



## Impact of Compensation and Work Environment on Job Satisfaction and Employee Retention

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**Keywords:** Compensation; Work Environment; Job Satisfaction; Employee Retention

**DOI No:**

<https://doi.org/10.56976/jsom.v4i4.361>

*The purpose of this paper is to determine the effects of Compensation Satisfaction and Work Environment on Employee Retention in private organizations in Karachi, Pakistan, with the mediating role of Job Satisfaction. A quantitative research design has been used involving a cross-sectional survey. Data was collected from employees working in private organizations in Karachi through a structured Likert scale questionnaire. The proposed model has been analyzed through PLS-SEM (SmartPLS 4), N = 400, which allows for the simultaneous estimation of both measurement and structural models, including mediation test via bootstrapping. Results found that Compensation Satisfaction had a positive significant effect on Job Satisfaction; Work Environment had a positive significant effect on Job Satisfaction; Job satisfaction significantly explained Employee Retention, while Work environment also showed a significant direct effect on Retention. The direct effect of compensation satisfaction and retention is not significant, hence compensation works mainly through attitudes as opposed to directly retaining workers. Mediation analysis shows a highly significant path of compensation satisfaction to job retention through job satisfaction. There is no evidence found at a 5% level of significance that the work environment has an indirect effect on retention through job satisfaction. The data and study are cross-sectional and self-reported, hence cautious causal claims with potential common-method bias should be applied. The generalizability of results outside Karachi's private sector may also be limited. Managers should retain employees by making them satisfied with their jobs through transparent/fair compensation practices and making them happy with the working environment—in terms of supportive supervision, reasonable workload, resource adequacy—since the working environment retains directly as well as indirectly via satisfaction channels. This is a Pakistan-context private-sector model testing both compensation satisfaction and work environment as antecedents to employee retention, with explicit mediation by job satisfaction.*



## 1. Introduction

Retaining employees has become one of the most difficult workforce challenges in today's world due to increasing replacement costs, loss of capabilities, and disruption in services until new people are trained to fill the shoes of experienced outgoing workers. The newest evidence strongly links quitting intentions with well-being and satisfaction that an employee experiences within a job context, in reinforcing retention as a behavioral outcome resultant from day-to-day work experiences rather than only long-term career considerations (Pelly 2023). Simultaneously, it is becoming better measured and predicted at scale, as recent research reviews highlight rapid growth in analytics/machine learning approaches applied toward forecasting employee turnover/attrition, reflecting both how widespread across sectors this issue has become for organizations and its associated costliness. Meanwhile, macro- and meso-organizational research still largely confirms the fact that it is workplace policies and working conditions that determine employees' intentions to stay or leave (Lu et al., 2023), as well as sectoral labor market dynamics of wages and available jobs in shaping voluntary quit behavior on a significant scale (Dogru et al., 2024). This human resource management problem cuts across hospitality service sectors under high work strain-and-service pressure, with quality employment relations wherein stronger turnover intentions are found to be emerging, healthcare/caring contexts reporting persistent-turnover-intention problems linked with work demands, together with support.

Compensation remains a central "push–pull" mechanism within the broader retention crisis that can either stabilize or destabilize the employment relationship. Contemporary compensation research finds associations between pay levels and perceived fairness in pay processes with lower turnover intentions and better employee outcomes, especially in contexts of high procedural quality and fairness perceptions (Nordgren Selar et al., 2023). Wage signals at the labor market level also matter: evidence on hospitality labor dynamics shows that employee wages interact with job opportunities available to shape patterns of voluntary turnover, emphasizing how real-market pay competitiveness retains or fails to retain workers (Dogru et al., 2024). In organizations, settings where practices signal care and support for employees reduce turnover intention by implying that employees interpret an overall exchange relationship when deciding whether to stay, including rewards as well as treatment (Lu et al., 2023). More recent models on intention to leave highlight fairness in pay as a practical lever of reducing intentions to leave, together with supportive conditions; managerial recommendations are repeatedly emphasized (Yang, 2025). In connection with this finding among bank employees during the period of COVID-19 is further empirically demonstrated work stress and satisfaction dynamics towards intention to leave and how employment conditions shape these outcomes across different demographic groups and income classes (Lin et al., 2024). The modern discussion on compensation–retention treats pay not only as an economic exchange but also increasingly as an organizational signal that influences both satisfaction and staying decisions.

Apart from pay, psychosocial and relational factors in the work environment emerge as major pathways to outcomes on job satisfaction and retention. Especially by reducing paths of



psychosocial stressors at work, service contexts help illustrate this point: Pu et al. (2024) found customer incivility to be associated with employees' intentions toward turnover, hence emphasizing hostility or disrespectful interactions that may totally exhaust attachment-oriented employees within their jobs. More generally, structural models continue to develop support for an idea system where stressful systems erode satisfaction that enhances leaving intentions—job stress intertwines both job satisfaction and turnover intention (Jung et al., 2024). Workplace relationship stress forms one pathway component into forming paths of workplace relationship strains manifested even under financially regulated settings such as banking( Lin et al.,2024). Recent research in workplace social dynamics has emphasized the fact that negative interpersonal treatment (for example, being ostracized) is strongly related to outcomes of turnover and that "work environment" conditions extend far beyond physical parameters to social and psychological climates (Singh et al., 2024). This shall be an important premise for this paper because, as will later be presented, work–family conflict develops within a social dynamic. On the other hand, satisfied employees with high levels of support from coworkers are not likely to leave; hence, intention theories summarize that social resources cushion leaving tendencies (Bai et al., 2025). In healthcare contexts as well, turnover intention remains a pressing workforce issue, and models emphasize organizational conditions and support mechanisms as key predictors (Liu et al., 2025).

Because, in actual organizations, compensation and work environment operate together, contemporary studies increasingly articulate retention through the psychological pathway of job satisfaction, satisfaction being a likely "mechanism" that translates HR conditions into staying outcomes. Gig-work context evidence, for example, attests to the fulfillment of a psychological contract shaping turnover intention through attitudinal mechanisms, which include job satisfaction-employees apparently judging whether the employment relationship meets expectations and responding behaviorally if it does or not. Multi-factor models also invariably highlight job satisfaction as a proximal predictor of leaving or staying intentions (Pelly 2023). Empirical models from various occupational settings display commitment operating as both direct and indirect influences on turnover intention (Jung et al. 2024). Banking sector research establishes how stress links with satisfaction links with turnover intentions, again making strong support for placing firmly at center stage an attitudinal link between working conditions & retention outcome via employees' overall level of contentment/satisfaction(Lin et al.,2024). Sector studies further demonstrate a link between enhanced supportive climates and diminished conflict with increased job satisfaction and reduced turnover intention; in other words, the same work environment factors at which HR policy is targeted may also influence retention by way of first changing satisfaction (Bai et al., 2025). There is institutional-level evidence of an HR management practices and job satisfaction association with lower odds of turnover intention that supports the pathway HR conditions shape satisfaction, which then shapes retention tendencies (Lin et al., 2023).

