shaping employee outcomes. This study investigates the impact of three key dimensions of emotional intelligence: self-awareness, empathy, and stress management, on employee performance in Class 'A' commercial banks in Nepal. It aims to identify which emotional competencies are most influential in enhancing workplace effectiveness. The study used a descriptive and explanatory research design and adopted a quantitative approach. Data were collected through structured questionnaires using a 5-point Likert scale, distributed to bank employees via Google Forms and print copies. Out of 600 distributed questionnaires, 398 valid responses were analyzed using SPSS and AMOS. Reliability, validity, and model fitness were assessed using composite reliability, AVE, and structural equation modeling.*

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*The findings reveal that empathy and stress management have significant positive effects on employee performance, while self-awareness does not show a statistically significant influence. Among the constructs, empathy emerged as the strongest predictor of employee performance, suggesting the importance of interpersonal sensitivity in the banking context. Emotional intelligence, particularly empathy and stress management, plays a significant role in shaping employee performance. However, self-awareness alone may not be sufficient to drive performance outcomes without supportive organizational or behavioral mechanisms. The results underscore the need for banks to integrate emotional intelligence training, especially in empathy and stress regulation, into employee development programs. Organizations should also consider emotional competence in recruitment and leadership development. This study provides novel insights into the domain-specific role of emotional intelligence in the Nepalese banking sector. It offers empirical evidence from a developing-country context, where such research remains relatively limited.*

**Keywords:** Emotional Intelligence, Employee Performance, Self-Awareness, Empathy, Stress Management, Commercial Banks, Nepal

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## 1. Introduction

Emotional intelligence (EI), popularized by Goleman (1995) and conceptually developed by Salovey and Mayer (1990), refers to the ability to perceive, understand, regulate, and utilize emotions in oneself and others. In organizational contexts, EI has been recognized as a critical competency that influences employees' attitudes, behavior, and performance. This is particularly relevant in the banking sector, where employees operate in high-pressure, service-intensive environments characterized by performance targets, regulatory demands, and continuous customer interaction. Empirical evidence consistently links EI with improved job performance, teamwork, stress management, and organizational commitment (Carmeli, 2003; Sy & Côté, 2004; Radha & Aithal, 2023). Recent studies further indicate that organizations investing in EI development report gains in collaboration, leadership effectiveness, and productivity (Shah & Sah, 2024; Dahir, 2025). Collectively, this literature suggests that EI complements technical competence by enhancing adaptability and interpersonal effectiveness capabilities that are increasingly vital in dynamic financial markets.

Despite extensive international research, empirical attention to the role of EI in Nepal's commercial banking sector remains limited, even though it operates in a rapidly evolving and competitive environment. Employee development practices in many Nepalese banks continue to emphasize technical expertise and tenure over emotional and behavioral competencies (Dahal et al., 2025). Given increasing workplace stress, service expectations, and organizational change, neglecting EI may constrain employee effectiveness and overall performance. Accordingly, a contextual gap exists between established global findings and the limited evidence from Nepalese commercial banks. This study addresses that gap by assessing the levels of emotional intelligence and employee performance in Nepalese commercial banks and examining the direct impact of EI on employee performance.

## 2. Review of Literature

EI refers to the capacity to recognize, understand, manage, and influence one's own emotions and the emotions of others (Goleman, 2020). Goleman's model identifies five key components of EI: self-awareness, self-regulation, motivation, empathy, and social skills that together enable individuals to navigate complex social environments and contribute more effectively to organizational goals. Bar-On (2006) defined EI as an array of emotional and social abilities that impact an individual's overall functioning, including their ability to adapt to challenges and manage stress.

Employee performance refers to how effectively an employee fulfills their job responsibilities and contributes to achieving organizational objectives (Organ, Podsakoff, & Mackenzie, 2006). Performance is not only determined by technical skills but also by emotional intelligence, which influences an employee's ability to collaborate, manage stress, and adapt to changing work environments (Miao, Humphrey, & Qian, 2017). High-performing employees are distinguished by their ability to consistently deliver high-quality results, work effectively within teams, and navigate organizational challenges (Mahmood, Uddin, & Fan, 2018).

