

Hygiene Factor Gaps and Their Influence on Employee Performance of Commercial Banks in Nepal

Madhu Rijal

Kathmandu BernHardt College, Bafal, Kathmandu

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Email: madhu.rijal@kbc.edu.np

<https://orcid.org/0009-0008-0983-9386>

Abstract

This study explores how hygiene factors salary, bonuses, and health care benefits affect employee performance in commercial banks operating in Kathmandu, Nepal, using Herzberg's Two-Factor Theory as its foundation. Employing a descriptive and causal-comparative research design, the research assesses the role of financial rewards and welfare provisions in shaping employee motivation, satisfaction, and productivity within the banking industry. The results indicate that although salary is a fundamental element in meeting employees' basic needs, performance-based incentives and benefits such as bonuses and health care contribute more significantly to maintaining motivation, improving performance, and minimizing turnover. The findings underline that while hygiene factors do not directly drive motivation, they are vital for reducing dissatisfaction and supporting organizational stability. The study further stresses the importance of implementing transparent and fair compensation practices that integrate both basic pay and performance-linked rewards. By addressing shortcomings in hygiene factors, banks can foster employee loyalty, create supportive work environments, and ensure sustainable organizational productivity. Overall, this research enriches the field of human resource management by offering context-specific evidence on how compensation and welfare strategies impact employee performance in Nepal's competitive service-oriented banking sector.

Keywords: Workforce Diversity, Organizational Performance, Intrinsic Motivation, Hygiene Factor

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1. Introduction

Employee performance is significantly shaped by the work environment, where hygiene factors such as salary, benefits, job security, and working conditions serve as essential prerequisites for maintaining motivation and preventing dissatisfaction (Herzberg, Mausner, & Snyderman, 1959). Herzberg's Two-Factor Theory, hygiene factors do not directly enhance motivation but their absence leads to reduced job satisfaction and diminished work output (Bassett-Jones & Lloyd, 2005). Recent empirical research indicates that gaps in monetary rewards, including insufficient salary and inadequate bonuses, negatively influence employees' focus and commitment (Mekonnen & Endalkachew, 2022). For instance, a study on the banking sector found that insufficient basic salary significantly hampers employees' ability to meet financial needs, thereby decreasing performance levels (Karatepe & Olugbade, 2017). Similarly, health benefit inadequacies can reduce employees' sense of being valued by their organizations, which is linked to lower organizational citizenship behavior and productivity (Akinwale, 2020). These findings underscore the importance of minimizing hygiene factor gaps to sustain high levels of employee performance and morale.

In the competitive labor market, organizations that fail to address hygiene factor deficiencies risk higher turnover rates and reduced organizational effectiveness (Hafeez, Sharif, & Aslam, 2013). Evidence from service-oriented sectors shows that when employees perceive unfairness in pay structures, their engagement and commitment decline sharply (Jehanzeb, Rasheed, & Rasheed, 2012). Furthermore, bonus structures that are not performance-based often fail to encourage extra effort, leading to stagnation in output (Rynes, Gerhart, & Minette, 2004). Research in human resource management highlights that even non-monetary hygiene factors, such as safe working conditions and clear organizational policies, have measurable impacts on absenteeism and productivity (Agbozo et al., 2017). Therefore, understanding and addressing hygiene factor gaps is critical for managers aiming to optimize employee performance while ensuring long-term organizational sustainability (Kim, 2020).

Employee performance, measured through efficiency, effectiveness, and goal attainment, is deeply intertwined with intrinsic and extrinsic motivational factors such as recognition, salary, job security, and growth opportunities (Herzberg, 1966; Robbins & Judge, 2017). Nepalese banks revealed that motivational strategies have a statistically significant positive impact on employee performance, reinforcing the need for evidence-based HRM interventions (Dahal & Joshi, 2017). Furthermore, commercial banks in Kathmandu, functioning under regulatory constraints and technological transformation, face the challenge of aligning employee motivation with institutional performance goals (Bista & Poudel, 2020).

