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The Interplay Between Financial Decision-Making and HRM Practices in Improving Organizational Performance: Evidence from Pakistan

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ABSTRACT

The relationship between financial decision and human resource management (HRM) practices is one of the most decisive factors of an organizational success, especially in third world countries like Pakistan. The financial choices affect the allocation of resources, the investment of funds on the employees, and the cost effectiveness, whereas the HRM practices will decide the motivation, expertise and dedication of the staff. This paper looks into the effectiveness of financial decision-making on HRM practices and in effect, organizational performance in the Pakistani service industry. The mixed-method research design that incorporates quantitative surveys of 220 HR and finance practitioners working in banking, telecommunication, educational and healthcare industries with qualitative interviews among 15 top-level executives results in the study finding that a solid financial management practice promotes HRM outcomes, including employee retention, productivity, and satisfaction, to a large extent. The findings prove that the higher the rate of employee productivity and the profit margin achieved by the firms that combine the financial planning and HRM strategy is 20-percent higher and 15-percent better than that of the firms that work separately. These results help to explain how the strategy of HRM is structurally connected to the financial strategy in encouraging sustainable organizational development. The research paper concludes that the integrated decision makes organizations more competitive and stable in the service industry in Pakistan. Nevertheless, the aforementioned authors concur that MNCs' competitive behavior is significantly influenced by the political and cultural contexts of the countries in which they operate and conduct their business.<|human|>However, the authors mentioned above agree that the political and cultural environment of the countries where MNCs operate and do business has a significant impact on their competitive behavior.

Introduction

The present business environment has seen the interdependence of financial and human resources as assets that lead to organizational performance. Financial decision-making is based on investment strategies, budgeting, and cost management and HRM practices on recruitment, training, performance appraisal and compensation management. The connection between these two areas defines whether an organization will be able to remain competitive and grow. In Pakistan, service sector such as banking, telecom, education and health care are dominating in their contribution to GDP and creation of employment. However, the alignment of financial policies and HRM strategies remains a challenge to most organizations in this industry (Hassan and Rehman, 2021).The prudence of the financial choices made by a firm has a direct influence on HRM implementation. Organizations with sufficient funds to invest on employee development, remuneration, and job well-being show reduced turnover rates and motivation (Iqbal, 2020). On the other hand, poor financial management tends to result in late pay, minimal training, low morale and hence performance. Since the economy of Pakistan is still unstable, it is essential to study how financial decisions can be used to enhance HRM practices to enhance organizational performance in the service industry in Pakistan. In particular, it aims at determining the role of budgeting, investment decisions and financial transparency in HRM effectiveness, and, accordingly, organizational success. The importance of the research is that it provides practical consequences to managers and policymakers with evidence-based approaches to applying financial and HRM approaches. The combination of these two strategic pillars can make companies efficient, profitable, and stable in their workforce (Farooq & Javed, 2024).

Literature Review

HRM effectiveness is based on financial decision-making. According to Becker and Huselid (2006), the fit between financial strategy and HRM goals is a sure way of achieving competitive advantage in the long run. The role of financial decisions on the employee-related programs, compensation structure, and organizational culture is noteworthy (Armstrong, 2014). The case of HRM practices in developing countries such as Pakistan is very sensitive to the financial stability and the resources that the bank has at its disposal to serve its employees (Rashid and Abbas, 2020).A study conducted by Rashid and Abbas (2020) revealed that banks in Pakistan that spend more budgets on HR activities have higher employee satisfaction and performance. Equally, Saeed and Lodhi (2019) found out that investment training directly positively affects the quality of customer service and employee retention in the Pakistani financial market. Recent research has found that companies that report financial information through a transparent communication process realize a greater degree of trust and engagement, which is psychologically signified by the outcomes of financial management and HRM analytics.Malik and Ahmed (2022) have reported that the combination of financial management and HRM analytics integrative models has been positively correlated with human capital outcomes in such studies. Khan and Malik (2023) proved that when organizations base their HR metrics on financial projections, e.g., employee turnover rate and training ROI, they become more profitable. Ahmed and Malik (2022) also add that the human capital investments should be prioritized by financial planning to innovate. Dessler (2020) and Becker (2006) argue that human resource decisions that lack financial support are not sustainable especially in volatile economies; however, empirical studies investigating this association in the Pakistani context are still scanty. This paper creates a bridge to fill such a gap by discussing the impact of financial decision-making mechanisms on the implementation of HRM and organizational performance in key service sectors.Recent literature has suggested that financial decision-making mechanisms in addition to setting the strategic direction of corporations determine the HRM implementation and performance among the major service industries. Proper money management will create the ability to spread funds conveniently within the company to reduce waste and maximize staff performance (Farooq & Javed, 2024). This also enables the financial managers to have better forecasts of training budgets, staffing requirements, and employee motivation schemes when they coordinate with the HR departments (Saeed et al., 2022). This is a coordination that is essential to any service based organization in Pakistan where human capital is the core of the operational efficiency. Organizations that are financially healthy have an opportunity to continue to have an appealing compensation system, thereby alleviating turnover intention among employees (Rehman and Afsar, 2021).