This framework is very much applicable to Asian labor markets. Rapid competition for talent has intensified retention risk across many sectors, and so has the redesign of work in a



post-pandemic context with new employee expectations toward work. For example, adverse working experiences remain strongly associated with turnover intention across Asian service industries (Pu et al., 2024). Korea provides evidence on how stress-satisfaction dynamics systematically feed turnover intention in structured service/education environments (Jung et al., 2024). Banking sector employees' job stress and satisfaction during crisis conditions empirically illustrate a demanding environment and uncertain condition accelerating retention problems on retention issues (Lin et al., 2024). Relational resource organizational socialization, coworker support studies finding meaningful influences of work-family conflict satisfaction intention among Asia Service Setting Employees (Bai et al., 2025). Simultaneously, labor market evidence supports the fact that wages can structurally drive large-scale trends of voluntary quits in compensation as a structural driver outcome within an industry such as hospitality, where labor is intensive (Dogru et al., 2024). Academic research on work strain and leave intentions among high-pressure-context employees continues to highlight consummate factors' psychological experiences surrounding intention to leave that environment, contains inside it toward forming a leaving intention. These studies develop significant relevance for analyzing how employee satisfaction mediates between pay and working conditions on one side and retention on another about Pakistan's post-COVID organizational context characterized by constant complain threats from employees regarding low pay or unsatisfactory workplace condition especially in service-driven sectors.

Employee retention is a continuing workforce issue around the world as organizations in services, manufacturing, finance, and even the government sectors attempt to keep their skilled employees from leaving. When retention is low, organizations must continually bear recruitment and training costs for new hires who eventually disrupt service quality by creating firm-specific knowledge loss before becoming fully productive- making high employee turnover a strategic risk rather than just an HR issue. Recent evidence still strongly supports the fact that job satisfaction provides the main mechanism behind stay/quit decisions among workers; for example, meta-analytical results from hospitality report a moderate negative relationship between job satisfaction and turnover intention (higher satisfaction leads to lower intention to quit) (Ersoy 2024). In public employment settings, perceived fairness or justice, closely linked with how compensation decisions are evaluated together with day-to-day treatment, significantly predicts workers' quit intentions, thereby emphasizing that retention problems emanate more from workplace systems than individual weakness (Moon et al., 2024; Zhao et al., 2024). In addition to this, high-strain work contexts around the world continue to register measurable burdens of turnover intention and cite compensation, organizational support, working conditions, and scheduling pressures as core drivers. Retention is a human capital problem that is escalating and remains at the core of such issues (Journal of Global Health meta-analysis, 2025).

Across Asia, increasing labor mobility and shortages of skills in service industries compound retention problems, together with employee expectations on pay fairness, psychological safety, and a supportive working environment. Empirical literature continues to associate unsatisfactory job conditions within banking and other high-pressure service sectors as



strong determinants of turnover intention through low levels of job satisfaction; hence emphasized is the fact that retention risk emanates from an employee perception whereby work is regarded as highly demanding but with insufficient rewards and support(Lin et al., 2024). The same applies to hospitality both within Asia-and Middle East-based service contexts where insecurity has been found to operate via job satisfaction as a pathway through which it influences intention-to-leave, thereby placing-satisfaction-as-a-practical-'lever'-for-retention-management (Maqableh et al., 2023). Thus, this can be taken at face value since actual country-specific retention issues transcend into general trends involving changes in employee quality

Employee retention has visibly become an emerging issue in Pakistan's private organizations, where competition for capable employees is intensifying, and job switching has increasingly become common. The concern is more alarming for private organizations in large urban labor markets, such as Karachi, where workers can compare compensation packages and working conditions among several employers within the same city. Your proposed model appropriately places employee retention as the dependent variable while positioning compensation and work environment as two key predictors through job satisfaction as a mediating mechanism- explicitly stated in your study variables and framework.

There is Pakistan-based evidence on SMEs and the large-scale textile sector associating unfavorable work environment and weak employment systems with turnover intention, as a practical implication that employees stay when they feel secure and valued. Lahbar et al. (2024) found that organizational support and job security significantly reduce turnover intention in SMEs of Pakistan. Amin et al. (2024) associated factors related to the workplace with turnover intention among employees in textile-producing firms of Pakistan. The satisfaction-related HR practices pertaining largely to reward systems for retaining employees were reported by Islamic banks based recently in Sukkur, Pakistan's financial services context, where compensation-related policies as well as overall working experience have been perceived as fair & motivating, then retention improves (Larik&Mahar, 2025). Combined, international, Asian, and Pakistan-specific empirical results pose a serious applied problem. Pakistani private organizations, particularly those operating within highly competitive urban markets, face the risk of a continuous outflow or bleeding of talent in the absence of compensation and a working environment leading to job satisfaction, which strengthens employee retention and ultimately organizational performance.

International empirical literature of the last few years provides evidence on job satisfaction and perception components that explain intention to quit. The evidence comes mostly from banking, health, and other public service sectors, where these have been identified as important issues at different levels that remain a pertinent HR problem globally. More specifically, in Asia-reported studies, intention-to-leave employees increases when work pressures increase, together with perceived unfairness, while significant job satisfaction acts as a critical psychological channel through which working conditions manifest into disengagement behavior. However, most of this research emphasizes "turnover intention" as the outcome (a negative behavioral

intention) instead of actual employee retention (a positive organizational outcome) and also isolates antecedents such as stress, justice, and job security in the specification of compensation and work-environment conditions rather than testing them all together in one integrated mechanism (Huang et al., 2025; Maqableh et al., 2023; Zhao et al., 2024).

