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Evaluating the Effect of Managerial Effectiveness on Perceived Organizational Performance: Evidence from Nepalese Commercial Banks

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Abstract: *Managerial effectiveness is crucial in improving the banking sector's operational efficiency, customer experience, and service quality. This research investigates how managerial effectiveness affects Nepalese commercial banks' perceived performance. A causal research design was utilized to evaluate the impact of managerial effectiveness on perceived organizational performance. By adopting a convenient sampling method, the study surveyed 425 branch managers and deputy managers from commercial banks in Nepal. Inferential statistical techniques, including structural equation modeling (SEM) through path analysis, were utilized to examine the proposed causal relationship. The findings emphasize the strong effect of managerial effectiveness on perceived organizational performance, reinforcing its significance in enhancing the overall performance of Nepalese commercial banks. These insights contribute to the academic literature on banking management while offering valuable recommendations for bank managers and policymakers, guiding them toward performance improvement through effective leadership. Additionally, the study outlines potential directions for future research, encouraging further examination of managerial effectiveness across different sectors.*

Keywords: managerial effectiveness, organizational performance, commercial banks, structural equation modeling

I. INTRODUCTION

Managerial effectiveness in commercial banks requires a range of competencies, including planning, coordination, evaluation, supervision, staffing, negotiation, and representation. Effective managers must balance these skills to navigate the complex and competitive environment, making strong analytical, communication, and decision-making skills essential (Atiase et al., 2015; Daft, 2018; Paudyal et al., 2019; Yildiz & Comert, 2020). Managers are tasked with analyzing financial and operational data to make sound decisions, coordinating departmental resources, and ensuring effective communication for service delivery (Daft, 2018). They also evaluate performance using profitability, customer satisfaction, and risk management metrics (Saka-Helmhout & Yunitsyna, 2019) while supervising staff, providing feedback, and setting targets to enhance performance (Karimi & Gu, 2017). Effective recruitment and development of employees are critical, as well as strong negotiation skills to represent the bank with stakeholders (Paudyal et al., 2019).

Perceived organizational performance reflects how well a bank achieves its goals, measured through financial indicators like ROA and ROE and non-financial measures such as customer satisfaction and service quality (Koirala, 2018). This study focuses on managerial effectiveness and its impact on perceived organizational performance, emphasizing the importance of adequate financial information management and decision-making for business success. It highlights how managerial effectiveness can enhance financial performance, promote economic growth, and increase investor confidence, making it relevant for investors, policymakers, and the business community.

Conducting this research is essential to understanding how managerial effectiveness affects the perceived performance of Nepalese commercial banks, given the country's evolving banking sector and increasing competition. As Nepal's financial landscape grows, effective management practices play a crucial role in enhancing operational efficiency, customer satisfaction, and financial stability. Thus, this study attempts to answer the given research question and fulfill the stated objective using the research method as exhibited in *Table 1*.

Table 1

Research questions, objectives, and methods summary

Research question	Objective	Research methods
How does managerial effectiveness affect the perceived performance of Nepalese commercial banks?	To examine the effect of managerial effectiveness on Nepalese commercial banks' perceived performance	A structure equation model analysis on the survey data

II. LITERATURE REVIEW

Previous research has extensively explored the relationship between managerial effectiveness and various banking performance metrics, including Return on Equity (ROE), Return on Assets (ROA), customer satisfaction, service quality, and product development (Dang & Nguyen, 2019). Ahmad et al. (2020) analyzed managerial effectiveness in 21 Pakistani banks, highlighting its positive influence on financial performance, while Akindele et al. (2020) similarly found that managerial effectiveness enhanced profitability in 11 Nigerian banks, recommending investment in managerial training programs to sustain growth.

In the Nigerian banking sector, Ezeoha et al. (2019) examined 15 banks over a decade (2009–2018), identifying a strong correlation between managerial effectiveness and financial performance. Likewise, Sial et al. (2019) confirmed a significant relationship between managerial effectiveness and financial success in 20 banks in Pakistan. Khalid et al. (2019) emphasized that perceived organizational performance played a crucial role in improving financial indicators such as ROA, ROE, and ROI, advocating for the adoption of effective management strategies. Additionally, Obamuyi and Akinbode (2018) highlighted that those strong organizational skills in Nigerian banks contributed to enhanced innovation, further reinforcing the importance of effective management.

