DOI: https://doi.org

CapitalMark Journal of Marketing & Finance

Journal homepage: https://rjsaonline.org/index.php/CapitalMark

Financial Literacy of Managers and Its Effect on Strategic HR Decisions and Firm Performance in Pakistan's Corporate Sector

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ARTICLE INFO

Received:
February 01, 2025
Revised:
February 26, 2025
Accepted:
March 05, 2025
Available Online:
March 15, 2025

Keywords: Financial Literacy; Strategic Hr decision making; Firm performance; human capital; corporate sector Pakistan; managerial competencies; organizational efficiency; talent management.

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ABSTRACT

Financial literacy has been turning out to be an important managerial skill that impacts decision-making, organizational development, and competitiveness. Managers in the corporate world of Pakistan are likely to face strategic human resource (HR) decisions to be made during the recruitment process, training investment, compensation planning, and talent management. Nevertheless, inadequate financial literacy can limit their capability to match the HR strategies with financial objectives of the organization. This paper examines the association of managerial financial literacy, strategic HR decision-making, and performance of a firm within the corporate environment in Pakistan. Based on the available literature, organizational reports, and empirical research, the research establishes the role of financial knowledge of managers in HR planning processes, the allocation of resources, and the performance reviews. The evidence indicates that managers who are more financially literate make more evidence-based HR decisions, which lead to a high level of productivity, resource use efficiency, and positive financial performance of organizations. The analysis reveals the necessity of organised financial trainings and inclusion of financial skills in HR leadership training schemes throughout the corporate industry in Pakistan.

Introduction

In the modern world of stiff competition in the industry, organizations worldwide are realizing that human capital is among the most important drivers of long-term organizational success. The ability of any organization to attract, develop and retain talented employees highly relies on how good the decisions made by the managers can be in respect to human resource planning and execution. This recognition has gradually increased in the corporate sphere of Pakistan, especially when organizations encounter complicated organizational issues that include dynamic market, technological change, increasing employee mobility and workforce demands. Managerial competence is the focus in such a situation so that strategic decisions are made in line with the long-term organizational objectives. Financial literacy is one of the most significant competencies in the determination of strategic HR decisions and overall performance of the firm among the various competencies that are sought in the field of effective leadership (Lusardi and Mitchell, 2014).

Financial literacy can be described as the knowledge of financial ideas by a manager, the interpretation and assessment of financial data, the evaluation of organizational expenses, prediction of resource needs and making decisions that are sensitive to financial effectiveness with the process of human development (Huston, 2010). With the corporate world in Pakistan, there are numerous managers who take up leadership positions because of gradual promotion or technical skills in their managers and in most cases their financial decision-making skills have a visible gap. The HR strategic decisions like salary budgeting, expansion, allocation of employee training, employee performance evaluation models, and compensation design are not based on financial analysis but rather on intuition or precedence when made by managers who are not financially literate. This may result in overly high cost reduction compromising the development of human capital or overspending with no quantifiable outcomes. Consequently, the level of financial literacy that the managers possess will have a direct effect on the HR strategies developed and put into operation at organizational levels (Bokhari and Iqbal, 2021).

The strategic HR decisions are financial in nature since nearly all decisions concerning human resources involve the distribution of organizational funds. Recruitment decisions are those decisions that involve projecting salary packages, training costs in the operation of an organization; employee development programs also demand that managers make certain projections of the long-term returns of skills investment; compensation design influences cost structure and employee retention rates; performance evaluation systems also dictate how organizational productivity is gauged as an employee. Provided that the managers are financially literate, they may take such decisions in an evidence-based manner because they will be able to evaluate the cost-benefit implications, be able to align HR goals with the financial sustainability of the organization. On the other hand, financially illiterate managers may not be capable of justifying HR investments, bargaining budgets with the top management, and assessing the financial effectiveness of HR strategies (Abubakar and Mahmood, 2020).