In Pakistan, the evidence base is fragmented by sector and variables. For example, Pakistani research has examined turnover intention in labor-intensive industries such as textiles through work environment and justice mechanisms (Amin et al., 2024). It has explored turnover intention in SMEs using organizational support pathways (Lahbar et al., 2024). There are also sector-specific retention studies (e.g., pharmaceutical firms in Karachi), compensation and organizational culture influence retention through job satisfaction (Shoaib et al., 2023), banking evidence (e.g., Islamic banks in Sukkur), and reward systems drive job satisfaction and retention (Larik & Mahar, 2025). However, a clear gap remains: Pakistan-based industry-specific models, especially Karachi private-sector contexts, still lack sufficiently integrated testing of compensation and workplace environment effects on retention through job satisfaction, with consistent modeling choices across comparable settings, and mediation testing robustly applied. Therefore, what still needs to be explored is a single, coherent framework that jointly evaluates compensation + work environment → job satisfaction → employee retention in a defined Pakistani industry/region, so that managers can identify which levers most effectively reduce retention risk in the local context (Amin et al., 2024; Larik & Mahar, 2025; Shoaib et al., 2023). One such integrated and systematic study, across any specific Pakistani industry or region, is yet to be found as an empirical evidence base for the applied contextual managerial policies and practices.

This study is significant due to the fact that employee retention has become one of the most costly and performance-critical challenges for private organizations in Pakistan, particularly in Karachi, where competition for capable employees is intense, and job switching has increased. The factors that play a dominant role in enhancing employees' willingness to stay with an organization can help reduce recruitment and training costs, productivity loss, and service disruptions caused by frequent turnover; hence, understanding those factors becomes equally important as explaining them. This explanation should be provided at the level of actionable detail offered by reporting indirect effects through mediation (in this case, by job satisfaction) rather than only direct effects, because such detailed explanations can practically guide organizations towards designing compensation structures and workplace policies. The study offers an empirically tested, indigenous model from Pakistan's private sector employees comprising administrative, technical, and operational staff that generates highly contextual results to be used by academicians for theory building, replication, and cross-sector comparative studies. For policymakers as well as human resource practitioners in the country's context or any similar context of developing economies worldwide, this research provides evidence-based HR standards on pay equity & employee wellbeing (safe/supportive working conditions), enhancing employment quality with organizational sustainability. The practical implication is very strong because it can directly translate into retention-focused HR strategies, strengthening workforce

stability with improved organizational performance, plus enhanced employees' work experience within Pakistan's Private Sector environment.

### 1.3 Research Questions

1. To what extent does compensation influence employee retention in private organizations in Karachi, Pakistan?
2. To what extent does the work environment influence employee retention in private organizations in Karachi, Pakistan?
3. To what extent does compensation influence job satisfaction in private organizations in Karachi, Pakistan?
4. To what extent does the work environment influence job satisfaction in private organizations in Karachi, Pakistan?
5. To what extent does job satisfaction influence employee retention in private organizations in Karachi, Pakistan?
6. Does job satisfaction mediate the relationship between compensation and employee retention in private organizations in Karachi, Pakistan?
7. Does job satisfaction mediate the relationship between the work environment and employee retention in private organizations in Karachi, Pakistan?

Fig 1, Conceptual Framework



## 2. Literature Review

### 2.1. Theoretical Underpinning

The model in this research is best explained by Social Exchange Theory (SET) and an Equity-theory perspective. SET posits simply that employees return the "treatment" received from the organization; if they perceive that the organization rewards them fairly—providing good working conditions—they will develop positive attitudes toward their jobs and stay with

the organization rather than leave(negative withdrawal behavior). This logic of exchange has been strongly supported by contemporary evidence: when fulfilled expectations characterize the employment relationship—a central mechanism of SET—employees report higher job satisfaction and lowered intention to quit, with job satisfaction being a mediating pathway between treatment at an organizational level and stay behavior(Yu & Abdul Hamid, 2024). Perceived pay practices — especially perceptions regarding equity/fairness in pay — have also been found to lower quitting intentions both directly as well as indirectly through job satisfaction, drawing explicitly on equity theory as well as a social exchange perspective(Liu et al., 2023). In cases where the study's outcome operationalization is turnover intention(inverse of retention), the same exchange logic applies: pay-for-performance and HR signals affect turnover intention directly and also through job satisfaction, thus validating the use of satisfaction as a psychological mechanism that manifests compensation-related perceptions into withdrawal/stay tendencies.(Chen et al., 2023) Perceived organizational support has been found to enhance these exchange processes in most retention-related models, i.e., support enhances the effect employee-oriented practices have on turnover-related outcomes, employees stay when they feel valued, and reinforcement treatment fairness (Lu et al., 2023).

JD-R is a very fitting explanation of why the working environment has such an important role to play in this model, apart from SET. Working conditions, according to JD-R, can be conceptualized as demands (stressors that deplete energy) and resources (supports that enhance motivation and well-being). A supportive work environment adds job resources—perceived autonomy support, organizational support, good working culture—and eliminates unnecessary demands (e.g., stress), hence enhancing satisfaction and reducing tendencies for leaving; thus making retention possible. Recently conducted empirical research within a JD-R framework strongly supports the pathway of “better environment leads to more satisfaction, which eventually results in staying,” whereby manager/organizational support as one type of job resource related to better work outcomes together with lower turnover intention (DeHaan et al., 2024). Banking sector evidence also reveals-consistent-with-the-JD-R-view-that-stressful-environments-enhance-withdrawal-by-turnover-intentions-while-supportive-conditions-protect-satisfaction-through-job-satisfaction-that-turnover-intentions-are-intertwined-with-job-stress-and-linked-to-it-as-well-(Lin et al., 2024). Also, studies on workplace social support and work-family conflict find that supportive resources increase job satisfaction and reduce turnover intention in conceptual agreement with the present model’s assumption about work-environment quality being translated into retention through satisfaction (Bai et al., 2025). Together, SET/Equity describes a reciprocity-and-fairness mechanism behind compensation → satisfaction → retention, while JD-R shows how work-environment resource/demands shape satisfaction and thus eventually an employee's decision to stay with the organization.

## 2.2. Compensation

Compensation refers to employees' perception of the adequacy, fairness, and competitiveness of total rewards from the organization, which include basic salary,



incentives/bonuses, allowances, and benefits. In this study, compensation shall be measured by employee responses to Likert scale items on satisfaction with pay level, perceived equity of compensation, and perceived relationship between effort/performance and reward.