Despite widespread acknowledgment that employee motivation plays a pivotal role in enhancing performance, many commercial banks in Kathmandu continue to face challenges in sustaining motivated workforces, leading to inconsistent performance outcomes (Dahal &

Joshi, 2017). Motivated employees contribute significantly to organizational productivity, innovation, and customer satisfaction (Shahzadi et al., 2014; Robbins & Judge, 2017). However, in Nepalese commercial banks, factors such as rigid hierarchical structures, limited career advancement opportunities, and inadequate recognition mechanisms have contributed to rising employee dissatisfaction and turnover (Dahal & Joshi, 2017; Adhikari & Gautam, 2010). While some research claims a direct positive relationship between motivation and performance, others argue that motivation alone may not guarantee improved outcomes if not accompanied by supportive organizational culture, leadership, and job design (Deci & Ryan, 2008; Bista & Poudel, 2020). This contradictory evidence underscores the importance of examining *hygiene factor gaps* particularly in monetary rewards such as basic pay, bonuses, and health care benefits as these are essential elements in preventing dissatisfaction and sustaining employee performance, as emphasized in Herzberg's Two-Factor Theory. In line with this, the present study aims to analyze the specific impact of motivation on employee performance in Nepal's commercial banks, with particular emphasis on examining how financial incentives, including salary, bonuses, and health-related benefits, influence employees' performance levels, and assessing the role of performance-linked rewards in boosting motivation and productivity within the competitive, service-oriented environment of Kathmandu's banking sector.

The primary objective of this study is to analyze specific impact of motivation on employee performance of commercial bank in Nepal. However, the subsidiary objectives are as follows: To examine how financial incentives, including salary, bonuses, and health-related benefits, influence the performance levels of employees and assess the role of performance-linked rewards such as bonuses and healthcare provisions in boosting employee motivation and overall productivity in commercial banks of Kathmandu.

2. Literature Review

Shahzadi et al. (2014) found that both intrinsic and extrinsic motivational factors positively impact employee commitment and job efficiency in the banking sector. Dahal and Joshi (2017), investigated of Nepalese commercial banks monetary rewards and recognition directly correlate with improved performance outcomes. However, Bista and Poudel (2020) studied that without a supportive work environment and leadership, the effects of motivation may be limited, highlighting the need for a holistic approach to motivational strategies.

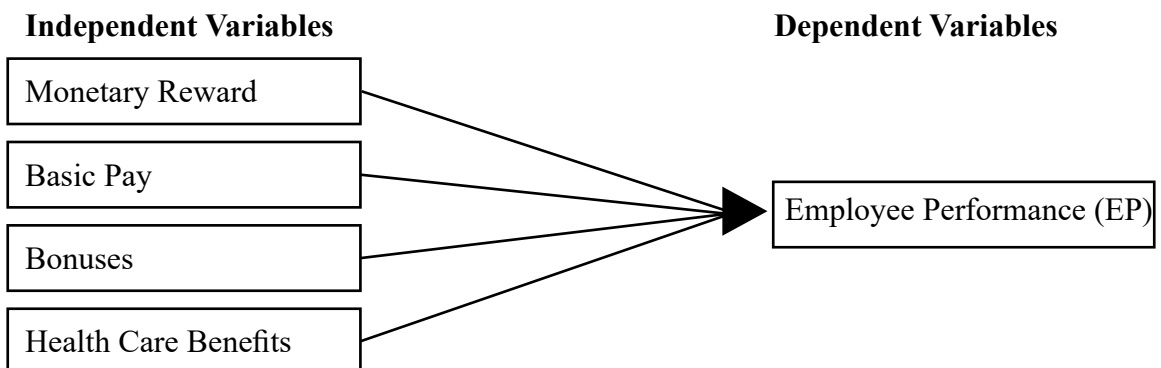
Monetary rewards, such as salary, bonuses, and financial incentives, have been empirically linked to enhanced employee performance and motivation. Shahzadi et al. (2014) found that financial incentives significantly boost employee productivity and job satisfaction in service-oriented sectors like banking. Dahal and Joshi (2017) observed that commercial bank employees responded positively to monetary rewards, contributed to improved task performance and lower turnover intentions. However, Deci, Koestner, and Ryan (1999) cautioned that over-reliance on extrinsic rewards might undermine intrinsic motivation if not balanced with meaningful work and recognition.