Beyond financial performance, research in South Asia has shown managerial effectiveness to be a key factor in service quality and customer satisfaction. Hossain et al. (2018) found that sound managerial practices significantly improved financial performance in Bangladeshi banks. Islam et al. (2018) demonstrated that managerial effectiveness was vital in shaping customer satisfaction, service quality, and product innovation. Giacosa and Mazzoleni (2017) provided further evidence by confirming that organizational performance directly influenced financial outcomes in Kuwaiti banks. Similarly, Hadiyanto et al. (2017) established a correlation between managerial effectiveness and financial success in ten Indonesian banks, advocating for continued investment in managerial training. Ahmad and Hadi (2017) further reinforced these findings, concluding that competencies in planning, coordinating, and evaluating significantly enhanced customer satisfaction and service quality, ultimately contributing to overall organizational performance in Pakistani banks.

Studies beyond the banking sector also support these conclusions. Pradhan (2020) found that effective performance appraisal systems in Nepalese hospitals significantly improved organizational performance and employee commitment, recommending similar practices across Nepal's broader service sector. This aligns with the growing recognition that essential components of managerial effectiveness - planning, coordination, supervision, and negotiation - play a crucial role in shaping perceived organizational performance across various industries and geographical contexts.

Empirical evidence strongly suggests that managerial effectiveness is integral to banking success, influencing key performance metrics such as ROA, ROE, ROI, customer satisfaction, service quality, and product development. However, further research is necessary to deepen the understanding of these relationships through both quantitative and qualitative approaches. Addressing these gaps will provide commercial banks with valuable insights, enabling them to refine managerial practices and enhance perceived organizational performance.

Research framework. The study has conceptualized the hypothesis based on insights drawn from the empirical literature review, aiming to address the research question: *How does managerial effectiveness affect the perceived performance of Nepalese commercial* *banks?* Prior research has established a significant relationship between managerial effectiveness and various performance metrics, including financial indicators like ROA, ROE, and ROI, as well as non-financial measures such as customer satisfaction, service quality, and product innovation. Studies from diverse banking contexts (Ahmad et al., 2020; Akindele et al., 2020; Hossain et al., 2018) highlight that strong managerial competencies in planning, coordination, evaluation, and supervision contribute to better organizational outcomes.

Figure 1

Research framework of the study

Managerial Effectiveness → Perceived Organizational Performance

Given this foundation, the study hypothesizes that managerial effectiveness has a significant positive impact on perceived organizational performance in Nepalese commercial banks. This conceptual framework as exhibited in *Figure 1* provides a structured approach to examining how effective management practices drive performance, offering practical implications for commercial banks in Nepal. The sources of variables under study and their operational definition are depicted in *Table 2.*

Table 2

Sources and operational definition of variables

Construct	Operational definition	Sources
Managerial Effectiveness	Managerial effectiveness refers to a manager's ability to strategically plan, coordinate resources, evaluate performance, and negotiate to achieve organizational goals efficiently. It is measured through key competencies such as decision-making, leadership, communication, and problem-solving, which directly impact organizational success.	Wang (2019), Ghasemi, et al. (2016), Dahal, Bhattarai and Karki, (2021), Mintzberg (1973), Yukl (2006), Robbins, Coulter and DeCenzo, (2017), Efendi and Kusuma (2021), Doe (2018),Williams and Johnson(2019), Ferreira and Laux (2008)
Perceived organizational performance	Perceived organizational performance is assessed through both financial indicators (ROA, ROE, profitability, and share price) and non-financial metrics (customer satisfaction, service quality, operational efficiency, and innovation in products and services). It reflects stakeholders' evaluations of how effectively an organization meets its strategic objectives and sustains long-term growth.	Ahmad et al. (2020), Ezeoha et al. (2019), Gyawali (2017), Gyawali (2021), Alkhajeh and Khalid (2018), Sial et al. (2019), Khalid et al. (2019), Islam et al. (2018), Smith and Johnson (2021), Fajemilehin and Adebisi (2018), Khatiwada et al. (2018)

