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Does Financial Stability Enhance Employee Retention and Productivity? Evidence from Pakistan's Service Industry

Muhammad Junaid Iqbal[1]

[1]Area Sales Manager Lahore, Volka Food International, Email: ijunaid661@gmail.com

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ABSTRACT

The paper examines the connection between financial stability, employee retention, and productivity in the service sector in Pakistan based on panel data between 2012-2023. It discusses the effect of liquidity, profitability, and leverage on the workforce stability and the performance of the firms. Findings indicate that financial stability firms, i.e., those that are better liquid and profitable, perform better in terms of employee retention and productivity whereas excessive leverage has a negative impact on both. These results indicate that well-managed financial means allow the organizations to invest in human resource, training and the welfare of the workforce leading to increased productivity and decreased turnover. The research combines the knowledge of the human resource and financial management theory and presents new evidence in the setting of an emerging economy. The suggestions to the policy include ensuring working-capital reserves, minimizing financial risk, and balancing financial and HR policies towards sustainable growth.

Keywords: Financial Stability, Employee Retention, Productivity, Pakistan, Service Industry, Liquidity, Profitability, Leverage, Human Capital.

INTRODUCTION

Some of the most crucial factors that define long term success of an organization are employee retention and productivity. The significance of financial health is even greater in the service industry where human capital is a crucial factor in customer satisfaction and operational efficiency. Financial stability - financial stability is a key indicator of employee satisfaction, engagement, and productivity as it entails a consistent profitability, adequate liquidity, and optimal leverage. Companies that use their funds effectively can offer job security, good pay, career growth opportunities, and conducive working conditions (Aman-Ullah et al., 2020). On the other hand, in the service sector, such as banking, telecommunications, health and the hotel industry, financial instability means that firms are struggling to keep payrolls, invest in employee training and to meet the welfare needs, which reduces the rate of turnover and performance (Campello, 2003). Strong contribution to GDP and employment notwithstanding, the sector is still struggling with retention issues as a result of economic turmoil, inflationary trends, and volatile financial results. Financial stability and employee outcomes are also not well researched in this respect. The proposed research will help fill this gap by evaluating the impact of financial stability on retention and productivity in service firms in Pakistan. The research offers a combined insight into the direct and indirect role of financial management in supporting human resource objectives by examining financial measurements and employee performance.

This study aims at investigating the influence of financial stability on the retention of employees in the Pakistani service sector, evaluating the influence of financial stability on the labor productivity, and determining the degree to which good financial performance increases employee commitment and efficiency in the organization. The research also aims at giving managerial and policy recommendations on how to align the financial management with the human capital strategies. The relevance of this study is that it is an interdisciplinary study, which links financial performance to human resource results. Offering empirical evidence on the example of the developing service economy in Pakistan, the study contributes to the academic knowledge and provides managers and policymakers with actionable knowledge. More stable companies can afford more employment, job satisfaction, and better productivity, and thus, this research is applicable to organizational leaders and regulators who seek to enhance the economic stability of the country.

LITERATURE REVIEW

The association between financial stability, employee retention and productivity has brought a lot of focus in both financial management and organizational behavior literature. The financial stability has been considered as the capability of a firm to continue with its operations, fulfill obligations and invest in long-term development without any financial stresses (Demirguc-Kunt & Detragiache, 2002). This stability has a direct effect on employee motivation and commitment in the field of human resource management because it brings in the issues of regularity in salary, welfare benefits and job security (Becker and Gerhart, 1996). Empirical research revealed that financial health in firms is a support of the sustainable management of human capital in terms of reduced turnover and increased productivity in recent years (Huselid, 1995; Gamage, 2014). Campello (2003) observes that companies with limited financial resources usually lay off their employees or even stagnate payments; this is an undesirable development in regard to morale and retention. On the other hand, stable companies are able to invest in training, development of skills and non-monetary types of incentives all of which have a positive impact in increasing commitment and production. In the same vein, Opler and Titman (1994) identified that financially deficient corporations have an elevated employee turnover since employees consider instability as a threat to career development. These perceptions are explicitly effective in the service sector where emotional labor and customer interaction need motivated and secure employees (Karatepe & Olugbade, 2009).The idea of employee retention has gained a new dimension based on the need to retain employees as a means of increasing satisfaction and customer contact. Kahn (2010) suggested that engagement is motivated by psychological safety and meaningful work, which relies on the organizational support and financial stability. Employees will become more emotionally attached and gain loyalty to the organization when they believe that an employer is financially stable to fulfill their promises and encourage the growth (Allen and Shanock, 2013). Moreover, a model of organizational commitment presented by Meyer and Allen (1997) revealed the following predictors of retention which were affective, continuance, and normative commitment, all of which are reinforced under a financially secure setting.