Bar-On's Emotional-Social Intelligence Model (1997) offers a comprehensive framework for understanding emotional intelligence as a combination of emotional and social competencies that enables individuals to manage and adapt to environmental demands effectively. The model posits that EI is not a singular ability but a set of interrelated skills that individuals can develop to improve both personal and professional success. Bar-On's model identifies five key components: intrapersonal skills, interpersonal skills, adaptability, stress management, and general mood (Bar-On, 1997). These components collectively contribute to an individual's ability to navigate social and emotional challenges, fostering better performance in both work and life.

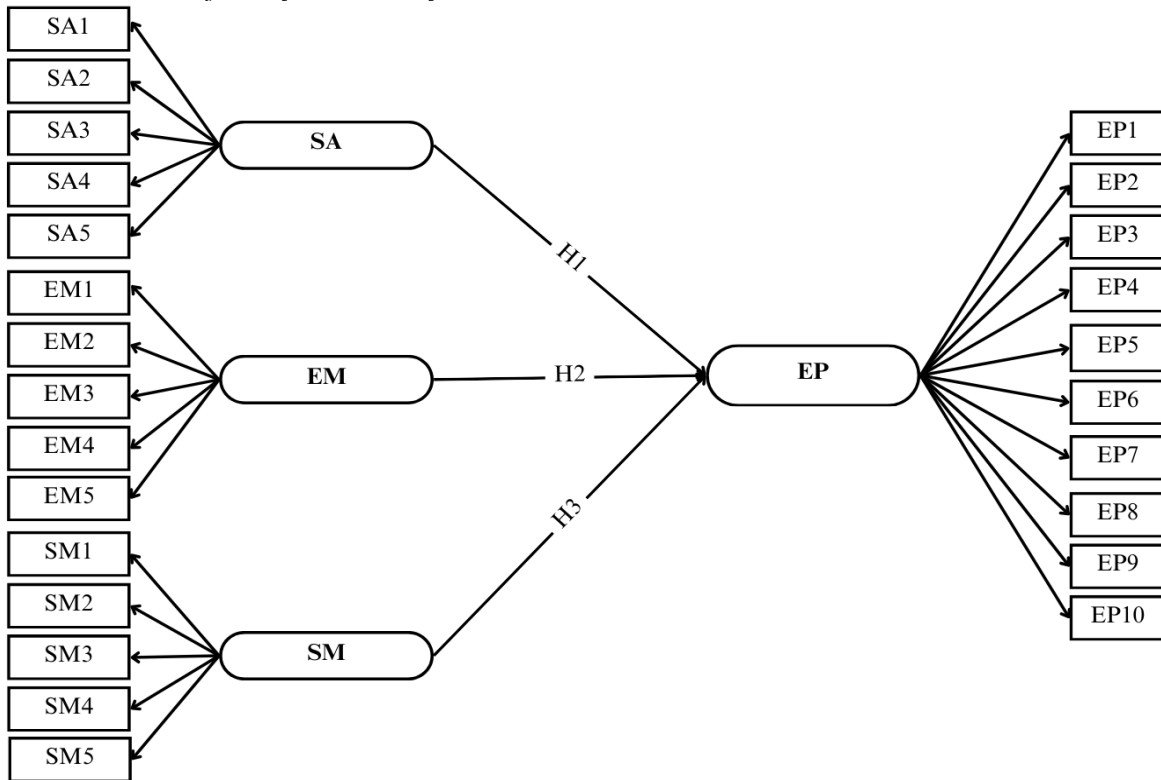
The empirical literature on the relationship between emotional intelligence and employee performance consistently shows a positive correlation. Emotional Intelligence, which includes the ability to recognize, understand, and regulate one's own emotions and the emotions of others, has been found to improve various aspects of employee performance, such as stress management, empathy, communication, adaptability, and collaboration (Miao, Humphrey, & Qian, 2017; Mahmood, Uddin, & Fan, 2018). Research indicates that employees with higher EI perform better due to enhanced interpersonal skills, emotional regulation, and decision-making abilities, which contribute to improved teamwork, job satisfaction, and productivity (Mahbub & Barhate, 2025).

One key component of emotional intelligence, self-awareness, is particularly important in enhancing employee performance. Self-aware employees tend to have higher job productivity, better interpersonal relationships, and increased job satisfaction. These employees can manage their emotions, set realistic goals, and adapt to challenges effectively (Mahbub & Barhate, 2025). Self-awareness also plays a critical role in emotional regulation, allowing employees to handle pressure and perform well in dynamic work environments (Ashkanasy & Dorris, 2017). Another vital emotional intelligence component, empathy, is linked to improved job performance through better communication, conflict resolution, and collaboration. Empathetic employees build stronger relationships with colleagues, leading to a more supportive work environment and enhanced teamwork. Research has also shown that empathy is associated with higher job satisfaction and motivation, both of which are crucial for performance (Rahman, Ferdousy, & Uddin, 2012). Empathy also contributes to effective leadership, with empathetic leaders fostering a more engaged and motivated workforce (Ashkanasy & Dorris, 2017).