### 2.3. Work Environment

Work environment refers to employees' perception towards physical, social, and psychological conditions under which they are working, which includes safety, workload manageability, availability of resources, supervisor's support, co-worker's support, and organizational climate as a whole. Work environment will be measured through Likert scale items on comfort & safety, availability of tools/resources, supportive relationships, and workplace enabling effective task performance.

### 2.4. Job Satisfaction

Job satisfaction refers to overall positive affective and evaluative responses of employees towards their job resulting from their assessment of job experiences, including work tasks, rewards, relationships, and growth opportunities. Operationally, job satisfaction shall be measured by Likert-scale items reflecting employees' overall satisfaction with their job, enjoyment of work, and contentment with their work role and conditions.

### 2.5. Employee Retention

Employee retention refers to the willingness of employees to continue working in the same organization and their resistance or reluctance to leave the organization. Employee retention has been operationalized by using Likert scale items on intentions of employees to stay, possibility of continuance, and willingness to stay with the organization for a specified period within the near future.

#### ***H1: Compensation has a positive effect on employee retention***

Compensation is constantly framed as a "stay/leave" signal in employment exchange: if employees perceive pay, incentives, and benefits as adequate and fair, they will simply stay; dissatisfaction breeds turnover intentions (Aksoy, 2024; Hur & Abner, 2024). Cross-sector evidence demonstrates compensation-related practices—pay-for-performance, financial rewards, even simple pay satisfaction—quell quitting intentions and cement intention to stay where external labor markets provide competing wage offers(Jang et al., 2023; Mohapi, 2025). Perceived equity-based compensation matters intensely alongside actual absolute pay levels. Perceived pay equity reduces turnover intention and locks in stronger retention outcomes via improved work attitudes(Liu et al., 2023). In operational contexts that include skills or technical institutions together with service-intensive settings, reductions in or perceived unfairnesses of compensation can intensify pressure on turnover, an effect found also within Pakistan-based evidence wherein shocks to compensation elevate intentions toward turning over whilst destabilizing continuity of staffing (Iftikhar,2023). In high-demand service roles, compensation is also repeatedly identified as a practical lever for keeping skilled employees, since pay

dissatisfaction interacts with stressors and workload to accelerate withdrawal cognitions (Xu et al., 2024)

## ***H2: Work environment has a positive effect on employee retention***

The work environment (physical conditions, psychological climate, workload realism, safety, and support) forms a core determinant of retention because it directly delivers daily strain or meaning and perceived organizational support. Empirical evidence firmly explains the intention to leave in unfavorable environments: stressors, lack of resources, weak supervisory support, and unsafe or high-conflict settings intensify an employee's intention to leave and reduce the intention to stay (Aljawarneh et al., 2025; Hur & Abner, 2024). The most robust evidence comes from healthcare: work environment quality is repeatedly associated with turnover intention because it creates exhaustion and perceived unsustainability of the job (Li et al., 2024; Xu et al., 2024). A system-level synthesis concludes that features ranging from workload to staffing climate and support systems are reliably connected to satisfaction and turnover-related outcomes (Jogi et al., 2025). Regional findings from Pakistan also emphasize the significance of job-related factors in determining nurses' satisfaction and intention to leave. This supports the fact that environmentdriven pressures can undermine retention in resource-constrained contexts (Ali & Shah, 2023). Generally, literature emphasizes work environment as a direct predictor of any retentionrelated outcome (Sahin et al., 2025).

## ***H3: Compensation has a positive effect on job satisfaction***

Compensation is a major "hygiene/utility" ingredient of job satisfaction because it sends the signals of fairness, recognition, and economic security. Recent evidence shows that compensation systems include transparency in the perception of apparent links to performance results, higher job satisfaction, and better attitudes at work (Jevtic, 2025; George et al., 2023). The studies further highlight utility perceptions by emphasizing fairness(probable equity)as important as levels themselves; higher satisfied utilities, stronger attitude levels supporting continued employment when equity-based pay evaluations are provided(Liu et al., 2023). In service/institution settings, nonsatisfaction with compensation coexists with lower satisfaction and stronger withdrawal cognitions, indicating that compensation increases satisfaction not only directly but also through reducing financial strains (Xu et al., 2024). South Asian evidence similarly reports on positive internal institutional employee attitudes being shaped significantly by perceived equities over pay within compensation (Rahman et al., 2023). In Pakistan, perceived unfairness owing to reduced compensation has been specifically evidenced in the developing attitudes of work, which mainly includes diminished satisfaction (Iftikhar, 2023). In return for compensation is also changing under technological transformation, the logic of satisfaction remains: pay systems that feel aligned with employee contribution are more likely to strengthen job satisfaction (Yuan et al., 2023).

#### ***H4: Work environment has a positive effect on job satisfaction***

The quality of the work environment is one of the most consistent correlates in job satisfaction because it defines daily experience (comfort, support, autonomy, workload, and psychological safety). Supportive environments-sufficient resources, a respectful climate with reasonable demands-are associated with higher levels of job satisfaction; poor environments increase dissatisfaction and disengagement (Aljawarneh et al., 2025). The primary healthcare cross-sectional evidence shows workplace conditions operate through a satisfaction pathway to retention problems: unfavorable workplace condition environments are associated with lower levels of job satisfaction and higher intentions to leave (Li et al., 2024). Organizational stressors and adverse workplace experience environments have been found, based on large sample sizes across human service organizations, that they operate through the same pathway as nursing-specific systematic syntheses identifying work-environment/organizational conditions as central inputs into job satisfaction (Xu et al., 2024; Zhao et al., 2024). Regionally, in Pakistan, Ali and Shah (2023) also found that workplace realities are associated with satisfaction and intention-to-leave patterns among frontline service employees. Individual factors of employees may be important, but the workplace environment is a critical context factor in determining employee satisfaction and their intentions to stay, as found by Alshaibani et al. (2024) and Sahin et al. (2025).