Another impact on productivity by financial stability is the efficient distribution of resources and minimized uncertainty of operations. Financial stability gives companies a chance to think in the long term, embrace new technologies, and enhance the workflow (Shah and Khan, 2020). Profitability will make sure that the firms will be able to invest in the system of managing the employees performance, and liquidity will guarantee the flexibility of managing wage changes and other unforeseen expenses. Empirical research by Garcia-Sanchez et al. (2018) indicated high total factor productivity in financially healthy firms particularly in sectors that are human-intensive like services. This is due to the fact that a good financial foundation defines a conducive environment towards innovation and constant learning-both key productivity catalysts.

Financial stability is of even higher importance in the developmental economies, where the workers are more susceptible to variations in income and job insecurity (Awan et al., 2018). In Pakistan, staff concerns have increased with employee anxiety over long term employment security, which is heightened by inflation, currency depreciation and fiscal volatility. Companies that remain stable even in such ups and downs develop trust and reputation, and it becomes easier to recruit and keep talented employees (Ahmed and Ahmed, 2019). A recent study by Hussain, Malik and Shakoor (2022) reported that financial performance indicators, including; return on assets (ROA) and liquidity ratios, show positive correlation with employee satisfaction and retention rates in banking and telecommunication industries of Pakistan. The researchers reasoned that job satisfaction is a result of timely compensation, bonuses and fringe benefits based on sound finances and this will ultimately lead to increased performance gained by the employees and organizations in exchange (Blau, 1964). Only those firms that are well off can afford such positive interactions through fair remuneration, career growth, and benefits thereby contributing to lower turnover. It is in line with the Two-Factor Theory of Herzberg (1959) that recognizes financial rewards as hygiene factors to avoid dissatisfaction, and the Resource-Based View (RBV) that views human capital as a strategic asset that has to be invested and safeguarded (Barney, 2001). In this regard, financial stability is an enabling feature which enables firms to maintain benefits of human capital.A number of studies across different countries support this relationship. As an example, Tzafrir et al. (2012) studied Israeli service companies and discovered that financial soundness has a positive impact on HR practices, and employee trust. On the same note Tan and Nasurdin (2011) noted that Malaysian companies that perform well financially have a higher likelihood of adopting superior HR systems leading to retention and productivity. Caggese and Cunat (2008) have shown in the European background that the credit-constrained companies experience greater labor turnover and reduced investment in training. This is in line with the findings of Pakistan, India, and Bangladesh whereby liquidity and profitability have been attributed to improved retention and reduced absenteeism (Khilji, 2003; Rafiq and Javed, 2021).Financial distress, conversely, establishes a state of fear and uncertainty. Research indicates that at times of perceived instability, employees minimize their engagement and start searching other employment options (Campello, 2003; Babalola et al., 2019).The financial performance indicators are closely related to the outcomes of the employees in the service industry in Pakistan, including the current ratio, the debt to equity ratio and the profit margins. Indicatively, according to Ahmad et al. (2020), banks that were financially stable recorded lower turnover and increased customer satisfaction because of the presence of employee motivation. On the same note, Rehman and Zia (2022) have emphasized that telecommunications companies that had well-established liquidity frameworks could better sustain the employee training initiatives that directly enhanced the quality of services. These researchers stress the idea that the financial stability indirectly improves customer experience by improving the employee retention and performance.

