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Digitalization and Employee Engagement in Nepalese Banking Sector

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Abstract

The objective of the present study is to analyse the impact of digitalization on employee engagement in the Nepalese banking sector. Digital usefulness, security, privacy, digital efficacy, and technology support are independent variables, and employee engagement is a dependent variable. Using the Convenient sampling technique, 384 employees were selected, and a questionnaire survey was carried out to collect data in Kathmandu Vally of Nepal. Using F-test and t-test, the study found that digital usefulness, security, privacy, digital efficacy, and technical support significantly impact employee engagement in the Nepalese banking sector.

Keywords: Digitalization, Digital Technology, Employee Engagement, Nepalese Banks

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Introduction

Digitization facilitates the conversion of data into a digital format with the adoption of technology. It is the process of transforming information into a digital format. The digitized data number, which simplifies computer processing and other operations (Harchekar, 2018). Along with reducing human error and building reliability, digitalization provides convenience to customers and helps in saving time.

In the banking sector, digital technologies imply improving their services to gain business superiority and to maintain competitive advantage (Næss-Schmidt et al., 2019). Digital innovations and advancements in the banking industry have alleviated the cost of financial intermediation and gave way for a digital ecosystem for bank employees to render better service and attract new customers (Forcadell et al., 2020). Digitalization was introduced to reduce the workload, improve efficiency, speedy services distribution, and core banking solutions in the banking sector (Jisha & Veerakumaran, 2019).

Online banking, also known as virtual banking, internet banking, and e-banking, emphasizes money transfers, bill pay, remote deposits, and essential online management of accounts, but digital banking incorporates digitizing every program and activity undertaken by financial institutions and their customers (Harchekar, 2018).

In Nepal, Kumari Bank Limited pioneered digital payment services in 2002 AD by introducing Internet banking services for its customers. In recognizing the proven opportunities, digital payment services offer, more digital solutions are beginning to become available in Nepal from traditional financial institutions and FinTech start-ups such as eSewa, IMEPay, Khalti, and iPay. The underdeveloped digital financial services ecosystem with low credit and debit card penetration poses a threat. Also, the everyday use of digital payments, online and mobile banking, and restrictive government policies (e.g., low maximum limit of digital payments) hinder challenges in the adaptation of digitalization (Government of Nepal, 2018).

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Employee engagement is one of the drivers of the bank and is often seen as crucial for the bank's success and competitiveness (Schaufeli & Salanova, 2007). An engaged employee of a bank is aware of the business context and works with colleagues to improve performance within the job to benefit their bank. In the banking sector, engaged employees have been demonstrated to offer a better service delivery, which increases customer satisfaction generating higher revenues in banks (Vance, 2006). Technology is a significant aspect influencing employees of a bank in their everyday work (Ostrom et al., 2015).

In the banking sector, digitalization contributes to making employees' performances more efficient in faster decision-making and lower risk with more employees' engagement at work (Umans et al., 2018). In the Covid-19 pandemic in Nepal, a critical condition for Nepalese financial sectors, the importance of digitalization and the role of employees is vital in managing the various activities for the success of the Nepalese banking sector. Therefore, the objective of the study is to analyse the impact of digitalization on employee engagement in the Nepalese banking sector.

Review of Literature

Digitalization of banking services is beneficial to both the employees of banks and their customers. The digitalization of banks helps to provide faster, easier, cheaper, and more reliable services to customers with more engagement of their employees (Aladwani, 2001).

Sathye (2013) discovered that the most significant challenges to the adoption of internet banking are security concerns and the lack of awareness of the various digital platforms in Australia. Cheng (2016) found that perceived web security is a significant determinant of online banking. The intention of using digital banking is affected by the perception that users may have on the credibility of their security and privacy (Mukherjee & Nath, 2013). O'Connel (2016) reported security as the main reason for the slow growth of digital banking in Australia. The network and facility are significant components when considering the security of the channels for digitalization (Suganthi, 2011).

Shah (2015) found that legal and security issues and management-banking issues are accepted as challenges for e-banking development in Nepal. He also highlighted that customer security is still a big concern for the usage of e-banking services. The view of young and educated staff regarding e-banking is more supportive in Nepal. Customer's concern about security, less familiarity with the technology and its application is the primary barrier faced by the bank to develop internet banking in Nepal (Khatri & Dhungel, 2013).

Mayowa and et al. (2019) found a mild significant and positive relationship between the digitalization process and commercial bank performance. They also revealed a significant relationship between product innovation and the performance of commercial banks in Nigeria.

The banks' higher involvement in digitalization has made it possible for employees to work remotely, which is positively regarded by employees and managers. Digital tools are helping managers to keep employees engaged; it also contributes to improvements in employees' performance (Sorenson, 2013).

Jisha and Veerakumaran (2019) found that the private sector bank employees' satisfaction is higher than the public sector bank employees' satisfaction regarding digitalization in the banking sector in Kerala. Kahn (1990) stated that banks need engaged employees who are physically able to express themselves cognitively and emotionally while doing their work and, in the end, will provide the best benefits for the bank on digital transformation are radical changes in technology.