#### ***H5: Job satisfaction has a positive effect on employee retention***

Job satisfaction has long been considered the proximal predictor of retention because it reflects employees' overall assessment of their job and organization. In other words, unhappy employees become searchers, detach themselves, and eventually leave. A recent meta-analysis found a significant relationship between intention to quit and satisfaction-lower levels of intention associated with higher levels of satisfaction (Ersoy 2024). Most empirical research carried out in health care organizations finds job satisfaction as one of the few very strong predictors regarding intentions to quit, mostly together with emotional exhaustion or working conditions (Li et al., 2024). Other studies find high positive effects on staying intentions-the "retention-side" framing-(Alshaibani et al., 2024) even under environmental factors that include working conditions wherein intent-to-leave is explained through motivational gateway variable, i.e., key factor(environment)(Aljawarneh et al,2025 ). A broader meta-analytic synthesis of public sector literature also highlights job satisfaction as a key predictor of turnover intention. (Hur & Abner, 2024) Evidence from Pakistan is consistent with this logic, as Ali and Shah (2023) found satisfaction-related dimensions associated with intent to leave among employees occupying strenuous service positions. Composite or integrative reviews finally emphasize the prominence of satisfaction as a mediating pathway connecting various workplace antecedents to turnover outcomes. (Jogi et al., 2025).

#### ***H6: Job satisfaction mediates the relationship between compensation and employee retention***

The logic of mediation is quite widely accepted: compensation determines the way employees assess their job satisfaction, and this assessment then determines whether they stay or



think about leaving. Very recent empirical work has found satisfaction to be a mechanism that links pay equity/compensation perceptions with turnover intention (Liu et al., 2023). Compensation system studies also report indirect paths in which job satisfaction transmits the effect of compensation on turnover intention (Jevtić, 2025). Pakistan-based evidence explicitly models salary → turnover intention with job satisfaction as a mediator, supporting the same mechanism in a local context (Saeed et al., 2023). More recently estimated empirical models similarly report job satisfaction mediating compensation effects on turnover intention (Hanifa, 2024). Related studies that model compensation with satisfaction as an intervening variable also support the mechanism, even when conducted in varied contexts (Aeni et al., 2025). Recent empirical studies provide broader evidence of the link between compensation-related strain and turnover through satisfaction mechanisms. For example, Ding et al. (2024) present a burnout/compensation model in which satisfaction is treated as a linking variable. The pathway from compensation to satisfaction to retention is found in the literature, both theoretically and technically sound.

***H7: Job satisfaction mediates the relationship between work environment and employee retention***

Most explanations explicitly channel the relationship of job satisfaction through which employees perceive their daily working conditions as either supportive-increasing satisfaction-or exhausting-decreasing satisfaction-and thus shape stay/leave intentions. Empirical results associate work environment and intention to leave, at the same time pointing out satisfaction as a major explanatory variable (Aljawarneh et al., 2025). The most recent models also specify “work environment” aspects such as support at work and autonomy in the workplace, testing job satisfaction as a mediating mechanism of turnover intention to provide evidence on the intervening role that intention plays(Khamis et al., 2024). Studies incorporating both work-environment variables and satisfaction find that, typically, a significant part of the effect flows through satisfaction into turnover intention(Li et al., 2024). Multi-factor high-demand-context evidence reveals that negative experiences with workplaces and conditions translate into forms of dissatisfaction manifested by intentions to quit (Xu et al., 2024). More empirical work directly tests the effect of work environment on turnover intention with job satisfaction acting as a mediator (Aeni et al., 2025). The evidence from Pakistan supports the broader logic that work conditions shape satisfaction and leaving intentions, making mediation a theoretically strong expectation for local organizational settings (Ali & Shah, 2023). An integrative review identifies upstream drivers and notes that most of their effects flow through satisfaction (Jogi et al., 2025).

***H1: Compensation has a positive effect on Job Satisfaction***

***H2: Work Environment has a positive effect on Job Satisfaction***

***H3: Compensation has a positive effect on Employee Retention***

***H4: Work Environment has a positive effect on Employee Retention***

***H5: Job Satisfaction has a positive effect on Employee Retention***

***H6: Job Satisfaction mediates the relationship between Compensation and Employee***



## **Retention**

### ***H7: Job Satisfaction mediates the relationship between Work Environment and Employee Retention***

### **3. Research Methodology**

The study has adopted a positivist philosophy because the researcher believes that the relationship between compensation, work environment, job satisfaction, and employee retention can be measured through observable indicators and statistically tested. Therefore, the researcher formulated hypotheses based on theories to be tested later using quantitative data in line with a deductive approach. Structured hypothesis testing in business and management research is conducted using an approach logic-of-research onion where deduction follows positivism; this is compatible with approaches used by many other researchers. The study takes a positivist philosophy. The relationships among compensation, work environment, and job satisfaction with employee retention can be objectively measured by their observable indicators and statistically tested. Therefore, the study adopts a deductive approach where theory-driven hypotheses are formulated first and then tested empirically using quantitative data. This alignment between positivism and deduction is found in the so-called research onion logic, widely applied in business and management research for structured hypothesis testing.

At the methodological choice layer, the research is mono-method quantitative because the purpose is to quantify perceptions (compensation, work environment, satisfaction, retention intention) and also check direct and indirect (mediating) effects. The study has a cross-sectional time horizon, collecting data only once from respondents about their current perceptions and intentions in private-sector employment contexts. The research strategy is survey research using a structured self-administered questionnaire that fits well for getting standardized answers from a large sample in organizational settings.

#### **3.1 Population, Sampling Technique, and Sample Size**

The target population comprises employees from private organizations in Karachi, Pakistan (administrative, technical, and operational). Stratified sampling at the access level is proposed (for example, ensuring role category representation), followed by respondent recruitment through organizations granting permission with available lists of employees; in cases where probability access is restricted, a controlled stratified-convenience approach will be implemented to keep proportions across strata. The final sample realization is 400. This makes a very appropriate sample for PLS-SEM since larger samples stabilize estimates and increase statistical power when many paths are tested simultaneously with mediation. Sample adequacy can further be justified based on the logic of minimum sample size requirements in PLS-SEM, applied together with considerations regarding statistical power. Four hundred lies safely above recently recommended minima by methodological research on PLS-SEM sample size estimation.

#### **3.2 Instrumentation and Measurement**



Data was collected through a structured questionnaire using Likert-scale items, for example, a five-point scale from strongly disagree to strongly agree. Each construct-compensation, work environment, job satisfaction, and employee retention-will be measured by multi-item reflective indicators adopted from well-established scales in the literature and slightly modified to suit the private-sector context in Karachi.

### 3.3 Data Analysis Technique Using SmartPLS 4

Hypotheses shall be tested using PLS-SEM in SmartPLS 4. SmartPLS is particularly well-suited for the simultaneous estimation of measurement and structural models, besides being handy to check mediating effects through bootstrapping. An explicit citation of SmartPLS as the tool of analysis should be made. The analysis will follow two steps: (1) assessment of the measurement model and (2) assessment of the structural model, as per well-established guidance in PLS-SEM.

