



**THE EFFECT OF FINANCIAL CONSTRAINTS ON FINANCIAL
PERFORMANCE WITH EMPLOYEE TURNOVER LEVEL AS A
MEDIATION VARIABLE IN NON-CYCLICALS CONSUMER COMPANIES
GOING PUBLIC IN INDONESIA IN THE PERIOD 2018 – 2024**

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Abstract

This study examines the effect of financial constraints on financial performance with employee turnover as a mediating variable in Consumer Non - Cyclical companies listed on the Indonesia Stock Exchange during the 2018 – 2024 period. The research problem arises from increasing financial pressure, particularly during the COVID-19 pandemic, which potentially affects workforce stability and corporate financial performance. This study employs a quantitative explanatory approach using panel data, analyzed through random effects regression and mediation testing, with robustness checks using the KZ Index and SA Index. The results indicate that financial constraints have a negative effect on financial performance and a positive effect on employee turnover. However, employee turnover does not mediate the relationship between financial constraints and financial performance. Future research is encouraged to apply alternative measures of firm performance and incorporate organizational or behavioral variables to better explain the internal mechanisms underlying this relationship.

Keywords: Financial Constraints, Financial Performance, Employee Turnover, Consumer Non – Cyclical, Panel Data



INTRODUCTION

Financial performance reflects a firm's ability to efficiently manage its resources and sustain competitive advantage in dynamic market environments. One of the key challenges affecting financial performance is financial constraints, which limit firm's access to external financing and restrict their ability to invest, expand, and maintain operational stability (Kashiwagi & Iwasaki, 2024); (Mahmood et al., 2025). These constraints become more critical during periods of economic disruption, such as the COVID 19 pandemic, which significantly affected firms across industries, including the Consumer Non – Cyclical sector (Ganlin et al., 2021).

From a theoretical perspective, the Resource – Based View (RBV) posits that firm performance depends on the effective management of strategic resources that are valuable, rare, inimitable, and non – substitutable (Barney, 1991). Among these, human capital represents a critical resource that supports operational efficiency and long – term competitiveness. However, when firms face financial constraints, they often implement cost – efficiency strategies such as workforce reduction, increased workload, and compensation adjustments. These actions may increase employee turnover, leading to the loss of firm – specific knowledge, higher recruitment and training costs, and disruptions to operational processes, ultimately weakening financial performance (Pradhan et al., 2024); (Haque et al., 2025).

Previous studies have widely examined the direct relationship between financial constraints and financial performance, as well as the impact of employee turnover on organizational outcomes. Financial constraints are generally associated with reduced profitability and limited growth opportunities (Rahman et al., 2021), while employee turnover is often linked to decreased productivity and increased operational costs (Li et al., 2021); (Park & Shaw, 2013). Despite these findings, the internal mechanism through which financial constraints influence financial performance remains insufficiently understood.

In particular, the mediating role of employee turnover has not been consistently established. Some studies suggest that employee turnover partially mediates the relationship between organizational pressures and firm performance (Kaur et al., 2024), while others indicate that its effect may vary depending on contextual factors (Zambrano-chumo & Guevara, 2024). This inconsistency highlights the need for further investigation into whether employee turnover acts as a full or partial mediator in the relationship between financial constraints and financial performance.



Furthermore, prior research has predominantly focused on developed economies and specific sectors such as banking and healthcare (Pradhan et al., 2024); (Haque et al., 2025), leaving the Consumer Non – Cyclical sector, especially in emerging markets, relatively underexplored. This sector plays a crucial role in providing essential goods and maintaining economic stability, particularly during crisis periods (Thai & Mai, 2023). Its unique characteristics, including relatively stable demand combined with operational complexity, make it an important context for examining the interaction between financial and human resource factors.

The COVID 19 pandemic provides a critical setting to examine these relationships. Government – imposed mobility restrictions, supply chain disruptions, and declining consumer purchasing power significantly increased financial pressure on firms (Ganlin et al., 2021). As a result, many firms experienced declining profitability, liquidity constraints, and workforce instability, leading to increased employee turnover (Alawi et al., 2023). These conditions suggest that financial constraints not only directly affect financial performance but also indirectly influence it through internal organisational mechanisms such as employee turnover.