Stress management, another important EI factor, has a significant impact on employee performance. Employees who manage stress effectively tend to be more productive, adaptable, and satisfied with their jobs. They are better equipped to handle workplace challenges, maintain focus under pressure, and engage with colleagues in positive ways (Ashkanasy & Dorris, 2017). Effective stress management also improves physical and mental health, reducing burnout and absenteeism, which further enhances job performance (Mahmood, Uddin, & Fan, 2018; Santos, Wang, & Lewis, 2018).

### 3. Research Methodology

This study adopts a descriptive and explanatory research design. The descriptive component assesses employees' perceptions of EI, while the explanatory component investigates causal relationships among EI components, self-awareness, empathy, stress management, and employee performance. A quantitative approach is used to ensure statistical objectivity and accuracy.



Source: Gupta & Singhal (2020)

Figure 1 Conceptual Framework

## Results

The Chi-square value ( $CMIN = 1034.325$ ,  $d.f. = 247$ ,  $p < .001$ ) remained statistically significant, which is typical in large sample sizes (Byrne, 2010). Following the removal of the poorly performing item EP\_7, the measurement model of Emotional Intelligence (EI) and Employee Performance (EP) demonstrated improved, though still moderate, overall fit. However, the Chi-square to degrees of freedom ratio ( $CMIN/DF = 4.188$ ) fell within the acceptable threshold of less than 5, indicating a tolerable level of model fit (Marsh & Hocevar, 1985). Incremental fit indices showed a notable improvement over the previous model. The Comparative Fit Index ( $CFI = .849$ ), Incremental Fit Index ( $IFI = .850$ ), and Normed Fit Index ( $NFI = .812$ ) all approached or met the minimum recommended threshold of 0.80, suggesting that the revised model offers an acceptable approximation to the observed data (Hu & Bentler, 1999; Kline, 2016). The Tucker-Lewis Index ( $TLI = .832$ ) further supports the model's moderate adequacy.

However, the RMSEA = .090; 90% CI = .084–.095, remained at a mediocre level, as values below .08 are preferred for good model fit (Browne & Cudeck, 1993). The p-close value was .000, indicating that the model does not meet the criteria for a close fit. While the model still does not meet ideal fit standards, the improvements in key incremental indices suggest that removing item 7 from employee performance (EP\_7) enhanced the model's structural integrity. This aligns with the recommendation by Hair et al. (2019), who emphasize the importance of refining measurement models by eliminating indicators with weak standardized loading to improve construct validity and overall model fit.

All constructs demonstrate strong internal consistency, as indicated by composite reliability values exceeding the recommended threshold of 0.70 (Hair et al., 2019). Specifically, the composite reliabilities are 0.859 for Self-Awareness, 0.855 for Empathy, 0.902 for Stress Management, and 0.873 for Employee Performance. These results confirm that the items within each construct consistently measure the intended latent variables.

**Table 1 : Reliability and Validity Analysis**

	<b>Composite Reliability</b>	<b>AVE</b>	<b>Mean (SD)</b>
Self-Awareness	0.859	0.552	2.73 (0.908)
Empathy	0.855	0.543	3.41 (0.90)
Stress Management	0.902	0.510	3.75 (0.88)
Employee Performance	0.873	0.579	3.59 (0.75)

Among the three dimensions of emotional intelligence, self-awareness, empathy, and stress management emerged as the most positively perceived by employees. This indicates that respondents generally consider themselves capable of effectively managing workplace pressures, maintaining emotional control, and handling stress-inducing situations with resilience and composure.

Empathy also received a relatively favorable assessment from participants. This suggests that employees believe they can understand and respond to others' emotions, demonstrating concern, compassion, and sensitivity in interpersonal interactions. Such a perception is critical in collaborative environments like commercial banks, where teamwork, communication, and customer service are fundamental to organizational success. Employee performance was similarly rated positively, reflecting employees' confidence in their productivity, adaptability, and contributions to team effectiveness. This implies a general self-perception of being competent in fulfilling job responsibilities, adjusting to changing work conditions, and working well with others to achieve organizational objectives.