The level of employee engagement in Asian countries tended to be higher than in other parts of the world. This indicates that although many organizations in Asia might face difficult times regarding digital disruption and experience challenges related to challenging macroeconomic conditions and uprising expectancies in customer demands, the company's policy of maintaining the level of engagement of its employees was considered successful (Hickey & Morris, 2018).

Research Methods

To analyse the hypotheses, digital usefulness, security and privacy, digital efficacy, and technology support were independent variables, and employee engagement

was considered dependent variables. The study followed the descriptive and analytical research design.

The Cronbach's Alpha was measured to test the reliability of the data. F-test was used to determine the goodness of fit and determine whether a significant difference exists between the variables. Regression analysis was used to show the influence of digitalization on employee engagement in the Nepalese banking sector.

The study used the perception of employees on digitalization and employee engagement regarding digital usefulness, security, and privacy, digital efficacy, and technology support for analysis. For data collection, a questionnaire was developed and distributed to the employees of banks. All items of a questionnaire regarding digitalization and employee engagement were measured on a five-point Likert scale from 1 (strongly disagree) to 5 (strongly agree). The demographic profile of respondents such as gender, age, designation, education, and job experience is also included.

The total number of employees working in the Nepalese banking sector, which consists of commercial and development banks, is considered the population for the study. The 384 employees as respondents from different banks were randomly selected for the questionnaire survey. The survey was conducted inside the Kathmandu valley and picked the respondents by convenience. Since the respondents for the questionnaire survey constitute both male and female employees of banks, the sample size is based on gender domain. Therefore, the probability of picking a male employee for a questionnaire survey is p (assuming 0.5). The probability of selecting a female employee is $1\text{-}p = q$, i.e., 0.5. Using the above formula, the sample size $\mathbf{n} = = 384$ where, $\boldsymbol{z}$ is the selected critical value of desired confidence level, i.e., 95%, $\boldsymbol{p}$ is the probability selecting male i.e. 50%, $\boldsymbol{q} = \boldsymbol{1\text{-}p}$ and $\boldsymbol{e}$ = error level, i.e., 0.05.

The multiple regression model of the study is as follows:

$$EE = \beta 0 + \beta 1 DU + \beta 2 SP + \beta 3 DE + \beta 4 TS + u$$

Where;

EE = perception of employees on employee engagement

DU = perception of employees on digital usefulness

SP = perception of employees on security and privacy

DE = perception of employees on digital efficacy

TS = perception of employees on technology support

$\beta 0$ = Constant term

$\beta 1 - \beta 4$ = Coefficients

u = Error term

The hypotheses of the study are as follows:

H1: Digital usefulness has a significant impact on employee engagement.

H2: Security and privacy have a significant impact on employee engagement.

H3: Digital efficacy has a significant impact on employee engagement.

H4: Technology support has a significant impact on employee engagement.

Data Analysis and Discussion

Respondents Profile

The female respondents (64.3 percent) are higher than males (35.7 percent). The respondents' below 20 years old, 20 - 30 years old, 31 - 40 years old, and above 50 years old is 2.3 percent, 40.1 percent, 32.6 percent, and 25 percent, respectively (Table 1).

Table 1: Respondents Profile

Profile	Category	Number of Respondents	Percentage
Gender	Male	137	35.7
	Female	247	64.3
Age	Below 20 years old	9	2.3
	20 - 30 years old	154	40.1
	31 - 40 years old	125	32.6
	Above 40 years old	96	25.0
Educational Qualification	SLC	10	2.6
	Plus 2	31	8.1
	Bachelors	123	32.0
	Masters and above	220	57.3
Experience	Less than 5 years	75	19.5
	5 - 9 years	106	27.6
	10 - 14 years	74	19.3
	15 - 20 years	51	13.3
	Above 20 year	78	20.3
Designation	Below Officer	260	67.7
	Up to Officer	124	32.3

Note. Survey, 2020

The percentage of respondents having a Masters' Degree and above is 57 percent, which indicates that most of the employees are working with master-level education. The highest participant is 67.7 percent from below officer level and the rest from up to officer level. The respondents having working experience in the banking sector less than five years, 5 - 9 years, 10 - 14 years, 15 - 20 years, and above 20 years is 19.5 percent, 27.6 percent, 19.3 percent, 13.3 percent, and 20.3 percent, respectively which indicates that the most of respondents participated from a new group of employees.

Reliability Test

The values of Cronbach's Alpha of digital usefulness, security and privacy, digital efficacy, technology support, and employee engagement are 0.801, 0.820, 0.869, 0.838, and 0.853, respectively (Table 2). For a reliability test, the value of Cronbach's Alpha of all variables is more than 0.7, which is enough to accept the questionnaire (George & Mallery, 2009).