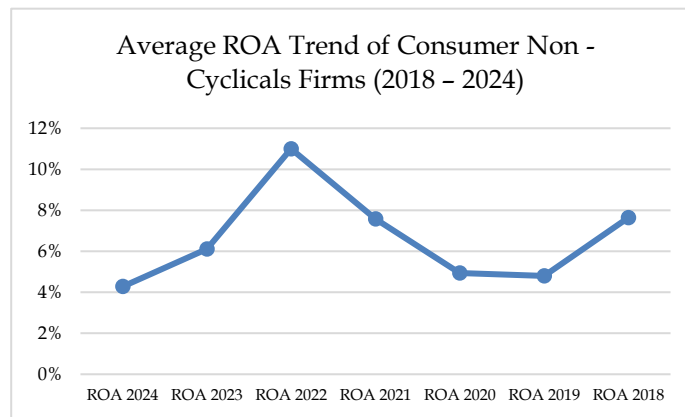


Figure 1.1. Average ROA Trend 2018 - 2024

Source : Annual Report

Figure 1.1. illustrates the average ROA of 51 Consumer Non – Cyclical firms from 2018 to 2024. The trend indicates relatively stable performance before the pandemic (2018 – 2019), followed by a significant decline during the pandemic period (2020 – 2021). Although a recovery is observed in 2022, fluctuations in subsequent years (2023 – 2024) suggest persistent financial pressure and ongoing funding constraints.



Despite the growing body of literature, several research gaps remain. First, prior studies have not sufficiently clarified the internal mechanism linking financial constraints and financial performance. Second, the role of employee turnover as a mediating variable remains inconclusive, particularly regarding whether it functions as a full or partial mediator. Third, limited empirical evidence exists within the Consumer Non – Cyclical sector in emerging markets, especially in the context of economic shocks such as the COVID 19 pandemic. Therefore, this study addresses these gaps by examining the mediating role of employee turnover in the relationship between financial constraints and financial performance across different economic periods.

Based on the identified gaps, this study addresses the following research questions :

- (1) Do financial constraints negatively affect financial performance ?
- (2) Do financial constraints increase employee turnover ?
- (3) Does employee turnover negatively affect financial performance ?
- (4) Does employee turnover mediate the relationship between financial constraints and financial performance ?

Accordingly, this study aims to examine the effect of financial constraints on financial performance, analyze their impact on employee turnover, investigate the influence of turnover on firm performance, and evaluate the mediating role of employee turnover. By integrating financial and human capital perspectives within the RBV framework, this study contributes to a deeper understanding of the internal mechanisms through which financial constraints affect firm performance, particularly in the Consumer Non – Cyclical sector during periods of economic disruption.

LITERATURE REVIEW

Theoretical Foundation

This study is grounded in the Resource – Based View (RBV) and Pecking Order Theory to explain the relationship between financial constraints, employee turnover, and financial performance.

The Resource – Based View (RBV) posits that firm performance is determined by the effective management of strategic resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Human capital, including employee skills, experience, and retention, represents a critical intangible resource that contributes to organizational performance (Wright et al., 2001). High employee turnover reflects the loss of firm – specific human capital, which



weakens organizational capabilities and negatively affects performance (Nyberg et al., 2014); (Park & Shaw, 2013). Therefore, within the RBV framework, employee turnover can be understood as a mechanism through which internal resource instability translates into reduced financial performance.

In addition, Pecking Order Theory explains firms' financing behavior under information asymmetry conditions (Myers & Majluf, 1984). Firms prioritize internal financing over external sources due to lower information costs. When internal funds are insufficient, firms rely on debt, while equity is considered the least preferred option. Under financial constraints, limited access to external financing restricts investment and operational flexibility, ultimately affecting firm performance.

By integrating these two theories, this study argues that financial constraints not only directly affect financial performance but also indirectly influence it through internal organizational mechanisms, particularly employee turnover.