III. RESEARCH METHODOLOGY

The main aim of this study is to assess how management effectiveness influences perceived organizational performance in Nepalese commercial banks. A deductive research approach was applied to evaluate relevant hypotheses, while a causal research design was employed to determine the cause-and-effect relationships between the study variables (Creswell, 2017; Trochim, 2015). The study utilized convenience sampling to select managers and deputy managers from 902 branches of 20 commercial banks operating in the Kathmandu Valley (NRB Annual Report, 2024). Argyrous's (2013) formula was used to determine the appropriate sample size:

$$n= \frac{Z^2 \times P \times (1-P)}{e^2}$$

where *n* represents the sample size, *Z* is 1.96 (at a 95% confidence level), *e* is the acceptable error of 4%, and *P* is the estimated population proportion of 0.2. Based on these calculations, the minimum required sample size was 369. However, 600 questionnaires were distributed to branch managers and deputy managers to ensure a sufficient response rate, yielding 450 completed responses, a 75% response rate. After excluding 25 incomplete responses, the final sample size was 425, exceeding the required threshold (Argyrous, 2013).

Primary data was collected through self-administered, close-ended questionnaires using a five-point Likert scale, ensuring response consistency and reliability. The study employed structural equation modeling (SEM), confirmatory factor analysis (CFA), and path analysis to analyze the collected data, allowing for a robust examination of the proposed hypotheses. Statistical analysis was conducted using SPSS Version 22.0 and AMOS Version 23.0, enabling comprehensive data interpretation and validation of research findings.

Sources of the variables. This study investigates the effect of managerial effectiveness on perceived organizational performance, with test items for these constructs derived from a comprehensive review of prior research. Specifically, the study examines eight managerial effectiveness and six perceived organizational performance indicators, as outlined in *Table 3*. The test items for managerial effectiveness were adapted from the works of Doe (2018), Williams and Johnson (2019), and Ferreira and Laux (2008), while those for perceived organizational performance were drawn from the studies of Smith and Johnson (2021), Fajemilehin and Adebisi (2018), and Khatiwada et al. (2018).

The study employed Confirmatory Factor Analysis (CFA) to assess the standardized regression loads of observed variables within a latent construct, ensuring the validity and reliability of the measurement model. CFA was utilized to evaluate the fit of the managerial effectiveness construct, which comprised eight observed variables. The analysis demonstrated that the construct exhibited acceptable model fit statistics, with key indices indicating a well-fitting model. Specifically, the normed chi-square value (χ^2/df) was 2.402, the Root Mean Square Error of Approximation (RMSEA) was 0.051, the Adjusted Goodness of Fit Index (AGFI) was 0.992, the Comparative Fit Index (CFI) was 0.995, the Normed Fit Index (NFI) was 0.902, and the Tucker Lewis Index (TLI) was 0.984.

Table 3
Measurement items

Constructs	Items	Measurements items	Sources
Managerial Effectiveness	MP1	The manager develops and implements strategic plans to achieve bank objectives.	Doe (2018), Williams and Johnson(2019), Ferreira and Laux (2008)
	MP2	The manager shows strong analytical abilities to investigate market trends and competition.	
	MP3	The manager effectively coordinates and allocates resources to ensure smooth operations.	
	MP4	The manager consistently evaluates performance and takes corrective actions when necessary.	
	MP5	The manager demonstrates strong supervisory skills by effectively managing and motivating the team.	
	MP6	The manager effectively staffs positions with qualified and competent individuals.	
	MP7	The bank manager negotiates and interacts successfully with clients and stakeholders to achieve mutual benefits.	
	MP8	The manager effectively represents the bank's interests in external meetings and negotiations.	
Perceived organizational performance	OP1	Increase in Share Price	Smith and Johnson (2021), Fajemilehin and Adebisi (2018), Khatiwada et al. (2018)
	OP2	Increase in Profitability	
	OP3	Increase in Return on Asset	
	OP4	Increase in Return on Equity	
	OP5	Increase the quality of products and services	
	OP6	Development of new products and services according to the demands of the customers	