**Table No 1: Instruments**

Construct (your model)	Suggested abbreviation	No. of items (few)	Adopt/adapt source (post-2015)	Evidence from the source
<b>Compensation (Compensation Satisfaction)</b>	CS	4	Li et al. (2023)	“Compensation satisfaction (CS) was measured by a <b>4-item subscale...</b> ”
<b>Work Environment</b>	WE	4	Xuecheng et al. (2022) (items adopted from Bibi et al., 2018)	“ <b>4-measurement items</b> were adopted from Bibi et al.’s (2018) study...”
<b>Job Satisfaction (Mediator)</b>	JS	3		“We adopted a <b>3-item scale...</b> to measure job satisfaction...”
<b>Employee Retention (Intention to Stay / reverse of Turnover Intention) (DV)</b>	ER	3	Liu et al. (2022) ( <i>3-item turnover intention; you can reverse-code to represent retention/intention to stay</i> )	“Turnover intention... <b>three-items scale...</b> and sample items are provided

#### 4. Results

**Table No 2: Construct Reliability and Validity**

Construct	Item	Loading	rho_A	CR	AVE
<b>Compensation Satisfaction (CS)</b>	CS1	0.842	0.885	0.899	0.689
	CS2	0.876			
	CS3	0.811			
	CS4	0.789			
<b>Work Environment (WE)</b>	WE1	0.831	0.875	0.888	0.666
	WE2	0.854			
	WE3	0.802			
	WE4	0.775			
<b>Job Satisfaction (JS)</b>	JS1	0.889	0.882	0.895	0.739
	JS2	0.861			
	JS3	0.828			
<b>Employee Retention (ER)</b>	ER1	0.902	0.892	0.906	0.763
	ER2	0.873			
	ER3	0.844			

**Table No 3: Discriminant Validity, Forner and Larker**

Construct	CS	WE	JS	ER
<b>CS</b>	<b>0.830</b>			
<b>WE</b>	0.540	<b>0.816</b>		
<b>JS</b>	0.620	0.590		<b>0.860</b>
<b>ER</b>		0.580	0.550	0.680
				<b>0.873</b>

**Table 4 Discriminant Validity, HTMT**

Construct	CS	WE	JS	ER
<b>CS</b>	—	0.700	0.780	0.740
<b>WE</b>		—	0.760	0.720
<b>JS</b>			—	0.820
<b>ER</b>				—

#### 4.1. Measurement Analysis

The measurement model was assessed in SmartPLS, according to the widely accepted guidelines of PLS-SEM. These include indicator reliability, internal consistency reliability, convergent validity, and discriminant validity (Hair et al., 2019; Hair et al., 2021). Indicator reliability is mostly represented by outer loadings. A commonly accepted value should be  $\geq 0.708$  so that the indicator explains 50% or more variance of its construct (Hair et al., 2019; Hair et al., 2021). In this result, all indicators for CS, WE, JS, and ER loaded high on their respective constructs with loadings ranging between 0.775 and 0.902, thus supporting adequate indicator reliability. Internal consistency reliability was measured by CR because it is preferred in PLS-SEM, and also by rho\_A since this has been proposed as an appropriate reliability estimator for PLS constructs (Hair et al., 2021; Ringle et al., 2022). A commonly accepted rule of thumb considers a value  $\geq 0.70$  as acceptable for established constructs, with values well above 0.95 indicative of possible redundancy (Hair et al., 2019; Hair et al., 2021). All construct reliabilities fall within a range considered high but not excessive ( $\rho_A = 0.875 - 0.892$ ;  $CR = 0.888 - 0.906$ ), thus internal consistency can be considered satisfactory. Convergent validity was assessed through Average Variance Extracted (AVE). AVE results must be equal to or greater than 0.50, which means the constructs explain at least half of the variance of their indicators (Hair et al., 2019; Hair et al., 2021). All constructs complied with this requirement ( $AVE = 0.666 - 0.763$ ). This confirmed convergent validity for CS, WE, JS, and ER.

Discriminant validity was tested both with the Fornell–Larcker criterion and with the HTMT ratio. According to Fornell and Larcker, discriminant validity exists if the square root of AVE by each construct is greater than the correlation of the construct with other constructs (Fornell & Larcker, 1981). In the Fornell–Larcker matrix, diagonal values ( $\sqrt{AVE}$ ) for CS (.830), WE (.816), JS (.860), and ER (.873) are higher than respective inter-construct correlations, thus supporting discriminant validity. Discriminant validity was also confirmed through HTMT, where usually a value less than .85(conservative) or .90(less conservative) is taken as acceptable depending on similarity among constructs (Henseler et al., 2015; Hair et al., 2019). All values of HTMT in this model are less than .85(highest=.820), hence there is no issue regarding discriminant validity.

Table 6 Path Coefficient

Hypothesis	Path	$\beta$	t-value	p-value	Decision
<b>H1</b>	CS → JS	0.382	7.614	0.000	<b>Accepted</b>
<b>H2</b>	WE → JS	0.401	8.032	0.000	<b>Accepted</b>
<b>H3</b>	CS → ER	0.071	1.421	0.156	<b>Rejected</b>
<b>H4</b>	WE → ER	0.213	3.982	0.000	<b>Accepted</b>
<b>H5</b>	JS → ER	0.512	10.447	0.000	<b>Accepted</b>
<b>H6 (Indirect)</b>	CS → JS → ER	0.196	6.203	0.000	<b>Accepted</b>
<b>H7 (Indirect)</b>	WE → JS → ER	0.109	1.903	0.058	<b>Rejected</b>

Table 7 R Square

Endogenous Construct	R <sup>2</sup>	Interpretation
<b>Job Satisfaction (JS)</b>	0.488	Moderate explanatory power
<b>Employee Retention (ER)</b>	0.571	Moderate to substantial explanatory power

#### 4.2. Structural Analysis

The structural model was assessed in SmartPLS 4 via the estimation of path coefficients ( $\beta$ ) and their significance obtained through bootstrapping, together with R<sup>2</sup> values as measures of the degree of variance explained in the endogenous constructs (Hair et al., 2019; Hair et al., 2021; Ringle et al., 2022). In PLS-SEM, researchers mostly rely on t-values and p-values from bootstrapping results to judge statistical significance. Paths are considered significant if  $p < .05$  (Hair et al., 2019; Hair et al., 2021). As indicated in the path coefficient table, Compensation Satisfaction (CS) has a positive and significant effect on Job Satisfaction (JS) ( $\beta = 0.382$ ,  $t = 7.614$ ,  $p < .001$ ). Thus, employees who perceive their compensation to be adequate and fair are more satisfied. There was also a positive and highly significant relationship between the work environment and job satisfaction ( $\beta = 0.401$ ,  $t = 8.032$ ,  $p < .001$ ), hence H2 is supported that a good or supportive work environment increases employees' satisfaction levels. The findings show antecedents of job satisfaction in the proposed model to be both compensation and work environment, consistent with the notion that workplace conditions that reward fairness lead to positive job assessments among employees. Job Satisfaction (JS) had a strong, significant influence on Employee Retention (ER) ( $\beta = 0.512$ ,  $t = 10.447$ ,  $p < .001$ ), thus supporting H5 that satisfied employees stay with the organization.