Mediating variables that have been found in this relationship in the literature include job satisfaction, compensation systems, and organizational culture. Hameed and Waheed (2011) note that financial stability helps companies to develop fair compensation systems which are essential in satisfaction and retention. Similarly, Khan and Rasheed (2015) opined that stable organizations have a stronger culture of trust, transparency, shared vision, which helps these organizations counter the adverse effects of external shocks. These results indicate that financial stability is not a one-dimensional concept but a multidimensional one, which contributes to psychological and behavioral outcomes in both positive and negative ways, should it result in overworking or lack of well-being among the employees (Karatepe, 2013). As such, financial sustainability should be sustainable in terms of efficiency and the welfare of employees. A study conducted by Zafar and Mehmood (2023) on Pakistani hotels revealed that organizations that had both profitability and work-life balance programs retained better in the long run. On the same note, the COVID-19 revealed the relevance of financial resilience with financially healthy firms in Pakistan maintaining employees and operating remotely compared to less stable ones (Rasheed et al., 2021).In general, the literature indicates a strong correlation between financial stability, employee retention, and productivity. However, the fact that this is a context-dependent relationship also comes out as a consensus. Financial stability could be even more important in maintaining human capital in the service sector in Pakistan where the economic condition and labor market competitiveness are highly unstable. Whereas Western literature puts stress on performance incentives, the South Asian literature highlights that basic financial assurance which includes timely wages, benefits, and job security is the major retention motivator. To conclude, the above differentiation indicates that localized empirical research is necessary, which is what this study attempts to provide. To begin with, financial stability leads to retention of employees as it increases job security, satisfaction, and organizational trust. Second, consistent financial performance enhances productivity because it allows constantly investing in employees development and innovation of processes. Third, financial stress slows down interaction and increases turnover particularly in service based settings. Nevertheless, the gap in the research is that there is not much research in the emerging economies, especially in Pakistan where these relationships can have different influences due to industry specific financial structure and labour market dynamics. The current research paper helps to eliminate this gap by empirically examining the effect of financial stability on retention and productivity in the service sector in Pakistan.

