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DIGITAL TRANSFORMATION IN HUMAN RESOURCE MANAGEMENT: ENHANCING FINANCIAL AND NON-FINANCIAL REWARDS IN NEPALESE COMMERCIAL BANKS

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KEYWORDS:

Business intelligence and data analytics tools, customer relationship management systems, cybersecurity tools, human resource management systems

ABSTRACT

This study explores the impact of digital transformation on Human Resource Management practices in Nepalese commercial banks, with a focus on enhancing financial and non-financial rewards for employees. The study examines how the adoption of digital tools, such as Human Resource Management Systems, Business Intelligence and Data Analytics tools, Customer Relationship Management systems, Cybersecurity tools, and Blockchain and Fintech innovations influence reward systems within the banking sector. Financial rewards, including salary and bonuses, as well as non-financial rewards such as recognition, work-life balance, and career development, are considered as dependent variables, while the independent variables are the various digital tools and systems utilized by the banks. Data were collected

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through structured questionnaires distributed to employees across 20 commercial banks in Nepal. The analysis of the data, using correlation coefficients and regression models, reveals a significant positive relationship between the implementation of digital tools and the enhancement of both financial and non-financial rewards. The study indicates that the effective use of HRMS, business intelligence, and CRM systems improves transparency and fairness in the distribution of financial rewards. Additionally, digital tools contribute to better employee engagement and satisfaction through the personalization of non-financial rewards. The findings suggest that digital transformation plays a crucial role in improving HR practices, fostering a more motivated and committed workforce, and increasing overall employee performance and retention in Nepalese commercial banks.

1. INTRODUCTION

The banking sector in Nepal is experiencing rapid digital transformation, a shift that has redefined the landscape of Human Resource Management (HRM) practices. Traditional HRM functions such as recruitment, employee engagement, performance management, and reward systems are now being restructured through the integration of cutting-edge technologies. Digital transformation offers numerous opportunities for improving both financial and non-financial rewards for employees, which are essential components of employee motivation, satisfaction, and retention (Ajayi-Nifise et al., 2024; Gurung & Bhattarai, 2024). The adoption of digital tools, such as HRMS, CRM systems, and business intelligence tools, enables banks to create more efficient and personalized reward systems that better meet the needs of a diverse workforce (Pant & Kandel, 2024).

However, the digital transformation journey is not without challenges. Nepalese commercial banks face contextual issues such as technological readiness, resistance to change among employees, and the need for strategic alignment between digital initiatives and organizational goals. Limited access to advanced technology, insufficient training programs, and cultural barriers further compound these challenges (Poudel & Bhandari, 2024). Addressing these issues is crucial for harnessing the full potential of digital transformation in HRM.

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Additionally, the regulatory environment in Nepal plays a significant role in shaping the pace and scope of digital adoption within the banking sector. Strict compliance requirements, coupled with a lack of infrastructure to support advanced digital tools, often hinder the seamless implementation of HR technologies (Joshi et al., 2024). Moreover, Nepalese banks operate in a unique socio-economic landscape characterized by a growing but digitally nascent workforce. This duality necessitates tailored strategies to bridge the digital divide, ensuring that both financial and non-financial rewards are equitable and impactful across all employee demographics (Rai & Kandel, 2024). Efforts to address these contextual barriers are critical in fostering a culture of innovation and driving meaningful improvements in HRM practices.

Financial rewards, such as salaries, bonuses, and other monetary benefits, are a primary means of compensating employees for their work. However, non-financial rewards—such as career development, recognition, work-life balance, and personal well-being—are increasingly recognized as crucial for enhancing employee satisfaction and organizational commitment (Ali et al., 2024). This article aims to explore the impact of digital transformation on both types of rewards in Nepalese commercial banks, shedding light on the ways in which these technologies are helping banks improve their HR practices.

2. REVIEW OF LITERATURE

Digital transformation in HRM is not a new concept, but its rapid acceleration in the banking sector—particularly with the introduction of emerging technologies—has garnered significant attention. One key aspect of this transformation is the deployment of HRMS, which automates and streamlines various HR functions, such as payroll management, employee performance tracking, recruitment, and training. These systems have been shown to improve the efficiency and accuracy of HR processes, leading to better management of employee rewards.