Additionally, the perceived organizational performance construct also showed strong model fit statistics, reinforcing the robustness of the measurement framework. The obtained fit indices for this construct were χ^2/df = 2.352, RMSEA = 0.010, AGFI = 0.994, CFI = 0.999, NFI = 0.902, and TLI = 0.999. These results indicate that both constructs were well-defined and statistically reliable. The cutoff values and corresponding obtained values for each fit index are presented in *Table 4*, further supporting the adequacy of the measurement model in capturing the intended theoretical constructs.

Table 4

Fit indices values of the structural model

Model fit indices	Cut-off value	Sources	Obtained value of managerial effectiveness construct	Obtained value of Perceived organizational performance construct
χ^2/df	≤ 3.00	Kline (2015)	2.402	2.352
AGFI	≥ 0.80	Baumgartner and Homburg (1996)	0.992	0.994
CFI	≥ 0.80	Schreiber et al. (2006)	0.995	0.999
NFI	≥ 0.80	Bentler and Bonett (1980)	0.902	0.912
TLI	≥ 0.90	Hu and Bentler (1999)	0.984	0.999
RMSEA	≤0.08	Hu and Bentler (1999)	0.051	0.010

Reliability and validity analysis. The reliability and validity tests were conducted to confirm the robustness and accuracy of the measurement model's structure, ensuring that the observed variables effectively captured the intended latent constructs. These tests play a fundamental role in assessing the internal consistency and construct validity of the model before proceeding with further statistical analysis. The results of these assessments are comprehensively presented in *Table 5*, which outlines the reliability and validity statistics associated with the measurement model.

Table 5

Reliability and validity statistics

Constructs	Reliability test		Validity test				No. of Items
	Cronbach's Alpha(α)		Composite Reliability (CR)		Average Variance Extracted (AVE)		
	Test value	Recommend edge value	Test value	Recommend edge value	Test value	Recommend edge value	
ME	0.789	≥0.7 (Nunnally, 1994)	0.793	≥ 0.70 (Hair, et al., 2011)	0.590	≥ 0.5 (Hair, et al., 2011)	8
OP	0.786		0.799		0.506		6

As shown in *Table 5*, the Cronbach's Alpha (α) values for both managerial effectiveness (ME) and organizational performance (OP) constructs exceeded the recommended threshold of 0.7, as suggested by Nunnally (1994), indicating strong internal consistency. The composite reliability (CR) values for both constructs were also above the recommended minimum of 0.70, as per Hair et al. (2011), further reinforcing the reliability of the measurement model. Additionally, the Average Variance Extracted (AVE) values for both constructs exceeded the recommended cutoff of 0.5 (Hair, Ringle, & Sarstedt, 2011), confirming the convergent validity of the constructs. These findings suggest that the observed variables and their corresponding latent constructs were both credible and suitable for further analysis, establishing a strong foundation for subsequent hypothesis testing and inferential analysis.

IV. RESULTS AND DISCUSSION

Respondent's profile. The survey consisted of 425 respondents with diverse demographic characteristics, including gender, age, education level, and work experience. The majority of respondents were male, accounting for 80% of the sample, while female respondents made up 20%. In terms of age distribution, the largest proportion (52%) belonged to the 41–50 age group, followed by 24% in the 31–40 age group. The remaining respondents were evenly distributed between the 21–30 age group (12%) and those above 51 years (12%).

Table 6

Respondent's profile

Demographic	Categories	Respondents	Percentage
Gender	Male	340	80
	Female	85	20
Age group	21-30	51	12
	31-40	102	24
	41-50	221	52
	51-above	51	12
Education Level	Bachelor	85	20
	Master	336	71
	M.Phil./PhD	4	10
Experience	3-5 years	50	12
	6-10 years	187	44
	11-15 years	136	32
	Above 16 years	52	12

Regarding educational qualifications, a significant majority (71%) held a master's degree, while 20% had a bachelor's degree. A small proportion (10%) possessed M.Phil. or Ph.D. qualifications. In terms of work experience, 44% of respondents had 6–10 years of experience, while 32% had 11–15 years of experience. Those with 3–5 years and above 16 years of experience each accounted for 12% of the sample. The detailed demographic profile of the respondents is summarized in *Table 6*.