Conceptual Integration of Variables

Customer – level models typically explain behavioral outcomes through sequential processes involving cognitive and affective evaluations. In an organizational context, a similar mechanism applies. Financial constraints represent external pressure affecting firms' resource allocation decisions, while employee turnover reflects internal organizational responses to such pressures.

Specifically, financial constraints influence managerial decisions related to cost efficiency, which affect employee welfare and job stability. These conditions shape employees' perceptions and behaviors, leading to turnover. In turn, employee turnover represents a disruption in human capital that affects operational efficiency and financial performance.

Thus, the relationship between variables can be understood as a process :

- Financial constraints → resource pressure
- Employee turnover → internal organizational response
- Financial performance → outcome

Financial Constraints and Financial Performance

According to the Pecking Order Theory, financial constraints limit firms' access to external funding, forcing them to rely on internal resources (Myers & Majluf, 1984). When internal funds are insufficient, firms may delay or reduce investment activities, leading to lower productivity and profitability.

Empirical studies generally support a negative relationship between financial constraints and financial performance. Financial constraints reduce



firms' ability to invest in profitable opportunities, weaken innovation capacity, and limit growth (Ahamed et al., 2023); (Rahman et al., 2021). During crisis periods, such as the COVID 19 pandemic, financial constraints become more severe and significantly weaken firms' operational performance (Ganlin et al., 2021); (Kashiwagi & Iwasaki, 2024).

However, some studies report mixed findings, suggesting that financial constraints may also lead to more efficient resource utilization under certain conditions (Yao et al., 2022). This inconsistency indicates the need for further investigation.

H₁: Financial constraints negatively affect financial performance

Financial Constraints and Employee Turnover

From an RBV perspective, employees are strategic assets whose retention is critical for sustaining competitive advantage (Barney, 1991). Financial constraints often force firms to implement cost – cutting strategies, such as wage reductions, limited career development opportunities, and increased workloads, which reduce job satisfaction and increase turnover intention.

Pecking Order Theory further explains that limited access to external financing reduces firms' ability to invest in human capital development, which may weaken employee commitment (Myers & Majluf, 1984).

Empirical evidence suggest that financial pressure and organizational instability increase employee turnover (Alawi et al., 2023); (Haque et al., 2025). Although direct empirical studies linking financial constraints and turnover remain limited, related findings indicate that financial stress negatively affects employee satisfaction and retention (Zambrano-chumo & Guevara, 2024).

H₂: Financial constraints positively affect employee turnover

Employee Turnover and Financial Performance

Employee turnover represents the rate at which employees leave an organisation and is often associated with negative organizational outcomes. According to RBV, high turnover leads to the loss of valuable human capital, increasing recruitment and training costs and disrupting organizational processes (Nyberg et al., 2014).

Empirical studies consistently find that employee turnover negatively affects financial performance. High turnover reduces productivity, increases operational costs, and weakens firm performance, particularly in terms of Return on Assets (ROA) and sales growth (Li et al., 2021); (Park & Shaw, 2013).



However, some studies suggest that turnover may have positive effects when low – performing employees are replaced (Eriksen, 2013). Despite this, the overall evidence supports a predominantly negative relationship.

H₃: Employee turnover negatively affects financial performance

The Mediating Role of Employee Turnover

This study positions employee turnover as a mediating variable that explains the mechanism through which financial constraints affect financial performance. From an RBV perspective, financial constraints weaken firms' ability to maintain strategic human capital, leading to higher turnover. This loss of human capital reduces organizational efficiency and ultimately affects financial performance.

While financial constraints may directly influence performance, employee turnover captures the internal organizational process that translates financial pressure into performance outcomes. Therefore, examining both direct and indirect effects is important to determine whether the mediation is partial or full.

Empirical evidence suggests that employee – related factors often mediate the relationship between organizational conditions and performance outcomes (Kaur et al., 2024); (Hancock et al., 2013).