Table 2: ***Reliability Statistics***

Variables	No. of item	Cronbach's Alpha
Digital Usefulness (TD)	5	0.801
Security and Privacy (SP)	5	0.820
Digital Efficacy (DE)	5	0.869
Technology Support (TS)	5	0.838
Employee Engagement (EE)	5	0.853

Multicollinearity

The tolerance value of all the variables is more significant than 0.1, and all variance inflation factor values are less than 10, which indicates that both are in the acceptable range (table 3).

Table 3: Collinearity Statistics

Variables	Tolerance	Variance Inflation Factor
Digital Usefulness (TD)	.643	1.556
Security and Privacy (SP)	.597	1.675
Digital Efficacy (DE)	.497	2.011
Technology Support (TS)	.508	1.969

Independence or Residuals and Outlier

The value of Durbin-Watson is 1.891. The independence of residuals assumption does not violate because the value is very close to 2. Therefore, the outliers do not influence the regression model.

Regression Results

The value of R Square 0.735 indicates the dependent variable, i.e., employee engagement is explained by variation in independent variables, i.e., digital usefulness, security and privacy, digital efficacy, and technology support, by 73.5 percent (Table 4). It means that the employee engagement is explained by variation in other variables by 26.5 percent.

The sum of the square of regression and residual is 101.903 and 86.839 (table 5), respectively, and the mean square of regression and residual is 25.476 and 0.230, respectively. The f-value of the model is 110.893 with a p-value of 0.000 (< 0.05). This indicates that the model is fitted at a 5 percent level of significance.

Table 4: Regression Results

	Unstandardised Coefficients		Standardised Coefficients		
	B	Std. Error	Beta	t	Sig.
	.476	.109		4.383	.000
Constant	.476	.109		4.383	.000
Digital Usefulness (TD)	.143	.039	.159	3.664	.000
Security and Privacy (SP)	.158	.042	.170	3.772	.000
Digital Efficacy (DE)	.338	.043	.389	7.867	.000
Technology Support (TS)	.154	.045	.167	3.407	.001
	Sum of Squares	df	Mean Square	F	Sig.
Regression	101.903	4	25.476	110.893	0.000
Residual	86.839	378	.230		
Total	188.742	382			

R	R Square	Adjusted R Square	Std. Error of the Estimate		
0.735	0.54	0.535	0.479		

Dependent Variable: Employee Engagement
Predictors: (Constant), Digital Usefulness, Security and Privacy, Digital Efficacy, Technology Support

The t value and p-value of digital usefulness are 4.383 and 0.000 (0.000 < 0.05), respectively means digital usefulness is significant at a 5 percent level of significance. So, the alternative hypothesis is accepted, i.e., digital usefulness significantly impacts employee engagement.

Similarly, the t-value of security and privacy is 3.664, and the p-value is 0.000 (0.000 > 0.05) indicates the security and privacy are significant at a 5 percent level of significance. Therefore, the alternative hypothesis is accepted, i.e., security and privacy significantly impact employee engagement. The beta coefficient and t value of digital efficacy are 0.338 and 7.867, respectively. The p-value of digital efficacy is 0.000 (0.000 < 0.05), which indicates that the digital efficacy is significant at a 5 percent level of significance. Digital efficacy has a significant impact on employee engagement because the alternative hypothesis is accepted. Likewise, the t value and p-value of technology support are 3.407 and 0.000 (0.000 < 0.05), respectively means technology support is significant at a 5 percent level of significance. So, the alternative hypothesis is accepted, i.e., technical support significantly impacts employee engagement.

From the value of the coefficient, it is clear that digital efficacy has the highest positive significance on employee engagement of Nepalese banks, followed by security and privacy, technology support, and digital usefulness.

Conclusion and Implications

Digitalization of banking services is beneficial to the employees and customers of banks, which helps to provide faster, easier, cheaper, and more reliable services to customers. Digitalization positively affects employee engagement in service delivery which helps in performing their tasks efficiently. Digitalization has paved the way for the customers to self-involve in the service delivery process enabling the employees to cater more to specific and essential tasks, helping to deliver a quality service.

It is concluded that digital usefulness, security, and privacy, digital efficacy, and technical support have a significant impact on employee engagement in the Nepalese banking sector. This indicates that the employees of Nepalese banks are performing their work efficiently with more engagement using digitalized systems.

The study's findings are implacable for the human resource managers of Nepalese banks in formulating the policies and programs related to the employee engagement and digitalization system.

The study was mainly confined to the perception of employees on digitalization and employee engagement of Nepalese banks. The sample size was based on gender domain. For collecting the data, a questionnaire survey was conducted in the Kathmandu valley picking the respondents by convenience. Therefore, the study's findings cannot be generalized to all the country's financial sectors. Similarly, the study covered only four factors like digital usefulness, security, privacy, digital efficacy, and technology support. It is suggested that further studies may cover other variables of digitalization to study employee engagement and customer satisfaction on digitalization in the Nepalese banking sector.

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