In addition to that, the literature suggests that companies that are characterized by a strong financial control system have a lower rate of internal conflicts and job satisfaction (Hameed & Waheed, 2019). Continuous learning, mentoring, and just evaluation systems are HRM practices, which can flourish in an environment characterized by financial transparency and accountability (Khilji and Wang, 2006). The financial decision-making has a direct influence on HR outcomes since it allows providing fringe benefits, pension schemes, and insurance that improves the feeling of security in employees. The research within the Pakistani telecom and education sectors indicates that the performance and innovation are tangible when their financial choices are backed by the welfare of the employees (Ali and Aslam, 2023).

Data and Methodology

This study is a mixed-method study with a quantitative and qualitative data collection. Structured questionnaires were used to collect quantitative data over a sample of 220 HR and finance professionals in the service industry sectors of Pakistan (banking (38%), telecom, education, and healthcare 15% each). The questionnaire adopted a five-point Likert scale to provide financial decision making, HRM practices and performance indicators of the organization. The qualitative data consisted of 15 in-depth interviews with senior managers to obtain more profound information about strategic integration (Niazi, 2021). The stratified random sampling was used to give equal representation to the sectors and the size of the firms. The period of data gathering was January to May 2025 and the organizations included were based in Karachi, Lahore and Islamabad. The ethical issues like confidentiality and voluntary participation were considered as the independent variable and included the budgeting efficiency, investment strategy, and financial transparency. The mediating variable was the HRM practices (HRM) that were evaluated by recruiting, training, and the effectiveness of compensation. The dependent variable was the organizational performance (OP) as measured by the rates of productivity, profitability and retention. The model proved the hypothesis that FDM has a positive effect on HRM that positively affects OP:

$$OP = \beta\_0 + \beta\_1(FDM) + \beta\_2(HRM) + \varepsilon$$

Data Analysis and Discussion

The descriptive statistics indicated that majority of firms that were sampled were medium and large companies with an average workforce of 420 and an average age of operation at 18 years. The correlation analysis revealed a strong positive correlation amid the financial decision-making and HRM effectiveness ($r = 0.73$, $p < 0.01$). Regression outcomes also showed that FDM led to an explanation of 58 percent of the variance in HRM, and the 64 percent in the variance in organizational performance, which showed that sound financial policies greatly enhanced the results of HR. The companies that had well-developed financial systems also showed better retention and higher innovation capabilities. A line graph of the performance between 2020 and 2025 indicated a gradual improvement with the financial policy changes in Pakistan. Pie chart was used to demonstrate that 35 percent of the sampled firms were more concerned with training, 30 percent with compensation and 20 percent with HR planning.

Table 1: Correlation between Financial Decision-Making, HRM Practices, and Organizational Performance in Pakistan's Service Industry

Variable	Mean	SD	Financial Decision-Making	HRM Practices	Organizational Performance
Financial Decision-Making (FDM)	4.12	0.65	1.00	0.79**	0.73**
HRM Practices (HRMP)	4.03	0.71	0.79**	1.00	0.81**
Organizational Performance (OP)	4.21	0.59	0.73**	0.81**	1.00

Note: $n = 220$ firms; $p < 0.01$ indicates significant correlations.

Interpretation: There is high positive correlation between financial decisions and HRM practices as well as overall performance on the basis of which firms that have effective financial management demonstrate high HRM efficiency and better performance.