The use of Business Intelligence (BI) and Data Analytics tools has further enhanced HRM by providing valuable insights into employee behavior, performance metrics, and satisfaction levels. These tools allow HR professionals to make data-driven decisions

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regarding reward allocation, helping ensure that both financial and non-financial rewards are distributed fairly and effectively.

Customer Relationship Management (CRM) systems also play a crucial role in personalizing employee experiences by offering tailored communications and feedback mechanisms, ultimately fostering a greater sense of recognition and engagement. Additionally, digital tools like blockchain and fintech innovations are reshaping the financial reward systems by enabling more secure and transparent payroll processing, as well as providing opportunities for new types of incentive schemes.

The growing recognition of the importance of non-financial rewards has also become a key focus of digital transformation in HR. Technologies that promote employee engagement, career development, and work-life balance are crucial in addressing the needs of the modern workforce, especially as organizations seek to create a positive work environment that fosters long-term employee retention.

Table 1: **Summary of major recent studies**

Study	Major findings
Ajayi-Nifise et al. (2024)	HR plays a crucial role in managing employee resistance to digital tools by promoting continuous learning and upskilling. Banks investing in employee development programs see more successful digital transformation efforts. Limitation: Focused on large banks, limiting generalizability to smaller institutions.
Dhungana et al. (2023)	a positive and significant influence of security, convenience, and adaptability on digital finance. Security has the most substantial impact on digital finance.
Kamariotou (2021)	Positive correlation between employee training and successful adoption of digital technologies. Employees who received targeted training were more comfortable with digital tools, leading to higher productivity. Limitation: Limited survey sample may not fully represent the broader banking sector in Greece.

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Odeyemi and Mhlongo (2021)	Essential HR practices include reskilling, upskilling, and redeployment to meet digital transformation demands. Banks need comprehensive HR road maps for workforce transitions. Limitation: Primarily focused on European banks, potentially limiting applicability to other regions.
Kamariotou and Mitsiou (2021)	Digital tools like mobile banking and CRM systems significantly improve operational efficiency and job satisfaction. Investment in digital literacy programs is crucial. Limitation: Focused mainly on mid-level employees, not capturing higher management perspectives.
Herrero and Rodriguez (2008)	AI and cloud technologies enhance banking services by improving efficiency and customer satisfaction. Major barriers include legacy systems and employee resistance. Limitation: Focused only on large banks, potentially not reflective of smaller institutions.
McKinsey (2021)	Key barriers to digital transformation include technical debt, slow change pace, and lack of tech talent. Emphasis on attracting tech talent and adopting agile methodologies. Limitation: Focused on large international banks, limiting applicability to smaller institutions.
The Financial Brand (2021)	Banks with innovative HR strategies attract and retain digital talent more successfully. Upskilling and supportive cultures improve performance. Limitation: Focused on retail banks, which may not reflect challenges in other banking sectors.

3. METHODOLOGY

This study investigates the impact of digital transformation tools on financial and non-financial rewards in the Nepalese commercial banking sector, with a focus on the adoption and effects of digital tools such as Human Resource Management Systems (HRMS), Business Intelligence (BI) tools, Customer Relationship Management (CRM) systems, cybersecurity tools, and blockchain and fintech innovations. The methodology employed in this study follows a structured approach to ensure the reliability and validity of the findings.

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This study adopts both descriptive and causal-comparative research designs. Descriptive research helps gather data systematically to understand how digital tools are being utilized in the banking sector. It explores the influence of these tools on both financial rewards (salaries, bonuses, and commissions) and non-financial rewards (training, development opportunities, recognition). Causal-comparative design further delves into identifying cause-and-effect relationships by comparing the impact of various digital tools on reward outcomes. This combined approach offers comprehensive insights into the role of digital transformation in shaping reward systems.

The study focuses on a population of 20 commercial banks in Nepal, representing a mix of public, private, and joint venture banks, providing a diverse perspective on digital transformation across the sector. The total respondent pool consists of 1400 individuals, with a sample size of 200 respondents selected through non-probability convenience sampling. This sampling technique allows for a practical and cost-effective approach to gather data from employees and HR professionals, ensuring that those with the most relevant insights are included. The sample was calculated using Cochran's formula, ensuring a 95% confidence level and a 6% margin of error.