Basic pay is a fundamental component of employee compensation and has been empirically shown to influence motivation, satisfaction, and performance. Robbins and Judge (2017) investigated fair and competitive basic pay fulfills employees' physiological and security needs, making it a primary motivator in the workplace. In the banking sector of Nepal, Dahal and Joshi (2017) found that dissatisfaction with basic salary was one of the major reasons behind decreased morale and increased turnover among bank employees. Adhikari and Gautam (2010) emphasized that equitable basic pay not only promotes loyalty but also encourages higher performance by aligning employee expectations with organizational goals.

Bonuses are widely recognized as a powerful performance-based incentive that can significantly enhance employee motivation and organizational productivity. Shahzadi et al. (2014) investigated that regular and transparent bonus systems contribute to higher employee engagement and drive performance, particularly in competitive sectors like banking. Dahal and Joshi (2017) studied that employees who received performance linked bonuses showed greater job commitment and were more likely to exceed performance targets. Deci et.al. (1999) caution that excessive focus on bonuses may shift motivation from intrinsic satisfaction to external rewards, potentially reducing long-term engagement if not complemented by non-monetary incentives and meaningful work environments.

Receiving health care benefits has been shown to positively influence employee well-being, job satisfaction, and retention (Robbins & Judge, 2017). In service sectors like banking, such benefits reduce stress and absenteeism, thereby enhancing productivity (Sharma & Bajracharya, 2018). Dahal and Joshi (2017) found that employees in Nepalese commercial banks value health benefits as a key motivational factor. Access to health care also signals organizational support, fostering loyalty and long-term performance (Shahzadi et al., 2014).

Employee performance refers to the effectiveness, efficiency, and quality with which employees fulfill their job responsibilities (Robbins & Judge, 2017). High performance is often driven by clear goals, motivation, and a supportive work environment (Shahzadi et al., 2014). Performance directly affects service delivery, customer satisfaction, and organizational success (Dahal & Joshi, 2017).



Herzberg's Two-Factor Theory explains that hygiene factors such as salary, bonuses, and health care benefits do not directly motivate but are essential to prevent dissatisfaction (Herzberg, 1966). In the context of Kathmandu's commercial banks, fair basic pay and financial rewards ensure job stability and retention. When these needs are unmet, employee performance and morale decline. Thus, workplace motivation and performance are strengthened when hygiene and motivational factors are addressed together.

Figure 1. Relationship between Hygiene factor and employee's performance

3. Research Design

This study employs a descriptive research design combined with a causal comparative research design to investigate the impact of motivation on employee performance in Nepalese commercial banks. The descriptive research design is utilized to systematically describe the characteristics of the key variables, including motivation, employee performance, compensation, and workplace benefits. Causal-comparative research design examines cause-and-effect relationships by comparing existing groups without manipulating variables. It helps identify the influence of motivational factors on employee performance in commercial banks.

Population, Sample and Sources of Data

The study targets employees from commercial banks in Kathmandu, selecting 385 participants through convenience sampling to ensure practical access and response (Etikan et al., 2016). The sample includes diverse roles and experience levels, enabling broad insights into motivational factors and performance. The study relies on primary data collected through structured questionnaires, direct interviews, and mail surveys from respondents.

Data Analysis

Table 1. Descriptive Analysis

Statements	N	Mean	S. D
The absence of adequate monetary rewards reduces my motivation to perform better.	385	4.17	.961
A lack of competitive financial incentives in my bank negatively affects my performance."	385	4.09	1.034
Insufficient monetary rewards diminish my job satisfaction.	385	4.21	.885
Feeling unfairly compensated for my contributions lowers my performance and morale	385	3.42	1.056
An insufficient basic salary makes it difficult to meet my financial needs, reducing my work focus and performance.	385	4.39	.742

Statements	N	Mean	S. D
Perceived unfairness in my basic pay negatively affects my motivation and job commitment."	385	4.07	.959
When my basic pay does not match my job responsibilities and workload, my performance declines.	384	4.00	1.123
The absence of a competitive salary reduces my willingness to remain in my job	385	3.96	1.079
Dissatisfaction with the bonus structure at my bank reduces my work motivation."	385	4.38	.730
A lack of effective bonus incentives lowers my productivity.	385	3.66	1.111
When bonuses are not based on my performance, my commitment and output decline.	385	4.44	.755
An unclear or unfair bonus policy negatively impacts my morale and job performance.	385	3.99	1.005
Inadequate health care benefits from my bank lower my sense of security and reduce my performance.	385	3.68	1.060
A lack of sufficient health benefits makes me feel less valued by my employer.	385	4.41	.655
When health care benefits are insufficient, my job satisfaction decreases.	385	3.51	1.275
Limited access to medical benefits increases my financial stress and affects my work focus.	385	4.23	1.005