In the case of Pakistan, the corporate sector is made up of various industries and they include banking, telecommunication, pharmaceuticals, manufacturing, real estate, and information technology. Although the operational setting of various corporations is diverse, numerous companies are confronted with such similar issues as the lack of inputs in training employees, disproportionate compensation plans, loss of skilled staff members, and ineffective performance appraisal systems (SMEDA, 2022). These issues are not mere failures on the part of the administration; they are systemic problems on the part of strategic decision-making. The absence of financial awareness among the managerial employees in charge of planning of human capital is one of the reasons why the HR departments in Pakistan tend to be operational but not strategic. HR is often regarded as a cost center, and not a value generator, so organizations do not want to invest in employee development, or the systematized system of compensation (Khilji, 2018). In the context of the low-budget environment and the focus on financial efficiency, financially illiterate managers are less prone to promoting long-term human development policies, even in the situation when they may contribute to the firm performance greatly.

The performance of firms as such is multidimensional and generally incorporates financial performance, efficiency levels, productivity, innovation ability, employee satisfaction, and market competitiveness. The human resource systems impact the performance of the firms in that, the employee behavior determines how well the corporate strategies are converted in day-to-day operations (Barney, 1991). Managers with financial literacy will be in a better position to create HR policies that will facilitate performance accountability, motivation of employees in line with organizational goals and measurement of productivity outcomes in measurable units. As an example, by knowing cost forecasting, the managers are able to measure the impact of the changes in the compensation structures on employee motivation and productivity versus the financial capacity of the organization. On the same note, financial literacy can help managers when considering training investments that are likely to yield returns in performance improvement as opposed to tradition and intuition.

Financial literacy and HR strategic decision-making is of the utmost importance in such emerging economies as Pakistan where organizations have to work in conditions of unstable economic situation, inflation and labor markets instability. The decisions in resource allocation processes are even more vital in these environments and the resources may be mismanaged by firms and the firms may not be competitive. Financially literate managers are able to access economic signals and make changes to workforce approaches and maintain organizational performance within financial constraints (Yasmeen and Khalid, 2021). In comparison, poorly informed HR financial decisions might lead to dissatisfaction of the employees, high turnover, skills deficit, inefficiency in operations and ultimately decrease in profitability of the firm.

Although the significance of managerial financial literacy has been identified in the literature on global business, little scholarly research has been conducted on the problem in Pakistan. The bulk of the studies carried out in the Pakistani corporations build on the HR practices, leadership styles, or models of compensation, but seldom looks at the financial decision-making ability of HR leaders as a prime contributor to firm performance. The given gap indicates that further investigation into the way in which the knowledge of financial principles by a manager will influence HR policies and strategic performance of the organization is needed. Lack of this knowledge exposes organizations to the risk of maintaining the trends of reactive and short-term HR decision making processes that undermine long term competitiveness.

Therefore, the current research aims at examining how financial literacy in the management affects strategic Hr decisions and the performance of firms in the Pakistan corporate environment. It emphasizes financial literacy not as a personal ability, but as a structural ability that determines the level of organizational efficiency and competitiveness. The research adds to the current knowledge as it links financial knowledge and management attitude and performance, and it is necessary to incorporate financial education in managerial training programs. This study seeks not only to promote the adoption of financial competence in leadership and strategic HR planning by Pakistan by identifying how financial literacy can empower evidence-based HR practices and improve the performance of firms within the country; it is also expected to influence the organizations to rethink about the role of financial competence in leadership and strategic HR planning.

Literature Review

The connection between financial literacy, strategic human resource decisions and firm performance has emerged as one of the most significant fields of study in the current organizational research. Financial literacy is often referred to as the skill to comprehend, decode, and use financial knowledge to make wise choices, which is much more than the personal finance management and is a crucial element of the managerial and organizational performance (Lusardi and Mitchell, 2014). All managerial positions in various departments such as the human resource now demand knowledge of cost implications, budgeting, forecasting and cost benefit analysis of decisions regarding the workforce. Financial literacy has emerged as a key core competency that determines the process of strategic decision making as organizations get more competitive and resource-driven (Khalid and Ahmed, 2020).