Data was collected using a self-administered questionnaire. The survey included three key sections:

1. Demographic Information: Information about respondents' background.
2. Digital Tool Adoption: Questions about the use and perceived effectiveness of various digital tools in the banking sector.
3. Rewards Perception: Likert-scale questions to measure the impact of these digital tools on financial and non-financial rewards.

The data collection process involved distributing the survey online to HR departments and employees across various branches of the selected banks. Despite an initial sample of 250 questionnaires, 200 complete surveys were used in the analysis, with non-responses and incomplete data excluded.

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The analysis employs several key statistical methods to explore the relationships between digital transformation tools and reward outcomes:

Descriptive Statistics: Used to summarize and describe the data, including means, standard deviations, and frequencies, offering a clear overview of how digital tools are adopted and their effects on rewards.

Correlation Analysis: Assesses the strength and direction of the relationships between the independent variables (digital transformation tools) and dependent variables (financial and non-financial rewards). This helps to identify how strongly these tools influence reward outcomes.

Regression Analysis: This study uses linear regression models to evaluate the impact of digital tools on reward systems.

To ensure the validity and reliability of the data, the study uses Cronbach's alpha to measure internal consistency. The overall Cronbach's alpha for the dataset was found to be 0.910, indicating high reliability. Each variable, including HRMS, BI tools, CRM, and others, showed acceptable to high reliability, with Cronbach's alpha values ranging from 0.705 to 0.892.

4. RESULTS AND DISCUSSION

This section presents the findings from the correlation and regression analyses that examine the relationships between digital transformation tools (HRMS, BIDAT, CRM, CS, BFI) and employee rewards (financial and non-financial) in Nepalese commercial banks.

4.1 Correlation Analysis

The correlation analysis measures the strength and direction of the relationship between the independent variables (digital transformation tools) and the dependent variables (financial and non-financial rewards).

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Table 2: Correlation matrix

Variables	Mean	Std. dev.	HRMS	BI	CRM	CS	BI	FR	NFR
HRMS	2.2563	0.47184	1						
BI	1.8700	0.60096	0.289**	1					
CRM	2.0188	0.56873	0.357**	0.486**	1				
CS	2.3125	0.60242	0.626**	-0.037	0.067	1			
BI	2.4738	0.60691	0.608**	-0.287**	0.295*	0.785**	1		
FR	2.5800	0.77927	0.544**	0.075	0.722**	-0.159*	0.537**	1	
NFR	2.2175	0.55213	0.780**	-0.65	0.365**	0.239**	0.594**	0.796**	1

Note: The asterisk signs (**) and (*) indicate that coefficients are significant at 1 percent and 5 percent levels respectively.

The Human Resources Management System has a strong positive impact on financial rewards (β = 0.898, p < 0.01), emphasizing its role in improving compensation structures. Also, the Customer Relationship Management system also shows a significant positive relationship with financial rewards (β = 0.990, p < 0.01), supporting the idea that CRM systems are effective in enhancing financial reward structures. Whereas BFI exhibits a substantial positive impact on financial rewards (β = 0.690, p < 0.01), suggesting that blockchain and fintech innovations contribute positively to employee compensation.

Cyber Security has a positive but weaker impact on financial rewards (β = 0.206, p < 0.05), which aligns with the earlier negative correlation, indicating a trade-off between security investments and financial compensation. However, Business Intelligence and Data Analysis Tools is not a significant predictor of financial rewards (β = 0.097, p = 0.301), highlighting its limited effect on employee compensation.

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4.2 Regression Analysis

Regression Analysis of Independent Variables on Financial Rewards:

These tables are explained in accordance with the analysis of the primary data collected. Regression analysis is a versatile technique for modeling and understanding relationships between multiple variables, with a focus on how independent variables influence a dependent variable.

In this study, the dependent variables are financial rewards and non-financial rewards, while the independent variables include Human Resource Management Systems (HRMS), Business Intelligence and Data Analytics Tools (BI), Customer Relationship Management (CRM) Systems, Cybersecurity Tools (CS), and Blockchain and Fintech Innovations (BFI). The pooled cross-sectional data from the weighted average responses of 200 employees from various Nepalese commercial banks are used to assess the impact of digital transformation on HR and its implications for rewards.

A regression model was utilized to determine the significance and robustness of the results. The estimated regression results reveal the relationship between digital tools and the enhancement of financial and non-financial rewards. This analysis aims to highlight how the integration of digital technologies in HR practices contributes to the improvement of employee satisfaction and reward systems.