Source: *Field Survey (2025)*

The analysis tells generally high agreement among respondents that gaps in hygiene factors negatively influence employee performance, with most mean scores exceeding 4.00. Among monetary reward items, the strongest effect is observed for the link between insufficient rewards and reduced job satisfaction as shown in above table ($M = 4.21$, $SD = 0.885$), while perceptions of unfair compensation scored lower ($M = 3.42$, $SD = 1.056$), indicating some variation in fairness perceptions. Basic salary gaps were particularly influential, with the highest mean across all items found in the statement on insufficient salary affecting financial needs and performance ($M = 4.39$, $SD = 0.742$). Bonus-related factors also showed strong impact, especially the absence of performance-based bonuses ($M = 4.44$, $SD = 0.755$), suggesting bonuses are a key motivator. Health care benefit gaps had mixed perceptions while feeling less valued due to insufficient health benefits scored highest in this category ($M = 4.41$, $SD = 0.655$), the effect of insufficient benefits on job satisfaction was comparatively lower ($M = 3.51$, $SD = 1.275$). Overall, the results indicate that deficiencies in pay, bonuses, and benefits substantially undermine motivation, job satisfaction, commitment, and retention, with bonus and basic salary factors showing the most pronounced influence on performance.

Table 2: *Correlation between hygienic factor and employees performance*

		EP	MR	BP	BO	RB
Employee Performance	Pearson Correlation	1	.077	-.084	.397**	.178**
Monetary Reward	Pearson Correlation		1	-.032	.196**	.023
Basic Pay	Pearson Correlation			1	-.048	.162**
Bonuses	Pearson Correlation				1	.104*
Health Care Benefits	Pearson Correlation					1

Source: *Field Survey (2025)*

The Pearson correlation table shows a significant positive correlation between **Employee Performance (EP)** and **Bonuses (BO)** ($r = 0.397$, $p < 0.01$), indicating that higher bonuses are associated with better performance. **Monetary Rewards (MR)** show a weak positive but non-significant correlation with EP ($r = 0.077$), while **Basic Pay (BP)** has a weak negative correlation with EP ($r = -0.084$), also non-significant. There is also a modest significant correlation between MR and BO ($r = 0.196$, $p < 0.01$), suggesting these incentives are linked. Overall, **bonuses appear to be the most influential motivational factor** among those tested.

Table 3: *Regression Analysis of hygienic factor and employee's performance*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.429 ^a	.184	.176	.44246
a. Predictors: (Constant), Basic Pay , Monetary Reward, Bonuses, Receiving health care benefits				

Source: *Field Survey (2025)*

The regression model shows an R value of 0.429, indicating a moderate positive relationship between the predictors and employee performance. The R Square value of 0.184 suggests that 18.4% of the variance in employee performance is explained by basic pay, monetary rewards, bonuses, and health care benefits. The adjusted R Square of 0.176 confirms the model's explanatory strength after accounting for predictor count.

Table 4: *Regression Model of hygienic factor and employee's performance*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	16.824	4	4.206	21.484	.000 ^b
	Residual	74.392	380	.196		
	Total	91.215	384			
a. Dependent Variable: Employee Performance						
b. Predictors: (Constant), Basic Pay , Monetary Reward , Bonuses , Receiving health care benefits						

Source: *Field Survey (2025)*

The ANOVA table shows that the regression model is statistically significant ($F = 21.484$, $p = .000$), indicating that the predictors **basic pay, monetary reward, bonuses, and receiving health care benefits** collectively have a significant impact on employee performance. The regression sums of squares (16.824) compared to the residual (74.392) also reflects the model's explanatory power. Therefore, the model reliably predicts variations in employee performance based on the selected motivational factors.