Some existing studies indicate that the financial literacy will improve managerial capability to make evidence-based decisions in accordance with the organizational objectives. According to research conducted by Huston (2010), managers who are well-informed in financial matters are more effective in assessing the financial impacts of decisions, dealing with risks and making the most of resources. On the flipside, poor financial knowledge can contribute to inefficient decisions in which managers are inclined to make decisions based on intuition or legacy practices within an institution, instead of basing them on analysis. This applies especially to the strategic HR decisions since human resource functions such as recruitment, compensation planning, training investments, and performance management demand proper and future-oriented financial analysis (Abdullah and Talpur, 2021). HR decisions without a financial basis can lead to distribution of resources to the wrong direction, rising expenses, or lack of investment in areas of employee development that are very vital.

Human capital theory also supports the financial literacy-strategic HR decisions relations as it involves investments in employee knowledge and skills as the basis of enhancing productivity and organizational performance (Becker, 1993). Nevertheless, most organizations, especially in emerging economies like Pakistan, are reluctant to invest enough in training employees because they believe that they cannot afford it, and they are not sure of any long-term payout (Khilji and Wang, 2021). It has been found that the more financially literate HR managers can prove the value of training programs by cost-benefit analysis, performance predictions, and measuring productivity outcomes (Rahman and Shahid, 2020). Through this, organizations that have financially literate managers are likely to make more strategic investments in aspects of talent development, as a result, enhancing efficiency of the workforce and the competitiveness of the firm.

The other strategic HR area that involves financial literacy is compensation planning. The issue of compensation decisions entails a trade off between the cost structure of the organization and the needs of the employee in the context of employee motivation and retention. As it has always been reflected in literature, competitive compensation systems can adjust the level of employee satisfaction, their loyalty to the organization, and turnover rates (Herzberg, 2017; Khan and Yousaf, 2019). Financially literate managers can make more efficient compensation plans that are cost effective and performance based based on financial information to support increases and decreases in salary packages and incentive compensation plans. On the other hand, financially incompetent managers can either spend too much money on compensations without any apparent strategic benefits or impose severe cost-cutting strategies that demoralize the workforce and make turnover more frequent (Bokhari and Iqbal, 2021). The strategic view of compensation, thus, dictates that managers should derive financial signals and harmonize pay judgment with the sustainability of the organization.

The correlation between financial literacy and firm performance is likewise found in the research assessing the financial governance and the culture of internal decision-making of organizations. Companies that foster financial literacy among their managers are more likely to have a transparent performance measurement system, system of accountability, and resource optimization, which are more efficient and financially powerful (Yasmeen and Khalid, 2021). Evidence-based research in the Pakistani corporate landscape indicates that the management of companies that are financially literate is more strategic, has a better strategy to plan their workforce, and better adaptability to economic shocks (Hassan and Farooq, 2022). Companies with financial savvy managers have better chances to introduce data-based HR analytics too, as it boosts long-term organizational flexibility and competitiveness.

Irrespective of these findings across the world, managerial financial literacy use is still rather under researched in Pakistan. The studies of HR management in Pakistan have mostly concentrated on leadership style, employee motivation, and organizational culture and remuneration trends (Khilji, 2018; Ali and Ahmad, 2020). There is scanty research that quantifies the financial decision making ability of the HR managers or the effects of financial literacy on the strategic alignment of the HR with the corporate financial planning. Moreover, the HR departments in Pakistan are traditionally viewed as an administrative unit instead of a strategic partner, which restricts the chances of HR managers to acquire financial competencies and be part of the highest level of budgeting (SMEDA, 2022). This organizational division can make HR leaders unable to illustrate the financial worth of the human capital investments, continuing to use short-term decision-making practices.

The literature is also found to point at challenges that are specific to a developing economy, such as access to managerial training, financial skills, being low, and the hierarchical nature of workplace cultures, which limits the involvement of HR in strategic financial planning (Shahbaz and Ilyas, 2019). The decision making process is often centralized among the top-level managers in making financial decisions and the HR making decisions without being involved in the decision making of financial matters. This lack of connection leads to financial non-optimization of HR policies and their inabilities to meet the workforce requirements in the future. Nevertheless, the organizations where the HR and financial planning mechanisms are merged are more prone to the long-term sustainability of performance, since the strategic workforce decision-making can be aligned with the organizational financial objectives (Farooq and Rehman, 2021).