Structural model assessment. The structural model's fit was assessed using multiple fit indices, ensuring that the model met the recommended threshold values as exhibited in *Table 7*. Kline (2015) suggests that the chi-square to degrees of freedom ratio (χ^2/df) should be less than 3.00, and the obtained value of 1.372 indicates a good model fit. The Adjusted Goodness-of-Fit Index (AGFI), recommended by Baumgartner and Homburg (1996) to be above 0.80, was found to be 0.871, confirming an acceptable fit.

Table 7

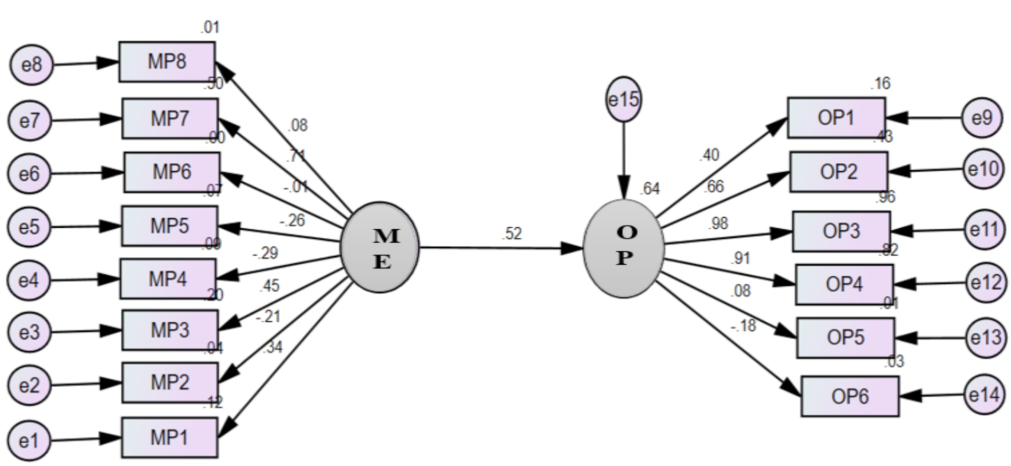
Fit indices values of the structural model

Model fit indices	Cut-off value	Sources	Obtained value
χ^2/df	≤ 3.00	Kline (2015)	1.372
AGFI	≥ 0.80	Baumgartner and Homburg (1996)	0.871
CFI	≥ 0.80	Schreiber et al. (2006)	0.823
NFI	≥ 0.80	Bentler & Bonett (1980)	0.922
TLI	≥ 0.90	Hu and Bentler (1999)	0.992
RMSEA	≤0.08	Hu and Bentler (1999)	0.064

Schreiber et al. (2006) propose that the Comparative Fit Index (CFI) should exceed 0.80, and the model's CFI value of 0.823 supports this recommendation. Additionally, Bentler and Bonett (1980) emphasize that the Normed Fit Index (NFI) should be greater than 0.80, and the model's NFI of 0.922 confirms strong model fit. Hu and Bentler (1999) suggest that the Tucker-Lewis Index (TLI) should be at least 0.90, and the obtained TLI of 0.992 meets this criterion. Similarly, the Root Mean Square Error of Approximation (RMSEA), which should be below 0.08 according to Hu and Bentler (1999), was found to be 0.064, indicating an acceptable level of error in model estimation. Overall, these indices confirm that the structural model demonstrates a satisfactory fit to the data, supporting the validity of the hypothesized relationships. The path diagram of the structural model and its regression coefficient is displayed in *Figure 2.*

Figure 2

Structural model of the study



Analysis of the structural equation model. The SEM regression results provide insights into the study's hypotheses. The coefficient of determination (R^2) measures how well the independent variable explains variance in the dependent variable, with higher values indicating stronger explanatory power. As evidenced in *Table 8*, managerial effectiveness, the exogenous variable, explains 64% of the variance in perceived organizational performance. This highlights its significant role in shaping performance perceptions. While substantial, the remaining 36% variance may stem from other organizational or individual factors. Overall, the R^2 value supports the hypothesis that managerial effectiveness significantly influences perceived organizational performance, reinforcing its importance in organizational success.