Table 3: Regression analysis with financial rewards

Model	Intercept	HRMS	BI	CRM	CS	FI	Adj_R2	SEE	F value
1	0.554 (2.442)*	0.898 (9.113)**					0.292	0.65573	83.046
2	2.399 (13.294)**		0.097 (1.053)				0.001	0.77906	1.109

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3	0.582 (4.122)**			0.990 (14.695)**			0.522	0.54032	215.930
4	2.104 (9.701)**				0.206 (2.269)*		0.020	0.77127	5.151
5	0.874 (4.451)**					0.690 (8.958)**	0.285	0.65902	80.254
6	0.055 (0.352)	0.815 (9.413)**	-0.374 (4.406)**	0.846 (10.863)**	-0.605 (6.598)**	0.435 (3.493)**	0.795	0.35261	155.583

Note: The asterisk signs (**) and (*) indicate that coefficients are significant at 1 percent and 5 percent levels respectively.

The regression analysis results reveal the varying influences of the independent variables (HRMS, BI, CRM, CS, FI) on the dependent variable across different models, providing insights into the strength and significance of these relationships.

Model 1 demonstrates that the intercept is statistically significant, with HRMS showing a strong positive relationship with the dependent variable (coefficient = 0.898, $p < 0.01$). This model explains 29.2% of the variance (Adjusted R-squared = 0.292), and the F-statistic of 83.046 indicates that the model is statistically significant. This suggests that HRMS has a meaningful impact on the dependent variable in this model.

In Model 2, the intercept remains significant, but the variable BI does not show a statistically significant relationship (coefficient = 0.097, $p = 0.301$). The Adjusted R-squared value is exceptionally low (0.001), indicating that this model explains very little of the variance in the dependent variable. Additionally, the F-statistics of 1.109 indicates that this model does not offer a significant fit, suggesting that BI does not contribute meaningfully to the dependent variable in this context.

Model 3 highlights CRM as a key predictor, with a strong positive relationship to the

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dependent variable (coefficient = 0.990, $p < 0.01$). This model explains 52.2% of the variance (Adjusted R-squared = 0.522), and the F-statistic of 215.930 demonstrates a high level of statistical significance. These results suggest that CRM plays a major role in influencing the dependent variable in this model, with a substantial explanatory power.

In Model 4, while the intercept is significant, the variable CS shows a positive relationship (coefficient = 0.206, $p < 0.05$) with the dependent variable. However, the model explains only 2% of the variance (Adjusted R-squared = 0.020), and the F-statistic of 5.151 suggests that the model has low overall significance. This indicates that CS has a limited effect on the dependent variable in this case.

Model 5 shows that FI has a significant positive impact on the dependent variable (coefficient = 0.690, $p < 0.01$). This model explains 28.5% of the variance (Adjusted R-squared = 0.285), and the F-statistic of 80.254 indicates that the model is statistically significant. These results suggest that FI plays an important role in predicting the dependent variable in this model.

Finally, Model 6 incorporates all the variables (HRMS, BI, CRM, CS, and FI) and reveals that HRMS, CRM, and FI have strong positive relationships with the dependent variable, while CS has a negative relationship (coefficient = -0.374, $p < 0.01$). This model explains 79.5% of the variance (Adjusted R-squared = 0.795), and the F-statistic of 155.583 indicates that it provides the best fit among all models. These results suggest that the combined effect of HRMS, CRM, and FI is significant in explaining the dependent variable, while CS may have a diminishing or contrasting influence.

In conclusion, the results suggest that HRMS, CRM, and FI are the most influential factors in determining the dependent variable, with Model 6 offering the best explanatory power. The variable BI appears to have limited significance, while CS exhibits both positive and negative relationships across different models. These findings provide valuable insights into the relative importance of these variables and offer a deeper understanding of the factors driving the dependent variable.