By and large, the literature suggests that strategic HR decision-making and performance of firms is heavily dependent on managerial financial literacy, and this aspect has not been adequately researched in the context of the corporate field of Pakistan. The gap in the existing research shows that the relationship between financial literacy and HR decision-making processes still requires attention and that the increase of managerial financial competencies can contribute to better organizational performance. This gap can be addressed to enhance a better comprehension of strategic human capital management and help build more financially informed leadership practice in Pakistan.

Methodology

The paper applies the quantitative research design to investigate the connection between the financial literacy of managers, their strategic HR decision-making, and the performance of the firms involved in the corporate sector of Pakistan. The interest of the research is on getting to learn the significance of financial knowledge and decision making capability of managers on strategic human resource decisions like talent management, employee development, compensation planning and workforce structuring and the resultant effect on performance outcomes of organizations.

Population and Sample

The study target population is chosen as middle and senior-level managers of corporate organizations in Pakistan in the banking sector, manufacturing industry, telecommunication, and services. A sample of 120 managers was selected using a convenience sampling method so that it could be conveniently and practically accessed. The sample size is not exceeding the suggested range of regression-based studies as it provides sufficient representation and at the same time, the data is reliable.

Data Collection Instrument

The structured questionnaire was used to collect primary data that was collected both physically and electronically. The questionnaire had four major sections:

- Demographic (age, gender, education, job position, years of experience)
- Financial Literacy Scale (administered based on modified questions of Lusardi and Mitchell, 2014)
- Strategic HR Decision-Making Scale (modified version of Wright and Snell, 1998; Likert 5-point scale)
- Firm Performance Scale (subjective but validated performance indicators by Balanced Scorecard approach of Kaplan and Norton, 1996)
- The items were rated using a 5-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree).

Validity and Reliability

In order to ascertain the quality of research instrument:

- Two HR scholars were used to ensure content validity.

- The piloting was done on 15 respondents.
- Cronbachs Alpha was used to perform reliability analysis and all the scales had alpha values greater than 0.70, which means high internal consistency.

Data Analysis Techniques

Data were analyzed with SPSS after the screening of the responses and exclusion of incomplete questionnaires. The techniques used were as follows:

- Descriptive Statistics (mean, standard deviation, frequency distribution) to know characteristics of the participants.
- Correlation Analysis to investigate the direction and strength of the relationships between financial literacy and strategic HR choices of managers and the performance of firms.
- Multiple Regression Analysis to find out the predictive power of financial literacy on strategic HR decision-making, and vice versa, the effect of strategic HR decision-making on the overall performance of the firms.

The regression analysis assists the determination of whether the financial literacy is a significant factor in the better formulation of HR strategies and whether the HR strategies predict better performance outcomes. The p-value was tested at p 0.05.

Data Analysis and Findings

This part contains the findings of the statistical data analysis undertaken to investigate the impact of financial literacy of managers to the strategic HR decision-making process and performance of firms within the corporate sector of Pakistan. One hundred and twenty managers were involved in the research. The analysis of data was conducted with the help of SPSS, descriptive analysis, correlation analysis and regression modeling.

Descriptive Statistics

The descriptive statistics were done to have an idea of the central tendencies of the variables under study. Standardized Likert-scale was used to gauge financial literacy, strategic HR decision-making and the performance of the firm such that a higher score will mean that a construct is more present.

Table 1: Descriptive Statistics of Key Variables

Variable	N	Mean	SD	Minimum	Maximum
Financial Literacy	120	3.78	0.64	2.10	4.90
Strategic HR Decision-Making	120	3.66	0.72	1.90	4.80
Firm Performance	120	3.59	0.69	2.00	4.85

The means show that managers generally reported moderately high levels of financial literacy and strategic HR involvement.

However, the variability (SD values) indicates that financial competencies and strategic decision-making skills are not uniform across managers.

Correlation Analysis

The relationship among the variables was examined using Pearson's correlation coefficient**.**

Table 2: Correlation Matrix

Variables	Financial Literacy	Strategic HR Decision-Making	Firm Performance
Financial Literacy	1	**0.61****	**0.47****
Strategic HR Decision-Making	**0.61****	1	**0.58****
Firm Performance	**0.47****	**0.58****	1

**Correlation is significant at $p < 0.01$

- Financial literacy is strongly and positively associated with strategic HR decision-making.
- Strategic HR decision-making is strongly associated with firm performance.
- Financial literacy is moderately associated with firm performance.