Table 5: *Regression Coefficients hygienic factor and employee's performance*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.908	.362		5.272	.000
Basic Pay	-.090	.046	-.091	-1.940	.053
Bonuses	.442	.056	.377	7.925	.000
Receiving health care benefits	.148	.046	.154	3.254	.001
a. Dependent Variable: Employee Performance					

The regression results indicate that bonuses have a strong and significant positive effect on employee performance ($\beta = 0.377$, $p = .000$), followed by health care benefits which also show a significant positive impact ($\beta = 0.154$, $p = .001$). Basic pay has a negative but marginally non-significant effect ($\beta = -0.091$, $p = .053$), suggesting it may not contribute positively to performance in this model. The constant (intercept) is significant, indicating the model fits the data well.

Findings

The Major Findings of the study are as follows:

The findings disclose that gaps in pay, bonuses, and benefits significantly reduce employee motivation, satisfaction, commitment, and retention. Basic salary insufficiency ($M = 4.39$) and lack of performance-based bonuses ($M = 4.44$) show the strongest negative impact on performance. Fairness perceptions in compensation ($M = 3.42$) and adequacy of health benefits ($M = 3.51$) scored comparatively lower, indicating variation in employee concerns. Bonuses significant positive correlation was found between employee performance and bonuses ($r = 0.397$, $p < 0.01$). Regression analysis further confirmed that bonuses have a strong and significant effect on performance ($\beta = 0.377$, $p = .000$), highlighting their critical role in boosting productivity.

Health benefits showed a significant positive impact on employee performance ($\beta = 0.154$, $p = .001$), suggesting that welfare-oriented incentives contribute to employee motivation and commitment.

Basic show a weak negative and marginally non-significant relationship with employee performance ($\beta = -0.091$, $p = .053$), indicating that salary alone may not be a strong motivator in this context pay.

The regression model was statistically significant ($F = 21.484$, $p = .000$) and explained 18.4% of the variance in employee performance ($R^2 = 0.184$), demonstrating that motivational factors especially bonuses and health benefits collectively influence performance.

Discussion

The findings of this study reinforce Herzberg's Two-Factor Theory, which posits that hygiene factors such as salary, bonuses, and health care benefits, while not direct motivators, are essential in preventing dissatisfaction and maintaining performance (Herzberg, Mausner, & Snyderman, 1959). The significant positive impact of bonuses ($\beta = 0.377$, $p = .000$) aligns with prior research highlighting performance-based incentives as critical drivers of productivity in service-oriented sectors (Shahzadi et al., 2014). Similarly, the positive effect of health care benefits ($\beta = 0.154$, $p = .001$) supports evidence that welfare provisions enhance employees' sense of organizational support, thereby improving job satisfaction and retention (Sharma & Bajracharya, 2018). The weak and non-significant relationship between basic pay and performance suggests that while adequate salary fulfills baseline needs, it may not be sufficient to drive higher performance without complementary motivational strategies (Robbins & Judge, 2017). These results align with Deci and Ryan's (2008) Self-Determination Theory, which emphasizes the interplay between extrinsic rewards and intrinsic motivation, indicating that financial incentives must be integrated with recognition, career growth, and supportive leadership to sustain long-term performance. Consequently, managers in Nepalese banks should prioritize equitable, transparent, and performance-linked incentive structures, coupled with non-monetary motivators, to address hygiene factor gaps and foster sustained employee engagement.

Conclusion

This study concludes that addressing hygiene factor gaps, particularly in bonuses and health care benefits, is essential for sustaining employee motivation, satisfaction, and retention in Nepalese commercial banks. While adequate salary fulfills basic needs, it alone does not guarantee higher performance without complementary incentives and supportive workplace practices, consistent with Herzberg's Two-Factor Theory. The evidence suggests that performance linked bonuses and welfare provisions not only enhance productivity but also strengthen organizational commitment when integrated with non-monetary motivators such as recognition, career development, and a positive work environment.

Implications

The study enriches motivation theory by linking intrinsic and extrinsic factors to employee performance in Nepalese banks. Employees can advocate for fair pay, career growth, and

supportive work environments. Managers and HR teams are encouraged to implement transparent rewards, training, and stress-reduction strategies. Policymakers should institutionalize motivation-driven frameworks to foster long-term organizational success.

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Conflict of Interest/ Ethical Issue

The author declares that there is no conflict of interest regarding the publication of this research. This study was conducted purely for academic purposes.

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