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Regression of Independent Variables on Non-Financial Rewards:

Table 4: Regression analysis with non-financial rewards

Model	Intercept	HRMS	BI	CRM	CS	FI	Adj_R2	SEE	F value
1	0.159 (1.327)	0.912 (17.515)**					0.606	0.34667	306.771
2	2.329 (18.202)**		-0.060 (0.915)				-0.001	0.55235	0.836
3	1.502 (11.152)**			0.354 (5.517)**			0.129	0.51533	30.437
4	1.710 (11.318)**				0.219 (3.469)**		0.053	0.53743	12.034
5	0.882 (6.654)**					0.540 (10.378)**	0.349	0.44547	107.695
6	0.408 (8.689)**		-0.194 (7.546)**	-0.023 (0.964)	-0.823 (29.624)**	0.558 (14.772)**	0.963	0.10679	1025.019

Note: The asterisk signs (**) and (*) indicate that coefficients are significant at 1 percent and 5 percent levels respectively.

The regression analysis results provide valuable insights into the relationships between the independent variables (HRMS, BI, CRM, CS, FI) and the dependent variable across the various models. Here's a detailed interpretation of each model's findings:

Model 1 shows a statistically significant positive relationship between HRMS and the dependent variable (coefficient = 0.912, $p < 0.01$). The Adjusted R-squared value of 0.606 indicates that the model explains 60.6% of the variance in the dependent variable,

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which is a strong explanatory power. The F-statistics of 306.771 confirms the statistical significance of this model, indicating that HRMS is a critical predictor in this context.

In Model 2, the intercept is highly significant (coefficient = 2.329, $p < 0.01$), but the BI variable has a negligible negative relationship with the dependent variable (coefficient = -0.060, $p = 0.360$). The Adjusted R-squared value is very low (0.001), suggesting that this model explains virtually no variance in the dependent variable. Additionally, the F-statistic of 0.836 implies that the model does not fit the data well and BI does not significantly contribute to the dependent variable in this case.

Model 3 shows that CRM is a significant positive predictor (coefficient = 0.354, $p < 0.01$) with moderate explanatory power (Adjusted R-squared = 0.129). The F-statistics of 30.437 indicates the model's statistical significance, albeit with a relatively weak fit. This suggests that CRM contributes to explaining the dependent variable, although its impact is not as strong as HRMS in Model 1.

In Model 4, CS shows a positive relationship with the dependent variable (coefficient = 0.219, $p < 0.01$). However, the explanatory power remains modest with an Adjusted R-squared of 0.053, and the F-statistic of 12.034 implies the model is statistically significant, though less impactful compared to Model 1. This indicates that CS has a meaningful, albeit limited, influence on the dependent variable.

Model 5 demonstrates that FI has a significant positive relationship with the dependent variable (coefficient = 0.540, $p < 0.01$), with a moderate explanatory power (Adjusted R-squared = 0.349). The F-statistics of 107.695 suggest the model is statistically significant. These findings indicate that FI is an important factor in influencing the dependent variable, although not as strong as HRMS in Model 1.

Finally, Model 6, which includes all the variables (HRMS, BI, CRM, CS, FI), provides a comprehensive analysis. HRMS is again the most significant predictor (coefficient = 1.215, $p < 0.01$), followed by CRM and FI, both showing significant positive relationships with the dependent variable. The variable CS has a negative relationship (coefficient = -0.194, $p < 0.01$), while BI has a positive but weaker relationship (coefficient = 0.322, $p < 0.01$). The

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Adjusted R-squared value of 0.963 indicates an excellent fit, with the model explaining 96.3% of the variance in the dependent variable. The high F-statistics of 1025.019 confirms the model's strong statistical significance, indicating that the combined effect of all the independent variables provides an outstanding explanatory power.

In conclusion, the results suggest that HRMS is the most influential factor in predicting the dependent variable, with CRM and FI also showing significant positive relationships. BI has a weaker but positive relationship, while CS exhibits a negative influence in the full model. Model 6, which includes all the variables, explains most of the variance and offers the best fit, highlighting the importance of a comprehensive approach to understanding the factors affecting the dependent variable.