Table 8

Coefficient of determination of the model

Exogenous variable	Endogenous variable	Squared correlations (R^2)
Managerial effectiveness	Perceived organizational performance	0.64

Hypothesis test. This segment evaluates the structural model regression coefficients, which were used to test the study's hypotheses. The study specifically examined H_1: Managerial effectiveness in commercial banks effects perceived organizational performance. As shown in *Table 9*, the regression results confirm the significant impact of managerial effectiveness on perceived organizational performance. The standardized estimate ($\beta = 0.523$, $t = 14.858$, $P = .002$) indicates a statistically significant positive relationship. Since the p-value is below the 0.05 threshold, H_1 is supported, demonstrating that managerial effectiveness plays a crucial role in shaping perceptions of organizational performance. These findings reinforce the importance of managerial effectiveness in improving organizational outcomes, highlighting its strategic significance for commercial banks.

Table 9

Regression analysis

Hypotheses	Hypothesized Relationship	Standardized Estimates	T - Value	P- Value	Decision
H_1	OP <--- ME	0.523	14.858	.002	Significant effect

V. CONCLUSION AND IMPLICATIONS

The study reveals that managerial effectiveness significantly affects perceived organizational performance in Nepalese commercial banks, aligning with previous research that highlights its essential role in improving bank performance and fostering economic growth (Dang & Nguyen, 2019; Ezeoha et al., 2019). The positive effect observed in Nepal's context can be attributed to several factors, including the dynamic and competitive nature of the banking sector, increasing regulatory requirements, and the need for strong leadership to navigate economic uncertainties. Nepalese commercial banks operate in an environment where effective management is crucial for maintaining stability, fostering customer trust, and ensuring financial sustainability. Strong managerial skills enable banks to adapt to regulatory changes, enhance operational efficiency, and drive innovation—factors that contribute to superior organizational performance. Moreover, effective leadership plays a pivotal role in employee motivation, which directly influences service quality and customer satisfaction—key elements in the success of service-oriented sectors like banking.

Similar findings from other countries, including Kuwait (Giacosa & Mazzoleni, 2017), Pakistan (Ahmad & Hadi, 2017), and Nigeria (Obamuyi & Akinbode, 2018), reinforce the argument that strong managerial competencies enhance financial performance, decision-making, and innovation in banking institutions. Further studies indicate that managerial effectiveness positively influences both financial and non-financial outcomes, including productivity, employee engagement, and customer retention (Hossain et al., 2018; Sial et al., 2019; Khalid et al., 2019). In Nepal, Pradhan (2020) highlights that performance appraisal systems enhance organizational performance within the service sector, which includes banking. This implies that structured managerial evaluation and continuous skill development are essential for improving efficiency and achieving long-term success. Given these insights, the findings of this study reinforce the importance of managerial training, leadership development programs, and strategic decision-making in Nepalese commercial banks to enhance performance and sustain growth in an evolving financial landscape.

The study confirms that managerial effectiveness has a significant positive impact on perceived organizational performance in Nepalese commercial banks. Effective managerial practices—such as decision-making, problem-solving, strategic planning, communication, and leadership—directly enhance productivity, service quality, and overall performance. Banks led by competent managers who strategically assess market trends and competition achieve higher competitiveness and stronger customer relationships. Additionally, effective leadership fosters a positive work culture, motivates employees, and promotes teamwork, contributing to sustained organizational growth.

To further build on these insights, future research should explore the influence of managerial effectiveness across different sectors, such as manufacturing, healthcare, and technology, to determine if similar effects exist. Additionally, further studies could examine how cultural values, employee perceptions, economic fluctuations, and regulatory shifts interact with managerial effectiveness to shape organizational performance. Understanding these external and internal dynamics will provide a more comprehensive framework for leadership development and business strategy formulation.

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