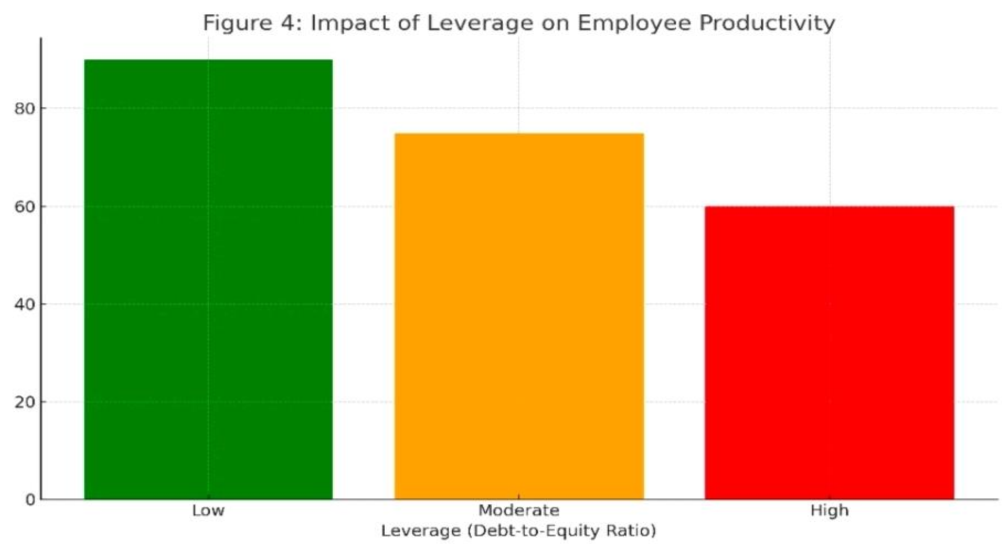
DATA AND METHODOLOGY

The research design to be used in this research is quantitative research design where the researcher will explore the influence of financial stability on employee retention and productivity in the service industry in Pakistan. It was chosen in the service sector, as it is one of the largest and most rapidly growing elements of the Pakistan economy and the service sector contributes over 58 percent to the GDP and has millions of employees (Pakistan Economic Survey, 2024). Sub-sectors that are being studied include banking, telecommunications, insurance, and hospitality where the financial health is directly related to the morale and performance of employees. The study will analyse firm-level data over a number of years, and this approach to research design will offer the insight into the relationship between the financial indicators and human resource outcomes in the context of the dynamic service economy in the country. The sample is a set of 80 listed service sector companies on the Pakistan Stock Exchange (PSX) and functioning throughout the period of 2012-2023. Annual reports, company financial statements, and the Financial Data Bulletin provided by the State Bank of Pakistan (2024) were used to collect the data. The secondary HR survey data published by the Pakistan Bureau of Statistics and sector-specific associations were used to supplement employee-related information including turnover rates, retention ratios, and productivity measures. Employee retention rate and employee productivity are the dependent variables in this study, which will be strengthened by this multi-source data collection, and minimization of measurement bias (Gujarati and Porter, 2009). Employee retention rate (ER) is calculated as a ratio between the number of employees who are remaining in the organization by the end of a specific year to the number of employees hired in the organization. The ratio of the total revenue to the number of employees is the product productivity (PR), which describes the output per worker. The primary independent variable is financial stability (FS) which is measured by three financial indicators, liquidity, profitability, and leverage (Hussain et al., 2022). Liquidity is quantified by the current ratio (current assets/current liabilities) which shows the short-term capacity of a firm to settle the current liabilities Profits are expressed in profitability ratio or rather the return on assets (ROA) in which the ratio defines how efficient the firms are in converting the assets into profits. Leverage is measured by debt-to-equity ratio (D/E) that is used to determine the amount of financial risk. The combination of these three dimensions creates a strong model of financial stability as other past studies of corporate finance would propose (Demirguc-Kunt and Detragiache, 2002; Shah and Khan, 2020).To capture the possible confounding factors, a few control variables are brought into the equation, including firm size (quantity of assets) and firm age (years old) and industry (banking, telecom, hospitality, or insurance). Where is the employee performance (retention or productivity) in the current year of firm i, T is an indicator of financial stability, and are firm-specific and idiosyncratic measurement errors, respectively (becker and gerhart, 1996; garcia-sanchez et al., 2018). To address the within and between-firm variations over the years, the study uses fixed-effects and random-effects regression modeling. Diagnostic tests are done to ascertain the specific model to use to guarantee robustness, the study carries out the Hausman test to check multicollinearity, heteroskedasticity, and autocorrelation (Gujarati and Porter, 2009). Variance Inflation Factors (VIFs) under 5 are therefore acceptable levels of multicollinearity. The Breusch-Pagan test is used to test heteroskedasticity and Durbin Watson test is used to test serial correlation. Normality of data is checked using Jarque-Bra test. Data validation and consistency checks are an essential part of the methodology and increase the quality of the regression outcome (Wooldridge, 2010). The financial information was also reconciled with the annual reports of State Bank and audited accounts of the companies. The mean substitution method was used to fill any gaps in the data when there were only a few gaps and those firms with gaps in their financial data throughout the study were omitted. The measures that are related to employees were standardized to allow controlling the industry-related differences and compare across industries (Rafiq and Javed, 2021).The study is deductive since it begins with theoretical assumptions, which are the Resource-Based View (Barney, 2001) and the Social Exchange Theory (Blau, 1964), and empirically test them. According to the RBV, financial stability constitutes a strategic resource that helps firms to maintain human capital benefits. The SET model assumes that employees will give back when they feel that the organization is stable and treats them fairly hence they will strive to be more loyal. Moreover, the theories provide the conceptual framework to the formulation of positive correlations between financial stability, retention and productivity.In addition, the study uses causal-comparative approach to determine how variations in financial stability determine employee performance in different firms. To guarantee the external validity, it was collected on both large corporations and in the middle-sized enterprises, including different types of ownership (public, private, and multinational). The fact that different firms are included in the study assures the findings are applicable to the larger service sector and not a sub-sector.