H₄: Employee turnover mediates the relationship between financial constraints and financial performance

Conceptual Model Explanation

The conceptual model of this study proposes that financial constraints influence financial performance both directly and indirectly through employee turnover. Employee turnover is included as a mediating variable because it represents the internal organizational mechanism through which financial pressure affects firm outcomes.

While financial constraints may directly reduce profitability by limiting investment capacity, they also indirectly affect performance by increasing employee turnover, which disrupts operational efficiency. Therefore, both direct and indirect relationships are examined to provide a comprehensive understanding of the causal mechanism.

RESEARCH METHOD

This study employs a quantitative explanatory design to examine the causal relationships between financial constraints, employee turnover as a mediating variable, and financial performance. The analysis uses panel data from firms in the Consumer Non – Cyclical sector listed on the Indonesia Stock



Exchange (IDX) over the period 2018 – 2024, allowing the estimation of both direct and indirect effects (Creswell & Creswell, 2023). The sample is selected using purposive sampling, as only firms with complete and consistent financial reports across the observation period are included. This approach is appropriate for panel data research that requires balanced and reliable observations. The final dataset consists estimation (Wooldridge, 2018).

Financial constraints are measured using the KZ Index and SA Index (Hadlock & Pierce, 2010), while employee turnover is calculated as the ratio employee separations to the average number of employees (Haque et al., 2025). Financial performance is proxied by Return on Assets (ROA), reflecting firm efficiency in generating profits from total assets (Caputo et al., 2025). To minimize omitted variable bias, several control variables are included, namely leverage, tangibility, R&D intensity, and liquidity (Hair et al., 2019). Given that this study relies on secondary financial data, common method bias is not a major concern, as measurement does not depend on self – reported responses.

Data analysis is conducted using panel regression models, with model selection based on the Chow, Hausman, and Lagrange Multiplier tests (Wooldridge, 2010). Prior to estimation, data are treated using winsorization to control outliers and logarithmic transformation to stabilize variance (Beyaztas & Bandyopadhyay, 2020); (Sundari et al., 2025). The mediating role of employee turnover is tested using a causal step approach, where mediation is supported if financial constraints significantly affect turnover, turnover significantly affects financial performance, and the direct affect of financial constraints decreases after including the mediator (Hair et al., 2019). Model validity is further ensured through multicollinearity and heteroskedasticity tests, while hypothesis testing is performed using t – test, F – tests, and the coefficient of determination (Ghozali, 2016).

RESULTS AND DISCUSSION

Descriptive Statistical Test

The dataset consists of 357 firm – year observations from 51 Consumer Non – Cyclical sector listed on the Indonesia Stock Exchange (2018 – 2024). Financial performance (ROA) shows substantial variation (Mean = 66.19; Std. Dev = 239.15), indicating heterogeneous firm performance across the sample. Financial constraints proxies (KZ Index and SA Index) also exhibit high dispersion, suggesting differing levels of financing limitations among firms.



This heterogeneity is consistent with prior studies indicating that firm – level financial conditions vary significantly across industries and time (Ahamed et al., 2023).

Table 4.1. Descriptive Statistics

Variabel	Obs	Mean	Std. Dev.	Min	Max
fc_kz	357	-3210871	2.15e+07	-2.29e+08	2191624
ln_fc_sa	357	41.02661	3.392592	28.7225	51.97998
turnover	357	-1.492997	155.3122	-1455	929
roa	357	66.19608	239.1498	-689	3330
leverage	357	9656178	1.69e+08	67	3.19e+09
tangibility	357	619.1401	1225.761	0	18002
rnd	357	53522.55	66154.14	0	676334
liquidity	357	2126.319	2231.534	0	13396

Panel Model Selection (Chow, Hausman, LM Tests)

The model selection results indicate that the Chow test rejects the null hypothesis ($p < 0.05$), suggesting that the Fixed Effects Model (FEM) is preferred over pooled OLS due to the presence of firm – specific heterogeneity. However, the Hausman test also rejects the null hypothesis ($p < 0.05$), indicating that the Random Effects Model (REM) is more appropriate due to efficiency considerations. This finding is further supported by the Breusch – Pagan Lagrange Multiplier test ($p < 0.05$), which confirms that REM is superior to the Common Effects Model (CEM). Therefore, the Random Effects Model (REM) is selected as the final estimation model (Wooldridge, 2016).