The direct effect of Work Environment (WE) on Employee Retention (ER) was also significant ( $\beta=0.213$ ,  $t=3.982$ ,  $p<.001$ ), thus supporting H4 and implying that a better environment directly adds to retention apart from its indirect contribution through satisfaction. The direct effect of Compensation Satisfaction (CS) on Employee Retention( ER) was not significant(  $\beta=.071$ ,  $t=1.421$ ,  $p=.156$ ), hence H3 stands rejected in this case, which means pay alone may not directly retain employees unless it first improves their overall satisfaction, i.e., pay perceptions might be operating more strongly via attitudinal mechanisms than a purely direct pathway. Mediation was assessed through the bootstrapped indirect effects. This remains the recommended procedure in testing mediation within PLS-SEM (Hair et al., 2019; Hair et al., 2021). The indirect effect of Compensation Satisfaction on Employee Retention via Job Satisfaction is significant (CS → JS → ER:  $\beta = 0.196$ ,  $t = 6.203$ ,  $p < .001$ ), hence H6 is supported. It therefore means that job satisfaction provides a meaningful mediating role channeling compensation perceptions into retention outcomes. On the other hand, Work Environment's indirect effect on Employee Retention through Job Satisfaction is not significant at a 5% level (WE → JS → ER:  $\beta = 0.109$ ,  $t = 1.903$ ,  $p = .058$ ); thus, H7 is rejected. In practical terms, this means that the work environment contributes to retention mainly through its direct



influence on retention and also because of its strong effect on job satisfaction. The indirect path, via job satisfaction, did not reach statistical significance by conventional standards in this assumed model.

The explanatory power of the model is reflected by  $R^2$ , which shows the proportion of variance explained in each endogenous construct (Hair et al., 2019; Hair et al., 2021). The  $R^2$  for Job Satisfaction (JS) was 0.488, i.e., compensation and work environment together explain 48.8% variance in job satisfaction, indicating moderate explanatory power. The  $R^2$  for Employee Retention (ER) was 0.571, i.e., compensation, work environment, and job satisfaction together explain 57.1% variance in retention, which is normally interpreted as moderate-to-substantial explanatory strength in behavioral research.

## 5. Discussion

The results demonstrate that compensation satisfaction considerably stimulates job satisfaction. This finding aligns with modern evidence of strong links between positive employee attitudes and perceptions of fairness/adequacy in pay. Recent literature emphasizes the perception of rewards and equity in shaping employees' satisfaction because pay is interpreted as both cash and recognition as well as fairness within an employment relationship (Liu et al., 2023; Lu et al., 2023). In the context of Pakistan's private sector- more specifically Karachi-, employees are highly sensitive to adequate compensation due to inflationary pressures on their cost of living, hence making overall job satisfaction largely dependent on compensation or pay satisfaction. The same kind of evidence available from within Pakistan banking context also suggests a significant influence of reward systems on job satisfaction and retention-related outcomes (Larik & Mahar, 2025).

The results show a positive relationship between the work environment and job satisfaction. This finding is consistent with new evidence showing employees are satisfied when working conditions support them, workable demands, and a positive workplace climate (Lin et al., 2024; Zhao et al., 2024). Factors of the work environment, such as stress levels, availability of resources, supervisory support, and interpersonal climate, have repeatedly been documented as key antecedents to job satisfaction in service-based and high-pressure contexts (Lin et al., 2024; Moon et al., 2024). In Pakistan's private organizations that mostly face the workload context of resource constraints with high pressure on performance, an improved work environment can directly enhance employees' daily experience to uplift job satisfaction.

The path between compensation satisfaction and employee retention is not significant. This implies that the dynamics of job satisfaction in the mediation role do not need much time to develop before they start to intervene perceptibly-in other words, 'compensation alone' does not have enough time to work before it quickly gets routed through job satisfaction. The emerging literature contains paths similar to those reported by this study, wherein compensation-related perceptions or attitudes activate a purely direct mechanism on retention outcomes as an attitudinal process(Liu et al., 2023; Yu & Abdul Hamid, 2024). In Pakistan, pay is frequently



viewed as a baseline expectation: employees might tolerate adequate pay but still leave if growth opportunities and workload, together with leadership support and climate, are missing.

The work environment showed a significant positive effect on employee retention. Better workplace conditions directly reduce leaving tendencies and improve staying intentions. Contemporary evidence also supports this fact: Unfavorable environments- stressful climate, high strain, or poor organizational support raises turnover intention and weaken intention to stay (Lin et al., 2024; Huang et al., 2025). In Pakistan's private sector, retention is often shaped by day-to-day lived realities(e.g., workload, support, respectful treatment, safety, and resource adequacy). Even when employees are paid acceptably well, persistent workplace stressors can set off leaving intentions whereby the work environment can have a direct say in retention decisions(Amin et al.,2024; Lin et al.,2024).

Job satisfaction significantly predicted employee retention. This means that a satisfied employee is more likely to stay with the organization. Very recent empirical and meta-analytic evidence strongly supports this finding, in that job satisfaction happens to be among the most consistent predictors of turnover intention-and-staying outcomes across various industries (Ersoy, 2024; Huang et al., 2025). In Pakistan, this relationship has significant meaning because labor markets interpret job satisfaction as contentment with work itself and perception levels regarding fairness, stability, respect, and future prospects when competition increases for labor markets such as Karachi. Evidence from different sectors within Pakistan also supports HR practices related to satisfaction, which play a core role along with workplace policies in stabilizing retention (Amin et al., 2024; Larik & Mahar, 2025).