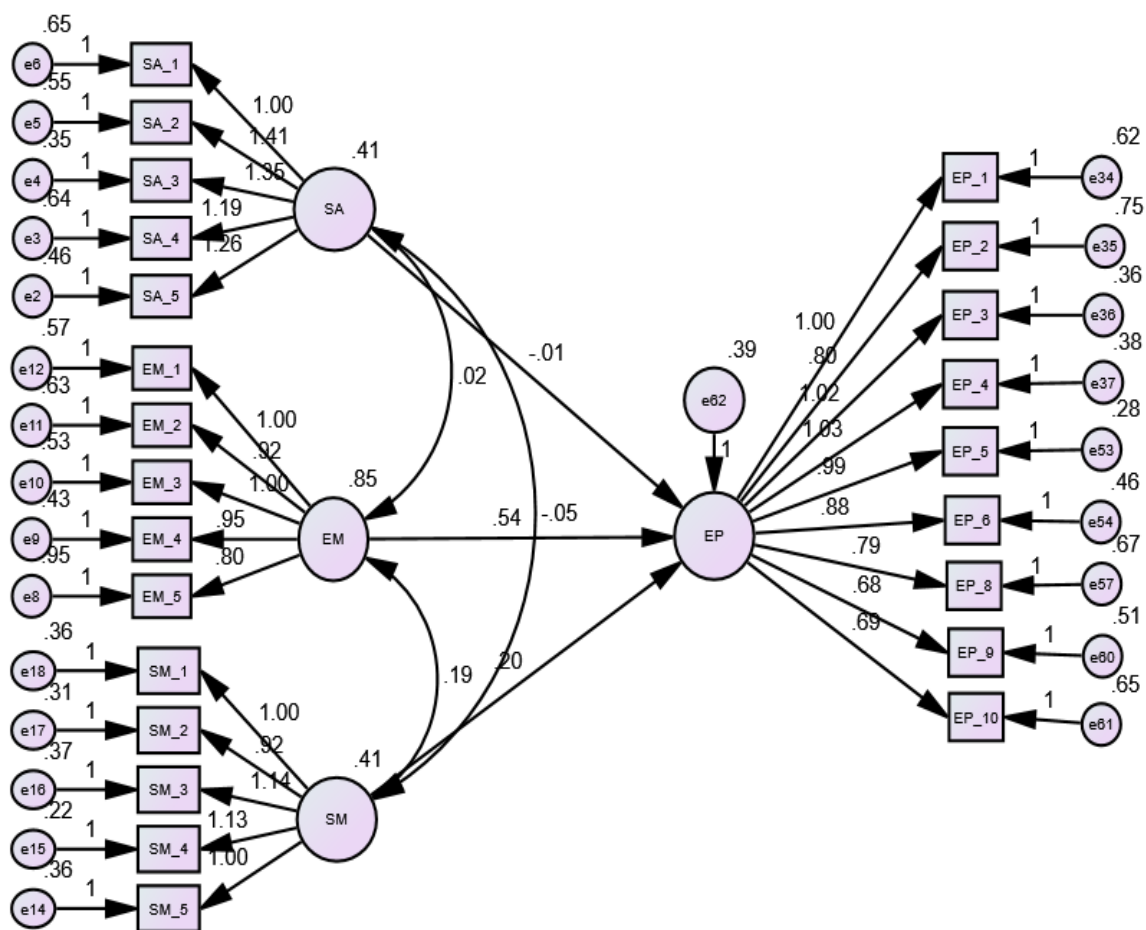
In contrast, self-awareness was the least positively rated dimension among the constructs studied. This finding points to a potential area for development, as it suggests that employees may not be fully aware of their emotions, strengths, weaknesses, or of how their behavior influences others. A lower level of self-awareness could limit reflective thinking, emotional regulation, and personal growth, all of which are essential for effective decision-making and leadership.

The results presented in Table 2 of the structural equation modeling evaluated three dimensions of EI: self-awareness, empathy, and stress management to determine their predictive influence on employee performance. Among these, empathy emerged as the strongest predictor, with a significant positive effect on employee

performance ( $\beta = 0.539, p < 0.001$ ). Hypothesis 2 (H2) tested this relationship, signifying that employees who exhibit higher levels of empathy, such as understanding others' emotions and responding appropriately, are more likely to perform effectively in the workplace. Similarly, stress management demonstrated a significant positive relationship with performance ( $\beta = 0.203, p = 0.002$ ), supporting Hypothesis 3 (H3), suggesting that the ability to manage emotional pressure and maintain composure under stress contributes meaningfully to improved job outcomes.