This supports the conceptual assumption that managers' financial awareness enhances HR planning, which contributes to improved firm outcomes.

Regression Analysis

Two regression models were estimated to examine the directional impact of variables.

Model 1: Financial Literacy → Strategic HR Decision-Making

Table 3: Regression Results (Model 1)

Predictor	β	t-value	p-value	R^2
Financial Literacy	0.61	8.32	0.000	0.38

Financial literacy significantly predicts strategic HR decision-making. The $R^2 = 0.38$ means 38% of changes in HR strategic decisions are explained by managers' financial literacy levels.

Model 2: Strategic HR Decision-Making → Firm Performance

Table 4: Regression Results (Model 2)

Predictor	β	t-value	p-value	R^2
Strategic HR Decision-Making	**0.58**	7.04	0.000	**0.34**

Strategic HR decision-making significantly predicts firm performance. The model explains 34% of the variance in performance outcomes.

The analysis demonstrates a clear causal pathway**:**

Financial Literacy → Enhances HR Decision-Making → Improves Firm Performance

Managers with stronger financial literacy are better equipped to:

- Align HR spending with productivity outcomes
- Evaluate training and staffing investments
- Structure compensation strategically
- Support workforce planning in line with financial goals

As a result, these HR decisions translate into:

- Higher employee productivity
- Reduced turnover
- Efficient resource allocation
- Improved profitability and organizational competitiveness

However, the varying levels of financial literacy across respondents indicate that many managers require further financial education to maximize strategic decision-making capacity.

Table 5: Summary of Findings

Relationship Tested	Result	Outcome
Financial Literacy → Strategic HR Decisions	Positive, Strong, Significant	Supported
Strategic HR Decisions → Firm Performance	Positive, Strong, Significant	Supported
Financial Literacy → Firm Performance	Positive, Moderate, Significant	Indirect Support

Conclusion

The results of this research study prove that, financial literacy between managers is a key determinant in influencing the strategic human resource decision-making and improving the performance of firms in Pakistan corporate sector. Managers with good knowledge of financial concepts are better placed to consider the cost and returns of HR investments, balance workforce planning with financial goal and develop compensation systems that promote motivation and organizational survival. The correlation and regression findings prove that the relationship between financial literacy and strategic HR decision-making is significant and positive, and the latter leads to a better performance of the firms. This is whereby the indirect yet strong route of how financial knowledge can impact organizational success lies.

Also, the research findings demonstrate that strategic HR decision-making is a mediating factor between financial literacy and performance outcomes. Financially competent managers make better decisions on matters to do with recruitment, employee development, performance evaluation, and rewards. The results of these enhanced HR techniques are an increase in productivity, increased employee retention, and more consistent results in the operational outcomes, which ultimately enhance the performance of the organization both in the short and long term. Nevertheless, the variations in the financial literacy rates of managers indicate that not all organisations are making systematic investments in managerial financial training. The paper thus highlights the significance of organizational commitment towards professional development as a strategic instrument towards enhancing the performance of firms.

Recommendations

1. The organizations ought to **also** implement formal training programs that would help managers understand the budgeting process, forecasting, cost analysis, compensation planning, and performance evaluation of finances. This capacity-building will have a direct positive effect on the quality of HR decisions.
2. HR departments are supposed to work hand in hand with the groups of finance in formulating the staffing plans, salary systems and employee development programs. The result of such cross-functional coordination will be that the decisions made will be strategic and financially viable.
3. Companies ought to institute clear and performance based reward programs to enhance motivation among employees, minimize turnover as well as align employees performance to organizational objectives.
4. HR analytics tools ought to be implemented in organizations by giving managers evidence based information to make decisions to appraise, promote and train employees towards eliminating biases and enhancing fairness.
5. Managers are advised to take up certifications, diplomas or short courses in finance, leadership and HR management as a way of sustaining the changing competencies and developing strategic decision making abilities.

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