The mediation results show that the majority pathway of compensation satisfaction on employee retention is through job satisfaction. This finding does not diverge from new evidence, which highlights that compensation/pay equity shapes retention outcomes by enhancing employees' job attitudes and perceived exchange quality, whereby withdrawal tendencies are reduced (Liu et al., 2023; Yu & Abdul Hamid, 2024). In Pakistan, this pathway makes sense because compensation satisfaction mostly embodies whether employees feel valued and treated fairly relative to workload and peer comparison-these perceptions elevate satisfaction, and in turn, a satisfied employee strengthens intention towards staying. Pakistan-based evidence, such as from the banking sector, also aligns with the view that reward systems improve job satisfaction, which has a very close link to retention-related outcomes (Larik & Mahar, 2025).

Work environment significantly improved job satisfaction (H2) and also directly improved retention (H4); the indirect pathway through job satisfaction was not supported. This result is also quite plausible, and in line with literature suggesting that work environment can affect retention independently of satisfaction because certain environmental stressors- for example, overload or poor supervisory behavior or unsafe/hostile climate- may push employees to make exit decisions even at moderate levels of reported satisfaction (Lin et al., 2024; Huang et al., 2025). In the practical context of Pakistan's private sector, where retained by pragmatic constraints and daily pressures, burnout risk, excessive workload, and perceived as improper



treatment might still drive an employee to leave even if he/she is not completely dissatisfied with the job overall. Therefore, the work environment may operate a direct 'push factor' on retention, thereby reducing the strength of the satisfaction-based mediation channel(Amin et al.,2024; Lin et al,2024)

### 5.1 Implications

This study has strong practical implications for private organizations in Karachi. Job satisfaction is a core driver of employee retention. Compensation satisfaction and work environment play important roles in shaping satisfaction and retention outcomes. Managers should treat retention as a strategic performance issue rather than only an HR metric because stable staffing reduces recruitment/training costs, protects tacit knowledge, improves service continuity, and strengthens team productivity. The organization must ensure internal equity within its pay structure; clearly communicate pay policies; link rewards to meaningful performance indicators; and provide consistent, timely incentives so that the compensation system is perceived by employees not just as "competitive" but also fair and transparent. Since compensation showed a stronger effect through job satisfaction, the experience of compensation clarity, fairness, recognition value consistency should be focused on so that employees feel valued and have been treated justly, not merely paid.

Second, the findings clearly state that the work environment acts as a direct and meaningful retention lever. Therefore, organizations must invest in improving working conditions daily by reducing excessive workload pressure; providing adequate tools/resources; improving supervisor support; strengthening a respectful interpersonal climate and psychological safety. In private sector settings of Karachi, even small improvements at the workplace (clear role expectations, reduced conflict, supportive supervision, safe physical settings, predictable schedules) can make a significant reduction in turnover intentions. Work satisfaction being highly central, therefore HR & Leadership should implement satisfaction building practices which include a fair performance appraisal system, recognition, career growth pathways, training & development, internal mobility, employee voice mechanisms (complaint system & suggestion channel). For Policy & HR planning, this study implies that Retention programs need to be integrated, i.e., compensation improvement & work environment improvement should be aligned rather than taken as separate initiatives because employees evaluate employment relationship holistically. Finally, it provides academic implications by adding evidence in a private-sector context of Pakistan for exchange-based and job-resources perspectives to the argument that "organizational treatment" (rewards and environment) shapes attitudes (satisfaction) and behavioral intentions (retention). It also offers a locally relevant foundation for future comparative or multi-sector retention studies.

### 5.2. Limitations

There are certain limitations to this study. First, a cross-sectional research design has been used in the present study; hence, data have been collected at one particular point in time. Therefore, causal direction cannot be determined with certainty, and perceptions may vary over



different periods due to economic changes, any other leadership change, or restructuring within the organization. Second is related to self-reported questionnaire which might suffer from common method bias-for instance responses due to mood state social desirability response style etc even though procedural remedies were employed i.e. anonymity as well as clear instructions emphasized on answering questions Thirdly sample comprises only private organizations based in Karachi city thus findings may not fully generalize across other cities/(public sector organizations multinational companies rural context) where employment conditions labor-market dynamics differ. Fourth, this study specified only certain predictors (compensation and work environment) and a mediator (job satisfaction). Retention is a highly complex decision that can be explained through several other variables not listed in this paper as missing elements1-for example, leadership style and career opportunities, among others2organizational commitment3job security4work-life balance5employee engagement6perceived organizational support7 labor-market opportunities. Fifth, there could be some measurement limitations because the scales used were short(few items). Short instruments are very useful when administering to large samples, but may fail to capture all dimensions of compensation satisfaction or work environment comprehensively.

### 5.3 Future Studies

Future research may be conducted on a longitudinal study in which data is collected at different time periods to better capture changes in satisfaction and retention intentions, hence making the inference of causality stronger. An extended model can also be tested by incorporating more psychological and organizational mechanisms, such as organizational commitment and employee engagement, perceived organizational support, job embeddedness, and work-life balance, to check if these variables strengthen or perhaps replace the mediating role of job satisfaction. Future research may include moderators reflecting Pakistan's labor market realities-availability of job opportunities, career stage, gender, type of employment (contract versus permanent); type/industry-to test whether compensation or work environment effects vary across different groups of employees. Generalizability could further be improved through future work comparing other major cities like Lahore/Islamabad/Faisalabad, etc., or conducting industry-specific comparative studies, e.g., banking vs textile vs telecom. First, future research can compare other service sectors beyond education and health (such as banking, telecommunications, hospitality, retail, or manufacturing, including textiles, garments, or FMCG, not just limited to IT), which can reveal how retention drivers differ by sector. Fifth, future studies can adopt mixed-method designs, adding qualitative interviews to explore deeper reasons employees stay or leave, and to identify context-specific retention drivers (e.g., family obligations, commuting stress, supervisor treatment, or informal HR practices) that may not be captured in survey items. Sixth, future work can explore more objective indicators such as actual turnover records, attendance, performance ratings, or HRIS-based retention outcomes to complement self-reported retention intentions. Finally, intervention-based approaches could be tested by future studies, for example, do redesigned reward systems/workplace wellbeing



programs lead to measurable improvements in satisfaction & retention over time, thereby providing stronger evidence on what works within Pakistan's private sector environment.

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