5. CONCLUSION AND SUGGESTIONS

The study found that performance-based bonuses are commonly used in the banking sector, with 62.0% of respondents receiving these quarterly. This aligns with Kuvaas (2006), who highlighted that such bonuses significantly influence employee motivation and job satisfaction when linked to clear performance metrics. Satisfaction with salary structures was reported by 54.0% of respondents, consistent with Spector (1997), who emphasized the role of financial compensation in influencing retention. Approximately 47.0% of respondents prioritize work-life balance, echoing Greenhaus et al. (2003), who noted that work-life initiatives are vital for younger generations. Training and development programs were rated positively, with 57.5% considering them "Good," reflecting findings from Noe (2010) and Bartel (2000), who emphasized the impact of training on job satisfaction and career advancement. A significant portion (38.5%) is motivated by non-financial rewards, aligning with Herzberg (1966), who argued for the importance of non-financial incentives. The perception of transparency in financial reward systems was positive, with 62.5% viewing it as somewhat clear, which supports the notion that transparency boosts trust, as noted by Gordon et al. (2011). HRMS received positive feedback for improving access to leave, payroll accuracy, and performance tracking. The positive impacts are consistent

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with Davis (1989) and Venkatesh et al. (2003), who highlighted the importance of user-friendly HR systems in increasing satisfaction and organizational commitment. CRM systems significantly impacted both financial and non-financial rewards, with support from Henderson (2003) and Sashi (2012), who emphasized the role of CRM in enhancing communication and engagement. Cybersecurity tools were also noted to influence non-financial rewards, reflecting findings from Anderson and Agarwal (2010), highlighting the connection between perceived data security and job satisfaction. Blockchain applications showed varied responses, aligning with Tapscott and Tapscott (2016), who noted the potential and challenges of using this technology in HR. Overall, these findings confirm that effective HR practices, supported by technological advancements, are crucial for enhancing employee motivation and retention in Nepalese commercial banks.

This study explores the role of digital transformation tools in shaping financial and non-financial rewards in Nepalese commercial banks. By collecting primary data from 200 employees, the research provides valuable insights into how digital tools like HRMS, CRM, and cybersecurity systems impact employees' perceptions of rewards. The study indicates that while financial reward systems such as bonuses and salary structure are generally effective, there is a need to improve the competitiveness and transparency of these systems. On the non-financial side, work-life balance, career development, and recognition programs were identified as key drivers of employee satisfaction.

Key digital tools, particularly HRMS and CRM, were found to play a significant role in improving both financial and non-financial rewards. HRMS, in particular, was positively correlated with improved financial and non-financial rewards, while CRM systems were deemed effective in boosting financial incentives. Cybersecurity tools, while important for data protection, showed mixed results in influencing employee rewards. Blockchain and fintech innovations, though seen as valuable for enhancing transparency, had a weaker impact on reward systems.

The study concludes that digital transformation tools significantly influence the financial and non-financial reward systems in Nepalese commercial banks. While financial rewards like bonuses and salaries are generally appreciated, there is room for

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improvement in terms of their competitiveness and alignment with industry standards. Non-financial rewards, such as work-life balance and career development opportunities, play an equally important role in motivating employees.

The study highlights the positive impact of digital tools, particularly HRMS and CRM systems, on improving employee satisfaction with reward systems. However, the mixed perceptions of cybersecurity tools and blockchain/fintech innovations suggest that further investments in training and communication about these technologies are necessary to ensure they are effectively utilized. The research underscores the need for banks to continuously innovate their reward systems, leveraging digital tools to create a more engaged and motivated workforce.

The findings of this study highlight several suggestions to improve employee satisfaction, performance, and retention in organizations, particularly within the banking sector. First, organizations should enhance the competitiveness of financial rewards by conducting regular market analyses to ensure that salary and bonus structures align with industry standards, which is crucial for attracting and retaining talent. Second, investment in upgrading Human Resource Management Systems (HRMS) is essential to improve user-friendliness and effectiveness in addressing employee needs, thereby fostering engagement and satisfaction. Additionally, organizations should implement comprehensive training programs to equip employees with the necessary skills to utilize digital tools effectively. These programs should emphasize both job-specific skills and the use of systems such as HRMS, Customer Relationship Management (CRM) platforms, and cybersecurity tools to enhance overall performance.

This study is based on sample size of 200 respondents limited range of digital tools, geographically confined to Nepalese commercial banks, and primarily centered on employee perceptions. Future studies could explore the long-term effects of digital transformation on employee performance, conduct comparative studies between different types of banks, and examine how organizational culture influences the effectiveness of HRMS and digital tools. Additionally, research could explore the impact of emerging technologies such as artificial intelligence and machine learning on HR practices and

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rewards. A broader, comparative study involving banks in different countries or regions could provide more insights into global trends and best practices in digital transformation within the banking sector.

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