Table 4.2. Panel Data Model Selection Results

Test	Statistic	Probability	Decision Rule	Selected Model
Chow Test	F = 3.66	0.0000	$P < 0.05 \rightarrow$ reject H_0 (CEM)	Fixed Effects Model (FEM)
Hausman Test	$\text{Chi}^2 = 52.85$	0.0000	$P < 0.05 \rightarrow$ reject H_0 (REM consistent)	Random Effects Model (REM)
LM Test (Breusch – Pagan)	$\text{Chibar}^2 = 51.88$	0.0000	$P < 0.05 \rightarrow$ reject H_0 (CEM)	Random Effects Model (REM)

Classical Assumption Test

Multicollinearity is not a concern, as all VIF values are below 10 (mean VIF = 1.16), indicating low correlation among independent variables (Kim, 2019).



To address potential redundancy and bias concerns, VIF is also reported as part of robustness diagnostics, aligning with reviewer recommendations regarding common method bias and indicator redundancy.

Table 4.3. VIF Results

Variable	VIF	1/VIF
turnover	1.41	0.711602
leverage	1.36	0.735077
rnd	1.11	0.897001
liquidity	1.07	0.937865
fc_kz	1.02	0.981182
tangibility	1.00	0.998883
mean vif	1.16	

Panel Regression Results (Main Model)

The REM regression shows that :

- Turnover → ROA : Negative significant ($\beta = -0.2823$; $p < 0.01$)
- Financial Constraints → : Not Significant ($p > 0.05$)
- Leverage: Positive and significant
- R&D : Negative and significant

These findings suggest that employee turnover is the most influential variable affecting financial performance, while financial constraints do not directly impact ROA.

Table 4.4. Main Regression Results

Random-effects GLS regression		Number of obs	=	357
Group	: firm_id	Number of groups	=	51
variable				
R-sq :		Obs per group :		
within	= 0.0671	min	=	7
between	= 0.4807	avg	=	7.0
overall	= 0.1557	max	=	7
corr (u_i, xb)	= 0 (assumed)	Wald chi2 (6)	=	52.85
		Prob > F	=	0.0000

roa	Coef.	Std. Err.	T	P> t	[95% conf.	Interval]
turnover	-2823003	.0861576	-3.28	0.001	-.4511661	-.1134345
fc_kz	1.47e-07	5.87e-07	0.25	0.802	-1.00e-06	1.30e-06
leverage	2.69e-07	7.83e-08	3.44	0.001	1.16e-07	4.23e-07
tangibility	-.0020885	.0092524	-0.23	0.821	-.0202229	.0160458
rnd	-.0006024	.0002011	-3.00	0.003	-.0009965	-.0002083
liquidity	.0077785	.0059256	1.31	0.189	-.0038354	.0193924
-cons	80.64105	20.89485	3.86	0.000	39.6879	121.5942
sigma_u	48.600207					
sigma_e	188.51565					
rho	.06232116	(fraction of variance due to u_i)				



Mediation Analysis (Improved Reporting)

Following modern mediation analysis (Zhao, Lynch, 2010), the study reports :

Table 4.5. Summary of Direct, Indirect, and Total Effects

Effect Type	Result
Direct Effect (FC → ROA)	Not significant
Indirect Effect (FC → Turnover → ROA)	Significant (robustness model)
Total Effect	Weak
Mediation Type	Indirect – only mediation

In the main model (KZ Index), mediation is not supported. However, in the robustness model (SA Index), financial constraints significantly increase turnover, which subsequently reduces ROA.

This indicates that financial constraints influence performance only through workforce instability, not directly.