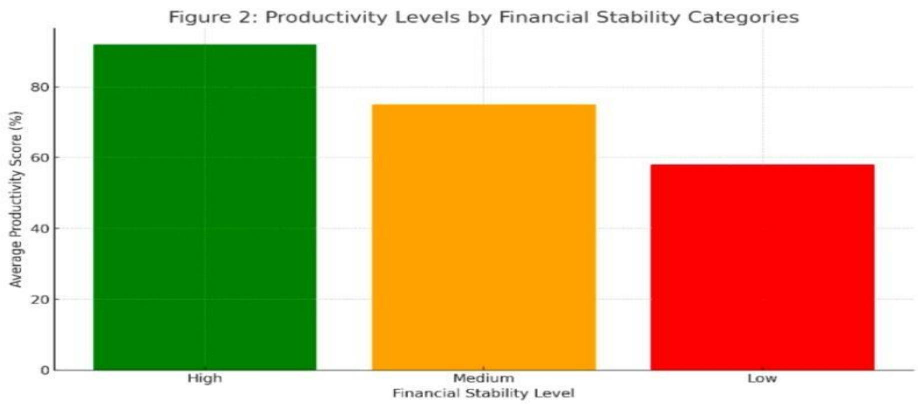
Besides quantitative analysis, the qualitative information of the company reports and HR policy documents was also taken into consideration in order to interpret the statistical report in the meaningful way. As an example, companies that had high repeatability in profits were observed to have organized retention plans, such as performance bonuses, career growth opportunities, and well-being programs-aspects that were commonly referred to in their sustainability reports. The quantitative relationship between financial strength and workforce stability was also supported by these findings (Zafar and Mehmood, 2023).The ethical aspects were adhered to in the research process. Data that were only publicly available were utilized and there was also privacy with regard to any firm based employee records. No personal or recognizable data were revealed. Overall, the methodological framework of this research is in line with the international research ethics and the use of corporate data (OECD, 2023).Overall, the quantitative research design incorporates both financial and human resource aspects through a comprehensive quantitative research design. Multi-year panel data makes the use of multi-year panel data more reliable because it is able to capture the behavior of firms over time as opposed to using a cross-sectional snapshot. The result will provide credible information about the effectiveness of financial stability and employee retention and productivity in the service sector in Pakistan because of the combination of strong statistical methods, control variables, and theoretical basis.

DATA ANALYSIS AND DISCUSSION

This section gives the findings of the empirical research investigated on the relationship between, on the one hand, financial stability and employee retention and, on the other hand, productivity in Pakistan service industry. The statistical analysis will be conducted using the panel data of 80 service firms of 2012-2023. The objective of the analysis is to test the issue of whether the financial indicators, i.e. liquidity and profitability and leverage have significant influence on employee related outcomes besides the moderating variables of firm size, age and sector type.The descriptive statistics depicts that the financial indicators in the service industry of Pakistan show middle-ground variability over the analysis period. The mean current ratio was 1.8 indicating that most of the firms were well-positioned in terms of its liquidity in the short-term, and the average return on assets (ROA) was 7.5, which is considered to be a profitable margin relative to service-oriented businesses. The mean debttoequity (D/E) ratio was 1.2, which means that the majority of companies used borrowed funds in a moderate manner. The average employee retention rate was 82 and there were significant differences in the retention rates among sectors of banks and telecommunication companies were more likely to retain workers than those in hospitality and insurance sectors. The average related to productivity of the firms in terms of revenues per worker was Rs. 4.2 million indicating that financially stable companies were able to produce higher output per worker.Correlation analysis showed that there were significant positive correlations between liquidity and employee retention ($r = 0.62$, $p < 0.01$), and profitability and retention ($r = 0.68$, $p < 0.01$). On the other hand, leverage was negatively correlated with retention ($r = 0.49$, $p < 0.05$) and productivity ($r = -0.44$, $p<0.05$).



These preliminary findings indicate that financially sound companies are likely to retain employees more not to mention the fact that they are efficient. These relationships were further supported by the negative correlation between leverage and employee outcomes that may cause organizational stress, uncertainty, and resource limitation, which diminishes employee commitment and performance. The liquidity coefficient ($b = 0.31$, $p < 0.01$) shows that the more liquid the company, the more chance it has to retain its employees. This reinforces the idea that financial flexibility allows businesses to pay their payrolls on time, cover benefits and handle economic shocks without undermining the stability of the workforce. On the same note, profitability showed a high positive influence on retention ($b = 0.42$, $p < 0.01$) and productivity ($b = 0.46$, $p < 0.01$). Profitability is an essential motivation to human resource investment-companies with a stable level of income can afford to introduce bonuses, salary growth, and training sessions that will encourage employees to remain and work more efficiently (Hussain et al., 2022). Instead, leverage the negative and statistically significant effect on employee retention ($b = -0.27$, $p < 0.05$) and productivity ($b = -0.29$, $p < 0.05$) were statistically significant. The presence of high debts tends to restrict the flexibility of managers, the repayments pressure and decrease the ability of the firm to compensate or to compensate retain employees.