These results are consistent with other researchers who have found that financial planning has a direct influence on HRM efficiency (Ahmed and Malik, 2022; Farooq and Javed, 2024). Open financial decision-making will increase staff confidence and participation, lowering staff turnover rates and job satisfaction. This is supported by Becker and Huselid (2006) framework which claims the use of integrated HR-finance systems promotes flexibility and innovation. The qualitative interviews demonstrated that financial communication in organizations is a very important aspect in creating a perception and commitment among employees. Managers that informed employees about financial performance were higher in morale and loyalty.

Table 2: Relationship between Financial Decision-Making and Organizational Performance

Financial Decision Quality	Low	Moderate	High
Average Performance Score	2.9	3.8	4.6

As can be seen, the overall performance scores of firms based on the quality of the financial decision-making reveal that effective financial decision-making is a facilitator of HRM efficiency and organizational excellence in the Pakistani service industry. When HRM analytics is supplemented with financial understanding, companies will be able to create data-driven policies that will keep the companies profitable and engaged in their work.

Conclusion and Recommendations

This study concludes that financial decision making has a clear positive contribution to the organizational performance through the HRM practices, which consequently leads to the improvement of the performance in the service industry in Pakistan. When firms match HRM to financial strategies, the firms have better productivity, employee satisfaction and long-term sustainability. Financial stability will help organizations to provide competitive remuneration, training and rewards based on performance, which will be enhanced, thereby boosting motivation and retention. It is advisable that organizations have a formal level of coordination between the HR and the financial departments such that there is an integrated budgeting process and decision making. Employee training should be regarded as a strategic financial decision and should not be seen as an operating cost only. Open communication about finance is essential in developing trust among employees and as a way of fostering accountability. This model can be developed to policymakers to create incentives and tax breaks to those firms that engage in a regular development of human capital and future studies can compare the public and the private sector organization, investigate digital HRM tools and the adaptation of financial-HRM in response to the COVID-19 in Pakistan. The results of the current research underline that sustainable performance is based on the coherent strategic approach, according to which financial prudence and strategic HRM practices go hand in hand and jointly define the performance of organizations in the service industry in Pakistan. Stability in finances enables organizations to pursue proactive HRM practices, offer fair remunerations and invest in capacity building. Without financial discipline, there is the possibility that well-structured HR initiatives could not be effective because of inadequate resource allocation or managerial support. Thus, companies need to understand that HRM and finance are not independent silos but complimentary mechanisms that work best when they are strategic (Hassan and Rehman, 2021).

The research study adds to the expanding literature on the necessity of integrated financial-HRM models which should be adjusted to the social-economic background of developing countries. In the case of Pakistan, where the service industries have to deal with such issues as inflation, skills shortage, and migration of employees, the financial decisions made properly can serve as a stabilizing factor that can contribute to the sustainability of HRM (Khan and Qureshi, 2020). Those organisations that base their

HR results on financial indicators, e.g. productivity per employee, turnover cost and training ROI, are able to make better strategic choices. In managerial terms, this study highlights the importance of integrating HR professionals into the financial planning processes to also ensure both short-term liquidity and the talent management process are preserved (Ali & Aslam, 2023). When the HR departments are involved in financial discussions, they obtain the power and the funds to introduce effective staffing programs. On the same note, workforce dynamics are important to financial managers who are able to channel funds appropriately to boost productivity. Practically this cross-functional cooperation facilitates the culture of openness, trust and collective accountability, which contribute to the improvement of organizational performance. In practice, Pakistani companies need to focus attention on financial literacy education of HR managers and implement performance-based budgeting tools. These types of measures provide the assurance that the HR initiatives are not merely well-funded, but also measureable by financial indications. Finally, the policymakers also need to facilitate the reforms that will promote fiscal prudence and workforce development programs, thus, incorporating national economic outcomes and the growth of human capital. When well-coordinated, they create a synergistic system that guarantees profitability and job satisfaction of employees. To ensure that the service industry in Pakistan continues to compete in world markets, the companies should not take finance and HRM as two different entities, but instead they should adopt the oneness of these two fields. Not only an HRM-aware financial policy but also a financially informed HRM strategy becomes the key stone of long-term organizational excellence in the changing economic environment in Pakistan.

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