Table 4.6. Panel Regression Results (Mediation and Main Model

Variables	Mediation Model (Turnover)		Main Model (ROA)	
	Coef.	p – value	Coef.	p – value
ln_fc_sa	5.7657	0.006***	-	-
fc_kz	-	-	-3.9662	0.308
turnover	-	-	-2.6785	0.002***
leverage	-4.44e-07	0.000***	2.67e-07	0.001***
tangibility	-0.0009	0.868	-0.0025	0.788
rnd	-0.0004	0.000***	-0.0006	0.002***
liquidity	0.0074	0.021**	0.0070	0.238
constant	-226.8828	0.010**	245.613	0.134

R² Interpretation (Revised)

The model explains 15.57% of the variation in ROA, which is relatively low, However, this does not invalidate the model, as financial performance is influenced by many external factors.

Importantly, the R² value should not be overinterpreted, as it may be affected by omitted variables and model specification (Ozili, 2023). Compared to prior studies, this level of explanatory power is still acceptable in corporate finance research.

Discussion

The findings indicate that financial constraints do not significantly affect financial performance (ROA), suggesting that firms categorized as financially constrained may still retain access to external financing. This results supports the



argument of (Farre-Mensa & Ljungqvist, 2016) and suggest that the relationship between financial constraints and firm performance is context – dependent rather than deterministic. From a theoretical standpoint, this challenges the traditional view of Pecking Order Theory, which assumes that financing limitations directly weaken firm performance. Furthermore, the effect of financial constraints on employee turnover appears sensitive to measurement, while the KZ Index shows no significant relationship, the SA Index indicates that financial constraints increase turnover. This finding implies that financial pressure may trigger organizational stress mechanisms, such as cost – cutting policies and reduced employee welfare, which in turn increase employee exit rates (Zambrano-chumo & Guevara, 2024).

In contrast, employee turnover emerges as the most influential variable affecting financial performance, showing a consistent negative and significant relationship with ROA. This finding aligns with the Resource – Based View (RBV), which emphasizes human capital as a strategic asset (Barney, 1991). High turnover leads to the loss of firm – specific knowledge, increased recruitment and training costs, and reduced operational efficiency, ultimately weakening firm capabilities and profitability. Moreover, the mediation analysis indicates that financial constraints influence financial performance indirectly through turnover, particularly in the robustness model. This mechanism suggest that financial constraints create internal pressure that destabilizes the workforce, leading to higher turnover and subsequently lower productivity and financial performance.

Several alternative explanations should also be considered. Firms may possess financial flexibility that mitigates the direct impact of constraints, while turnover decisions may be driven more by psychological and organizational factors than purely financial conditions. Additionally, the relatively stable nature of the Consumer Non – Cyclical sector may limit variability in financial performance. The discrepancy between KZ and SA Index results further highlights the importance of measurement choice and potential estimation bias. From a practical perspective, these findings suggest that firms should prioritize employee retention strategies during periods of financial pressure, as managing human capital appears more critical than financial constraints in sustaining performance. Investors may also consider turnover rates as an important indicator of firm health and long – term stability.

CONCLUSION

This study examines the direct and indirect of financial constraints on firm financial performance, with employee turnover as a mediating variable, in



Consumer Non – Cyclical companies listed on the Indonesia Stock Exchange during 2018 – 2024 using panel data regression with the Random Effects Model (REM) and robustness testing. The findings indicate that financial constraints do not significantly affect financial performance in the main model (KZ Index), but become negatively significant when measured using the SA Index, suggesting influence on employee turnover, and turnover does not significantly affect financial performance, indicating the absence of a mediating effect. Overall, firm performance in this sector is more strongly influenced by structural characteristics such as firm size and asset composition rather than short – term financial pressure or workforce dynamics. These results imply that firms can maintain profitability through operational efficiency and adaptive resource management despite financial constraints, although such constraints still warrant attention due to potential organizational impacts. Future research is encouraged to employ alternative proxies (e.g., WW Index), dynamic panel methods (e.g., GMM), and additional human resource variables to better capture underlying mechanisms, as well as expand analysis to more cyclical sectors. Practically, managers should focus on maintaining efficiency and workforce stability, investors should adopt a more comprehensive evaluation of financial constraints by considering firm characteristics, and policymakers should promote inclusive financing access, particularly for smaller and younger firms, to support sustainable performance.

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