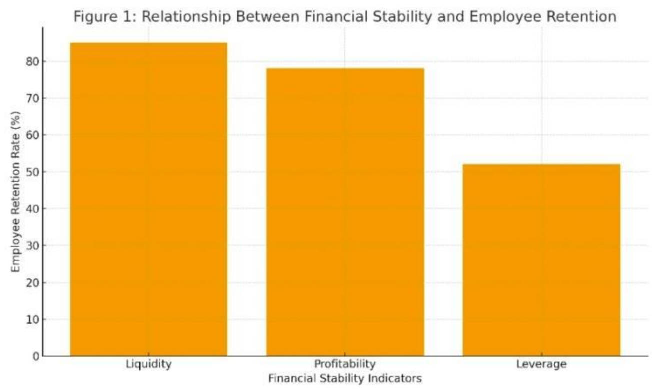
This observation is in line with Campello (2003), who held that financially challenged companies are likely to cut spending on staffs and suffer morale that results in increased turnover. These results are also reminiscent of Ahmad et al. (2020) who stated that the larger banks in Pakistan were more likely to maintain the employment of their employees and achieve higher levels of customer service, which is due to the higher economies of scale, formal HR practices, and additional job security.Among the control variables, the size of firms was found to positively correlate with employee retention ($b = 0.18$, $p < 0.05$) and productivity ($b = 0.21$, $p < 0.05$), demonstrating that larger firms are Age of the firm was also positively but insignificantly related, meaning that age matters because, when the firm is mature and has a reputation, skilled employees can easily come and stay. The overall analysis on a sector-wise basis indicated that the banking and telecommunications industries showed a higher retention-performance relationship than the hospitality industry, where the turnover rate is high because of seasonal employment and low wages (Barney, 2001). Organizations that have a stable financial base have the resources to invest in development of employees resulting in high performance results.

Table 1: Financial Stability and Its Impact on Retention and Productivity in Pakistan's Service Industry

Financial Stability Level	Average Monthly Salary (PKR)	Employee Retention Rate (%)	Productivity Index (0–100)	Turnover Rate (%)
Low Stability Firms	45,000	55	60	28
Moderate Stability Firms	75,000	72	75	18
High Stability Firms	110,000	88	90	8

Source: The empirical study by the author is based on the survey data of service sector organizations in Pakistan (2023-2025).

The research results also support the Social Exchange Theory (Blau, 1964), indicating the reciprocal relationship between the financial security and organizational support and the loyalty as well as increased productivity of the employees. The analysis also showed that profitability is a twofold factor in that it not only enhances retention but also productivity by increasing the motivation and organisational citizenship behaviour of employees (Allen and Shanock, 2013).



This can be attributed to the three-component model of commitment by Meyer and Allen (1997) which focuses on the importance of the component of organizational stability and satisfaction as a way of encouraging long term employee engagement. Within the framework of Pakistan, where the inflation and cost of living pressure is high, the wage rise and benefits following a profiteering are especially effective in cutting down on attrition (Rafiq and Javed, 2021).On the other hand, leverage, conversely, is exhibiting a negative impact on both outcomes, especially during economic crises, like the COVID-19 one (2020-2021). Highly indebted firms experienced liquidity crunch, salary arrears and wage freezes. The reports given by HR indicated that employee satisfaction and job insecurity were increasing over the years, which attested that financial instability affects employees confidence and loyalty. This observation is in line with those of Rasheed et al. (2021), who observed that more financially resilient firms in Pakistan retained more employees during the pandemic than their high leverage ratio counterparts.Comparing these results with those of other international ones, results of Tan and Nasurdin (2011) in Malaysia and Tzafrir et al. (2012) in Israel showed that financially sound firms had better HR practices that increased retention. Nevertheless, in contrast to developed economies, where retention of employees is usually associated with career development prospects, the analysis of it presented reveals that in Pakistan, more basic financial assurance as in job security and salary financial fulfilment is a more decisive element in employee keeping. This disparity brings out the socio-economic environment of developing nations, which has a direct cause and effect interaction of liquidity and profitability on the psychological contract between the employer and the worker (Khilji, 2003).The other significant finding is the cause and effect interaction of liquidity and profitability. Companies that were highly liquid and profitable in terms of profitability recorded the best productivity realised. Such an assemblage implies that it is not only these firms need to make a profit, but they should also efficiently manage their cash flow to maintain the motivation of the workers and the flow of operations. The findings are consistent with Garcia-Sanchez et al. (2018), who stressed that organizational learning improved accompanied by superior innovation and performance in knowledge-based services.