**Table 2 : Path Analysis**

	Coeff.	Critical Ratio	P-Values	Result
Self-Awareness → EP(H1)	-0.01	9.729	0.848	Not Supported
Empathy → OC (H2)	0.54	1.831	< 0.001	Supported
Stress Management → OC (H3)	0.20	4.725	0.002	Supported



In contrast, self-awareness did not have a statistically significant impact on employee performance ( $\beta = -0.011, p = 0.848$ ), suggesting that while self-awareness is an important personal trait, it may not directly translate into improved performance without complementing other emotional competencies, such as empathy or emotion regulation. Here, H1 is not supported, suggesting that self-awareness alone does not have a direct or meaningful effect on employees' performance of their duties. This may imply that while awareness of one's emotions is valuable, it may not translate directly into improved job outcomes unless coupled with other emotional or behavioral competencies among employees of Nepalese commercial banks.

## Discussion

The significant positive relationship between empathy and employee performance indicates that effectiveness in banking is inherently relational. Employees routinely engage with clients facing financial concerns, colleagues managing operational demands, and supervisors enforcing performance targets. Empathy likely enhances trust, reduces interpersonal friction, and improves service responsiveness, thereby strengthening both individual and team outcomes. While Goleman (1998) and Bar-On (1997) conceptualize empathy as central to social effectiveness, the present findings suggest that, in banking, empathy operates as a practical performance driver by directly shaping communication quality and customer relations. Similarly, the positive association between emotional regulation and performance reflects the regulatory and performance pressures characteristic of banking roles. Employees who can manage emotional reactions and maintain composure under stress are less susceptible to performance disruptions caused by conflict or emotional exhaustion. Emotional regulation appears to function as a stabilizing resource, preserving decision-making capacity and professional conduct in demanding situations. This interpretation is consistent with Boyatzis (2017) and Cherniss (2010), who argue that self-regulation sustains effectiveness in high-pressure environments. In this context, emotional control translates into sustained productivity and service consistency.

In contrast, self-awareness did not demonstrate a significant direct relationship with performance. Although prior research identifies self-awareness as foundational to emotional intelligence and performance (Goleman, 2020; Mahmood et al., 2018; Miao et al., 2017), the present findings suggest its influence may be indirect. Self-awareness involves internal recognition of strengths, weaknesses, and emotional states; however, performance metrics in commercial banks are largely outcome-based, emphasizing target achievement and procedural compliance. Without corresponding behavioral adaptation, self-awareness alone may not produce observable performance gains. Organizational and cultural dynamics may further explain this result. In hierarchical environments with limited developmental feedback, opportunities to convert self-insight into performance-enhancing behavior may be constrained. In collectivist workplace settings, externally visible competencies such as empathy and emotional restraint may carry greater weight in performance evaluation than introspective capacities.

## Conclusion

Employees demonstrate relatively stronger competencies in stress management and interpersonal sensitivity, while self-awareness appears comparatively less developed. This pattern suggests that employees are generally capable of coping with workplace pressure and maintaining functional relationships, both of which are critical in a service-intensive banking environment. The analysis further indicates that emotional intelligence does not operate uniformly across its dimensions. Empathy and stress management significantly contribute to employee performance. In commercial banking, where client interaction, teamwork, and performance targets are central, these competencies directly influence observable workplace behavior. Empathy enhances service quality and collaboration, while emotional regulation supports consistency and effectiveness under pressure.

In contrast, self-awareness does not directly influence performance outcomes. Although conceptually foundational, self-awareness alone may not translate into measurable results unless accompanied by behavioral adaptation. In structured and performance-driven organizational settings, externally expressed emotional competencies appear to be more practically relevant than introspective awareness.

## Limitations and Directions for the Study

This study has limitations, including its focus on Nepalese commercial banks, reliance on self-reported data, and a cross-sectional design, which may affect the generalizability and causal interpretation of results. Future research should span different industries and cultures, use multiple data sources, and employ longitudinal or experimental methods better to understand the influence of emotional intelligence on employee performance. Additionally, exploring contextual factors and how self-awareness translates into effective behavior could provide deeper insights.

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## Conflict of Interest

The author declares no conflict of interest while preparing this article.

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