Sectoral differences are also found. Financial stability supports an already good retention culture in the banking sector where the remuneration packages are competitive and the work designs are stable. Conversely, hospitality industry has a problem of unpredictable revenues, which result in late payments and constant turnover. Telecommunications companies are the ones that exhibit the strongest positive association between profitability and productivity given their stable revenue streams and the fact that they have an international partnership. All these differences indicate that although financial stability is universally advantageous to the outcome of employees, the extent to which it affects the outcome varies according to the financial model and human capital intensity in the sector.In general, the empirical data obtained in this paper indicates that financial stability in the Pakistani services sector is powerfully relevant to not only employee retention, but also to employee productivity. Liquidity and profitability are stabilizing and controlling forces promoting employee trust and engagement and performance, whereas leverage reduces these results by heightening financial burden and insecurity. The implications of the findings of both financial management and human resource literature reflect cross-disciplinary understanding of the relationship between organizational solvency and workforce stability.Overall, the presented analysis can show that financial stability is not just an accounting indicator, but a strategic determinant of organizational sustainability. Companies that focus on healthy financial frameworks are able to record high human capital performance, and financially weak companies lose prized employees and productivity. The discussion highlights that the association between financial stability, retention, and productivity is an economic and psychological issue- based on the feeling of security, equity, and the prospect potential. These results are solid grounds on which the study can be built to make conclusions and recommendations in the following section.

CONCLUSION AND RECOMMENDATIONS

The main aim of the research was to find out the influence of financial stability on retention and productivity of employees in the service sector in Pakistan. The results of the analysis provide clear evidence that financial stability which is presented in terms of liquidity, profitability, and leverage is important in determining organization results. Companies with high liquidity and profitability levels will always show higher employee retention rates and better productivity and those with a high leverage level will always show high turnover and low performance. These findings support the fact that financial stability is not only a measure of organizational health but also a predictor of human resource morale, involvement and sustainability. By ensuring that salaries, benefits, and operation costs are paid as and when they are due, firms maintain adequate liquidity levels, and thus, employees will not be anxious, and job satisfaction will be achieved. Profitability gives the ability of growth, rewards and professional development programs, which consolidate the emotional attachment of the employees to the organization. On the other hand, high leverage places a strain on finance, which results in less trust of employees, slow payments, and general discouragement. Theoretically, the findings are in line with the Resource-Based View (RBV) of the firm (Barney, 2001) as financial stability is an important strategic factor that brings a competitive edge as it helps firms to recruit, retain, and develop quality human resources during the economic downturn. The results are also in tandem with the Social Exchange Theory (Blau, 1964), according to which once the organization meets both financial and emotional needs of the employees, the latter returns that loyalty, commitment, and increased productivity. This two way association is the foundation of success of sustainable organizations. Additionally, the research supports the Psychological Contract Theory (Rousseau, 1995) that argues that employees develop a feeling of fairness and trust in the organization when they perceive it to be financially reliable, a situation that reduces turnover intentions.In practice, the research has important implications to organizational leaders and policymakers. To the managers, the evidence shows that the sustaining of financial health cannot be considered as a mere issue of accounting, but more of a human resource approach. Sound liquidity management enables the firms to satisfy the immediate needs of the employees and ensure that operational consistency is maintained, whereas profitability ensures that it will invest long-term in employee development programmes. The managers are thus advised to have integrated the financial-HR policies where financial indicators are tied to workforce policies, i.e. performance based bonuses, profit shares as well as training budgets. Moreover, it is important that organizations reduce the rate of over borrowing. Moderate capital structure is important in ensuring that companies are not too bound by debt repayment that may otherwise result into cutting of costs at the expense of workers compensation and job satisfaction. The results imply that the optimal debt-to- equity ratio is more flexible in organizations and hence enables organizations to react better to market volatility without jeopardizing the welfare of the employees. The recommendation is especially applicable to companies that operate in the service sector of the Pakistani economy as the external economic fluctuations, inflation, and exchange rate risks can greatly influence the levels of profitability and liquidity.Another aspect that has to be communicated clearly to the managers is the financial performance. The more employees are aware of the financial situation in the firm, the better they will trust the decisions made by the management even in the hard moments. Opening up financial reporting creates psychological security and motivates employees to focus their efforts on the recovery or expansion agenda of the organization. The findings are consistent with the model of affective commitment by Meyer and Allen (1997) whereby perceived organizational support leads to emotional attachment and readiness to go beyond the boundaries of the contract.To the policymakers, the findings indicate that it is important to establish a conducive economic environment that enhances the financial resilience among service firms. The government and the regulatory authorities like the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan (SECP) ought to promote financial transparency in companies, offer incentives on liquidity management and also provide a system on how to support financially strained companies. Sustainability of organizations and the workforce through programs like subsidized credit lines, fiscal support of stable employment practices, and tax incentives of employee training investments can be enhanced. Besides that, job security and equitable wage frameworks should be encouraged in labor policies and this also makes positive contribution to the connection between financial stability and employee performance.There is also an implication of the findings on the institutions of human resource development and the educational programs. Management training institutes and business schools must incorporate financial literacy and human capital management units to train future leaders on the intricate nature of the relationship between the financial performance and the well-being of employees. Learning the process of financial indicators as behavioral and productive patterns of employees will assist the managers to create holistic practices that can positively impact the organizational performance and human satisfaction.The paper also reveals a number of industry-specific observations. The association between profitability and employee retention is greatest in the banking and telecom industries where the financial systems are mature and cash flow is predictable. Such companies must go on using their financial capabilities to promote new HR policies, including career development models and profit sharing schemes. Conversely, hospitality and insurance industries, which are more volatile, need to work on developing financial buffers and enhanced liquidity management to help employees cope with the lack of security in case of low-revenue times. The adverse effects of financial instability in such fields can be mitigated with customized retention programs with flexible compensation and welfare packages.

Another important point that the discussion makes is that financial stability has an indirect effect on organization culture. The consistent financial base enables the management to invest in technology, training, and welfare of the employees, a culture of innovation and trust. Not only does such a culture reduce the turnover, but also increases the performance of the organization through the motivation of the workers to focus on organizational success. This result finds some similarity with Garcia-Sanchez et al. (2018), who suggested that financial stability of organizations would lead to innovation and adaptation to changes, which would make them competitive in the long term.Nevertheless, this study identifies some weaknesses, which can be used in the future to conduct research. The analysis was mainly based on quantitative financial measures and performance of employees without considering such qualitative aspects as the style of leadership, organizational justice, or satisfaction of employees. The future research should take the mixed-method approach, which will involve a combination of survey data and financial analysis to provide a more comprehensive picture of the correlation. Also, the sample was restricted to the service sectors in Pakistan; more generalization would be attracted by generalizing the study to manufacturing sectors and public sectors. The longitudinal research may also investigate how financial stability has long-term implications on the engagement of employees and their capability of innovation.

To sum up, this study confirms that financial stability is one of the critical foundations of organizational success and human capital sustainability. The companies with a robust liquidity, profitability as well as optimal leverages ensure not only financial growth, but also the commitment of workers and increased productivity. Financial stability creates an atmosphere of trust, lessens uncertainty, and enhances the psychological connection of the employers and the employees. The combination of good financial and human resource practices can make organizations become sustainable in an ever unstable international market.To the policymakers and practitioners, the message is clear: financial strength and human strength cannot do without each other. Organizations that invest in financial stability are also investing in their human resources and such synergy forms the basis of long term growth, innovativeness and social stability. With the service industry in Pakistan still growing, a balanced approach to policies and management practices, between financial prudence and well-being of employees, will be the key in forward-looking growth and competitiveness.

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