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The Influence of Financial Management on Organizational Performance

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Abstract

Effective financial management plays a strategic role in improving organizational performance by ensuring the efficient allocation of resources, strengthening financial accountability, and supporting informed managerial decision-making. This study aims to examine the influence of financial management on organizational performance. A quantitative explanatory research design was employed using a survey approach. Data were collected from managers, financial officers, and administrative staff across various organizations through structured questionnaires distributed using proportional random sampling. The measurement instruments were tested for validity and reliability prior to hypothesis testing. The collected data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) to evaluate both the measurement model and the structural relationships between financial management and organizational performance.The findings reveal that financial management has a positive and statistically significant effect on organizational performance. Effective financial planning, budgeting, financial reporting, cash flow management, and internal financial control contribute substantially to enhancing organizational efficiency, operational effectiveness, accountability, and the achievement of strategic objectives. The structural model demonstrates strong explanatory power, indicating that improvements in financial management practices significantly increase organizational performance. These findings support the Resource-Based View (RBV), which emphasizes that sound financial management represents a valuable organizational capability capable of generating sustainable competitive advantages. The study concludes that organizations should strengthen financial governance through transparent budgeting systems, accurate financial reporting, digital financial management technologies, and continuous capacity development for financial personnel. Such initiatives are expected to improve organizational sustainability, accountability, and overall institutional performance.

Keywords: Financial Management; Organizational Performance; Financial Planning

Introduction

Developments in the global business environment in the era of digital transformation have transformed the way organizations manage resources, design strategies, and maintain competitiveness. Globalization, the Fourth Industrial Revolution, international supply chain integration, and increasing competitive intensity require organizations to have adaptive, transparent, and data-driven financial management systems. Amidst these dynamics, financial management is no longer viewed solely as an administrative function focused on recording transactions, but has evolved into a strategic instrument that supports decision-making, optimizes resource allocation, and creates long-term organizational value. Effective financial management enables organizations to anticipate changes in the external environment, increases operational flexibility, and strengthens organizational resilience in the face of global economic disruption (Brigham & Ehrhardt, 2022; Atrill & McLaney, 2021; Ross et al., 2022).

Organizational sustainability is significantly influenced by the quality of financial management, including budget planning, cash flow, investment, financing, and financial risk management. Global economic uncertainty, inflationary pressures, exchange rate volatility, changing market preferences, and the increasing complexity of financial regulations are key challenges requiring organizations to have more responsive and accountable financial management systems. In this context, financial management serves as a mechanism to improve resource efficiency, operational effectiveness, and the organization's ability to sustainably maintain competitive advantage. Furthermore, digital transformation has accelerated the use of technologies such as Enterprise Resource Planning (ERP), Financial Information Systems (FIS), Artificial Intelligence (AI), Business Intelligence (BI), big data analytics, and cloud computing, enabling more accurate, real-time, and predictive financial planning, reporting, control, and analysis. This technology integration has been proven to improve the quality of financial governance, accelerate strategic decision-making, and strengthen organizational transparency and accountability (Laudon & Laudon, 2022; Deloitte, 2023; KPMG, 2024).From a modern management perspective, organizational performance is understood as the degree to which an organization achieves strategic goals through the effective, efficient, and sustainable use of resources. This concept has a broader scope than financial performance, which only assesses financial results through indicators such as profitability, liquidity, solvency, and return on investment. Organizational performance encompasses various integrated dimensions, including financial performance, operational performance, employee productivity, service quality, innovation capability, and organizational sustainability. Therefore, measuring organizational performance is not only oriented towards achieving economic profit, but also on the organization's ability to create innovation, improve service quality, empower human resources, and maintain long-term sustainability. Organizations that are able to integrate a strong financial management system with comprehensive performance measurement tend to have the characteristics of a High Performance Organization, namely an organization that is adaptive, learning-oriented, has good governance, is able to create value for stakeholders, and maintains competitive advantage in a dynamic business environment (de Waal, 2021; Kaplan et al., 2020; OECD, 2023).

The Resource-Based View (RBV) explains that an organization's competitive advantage stems from the possession of valuable, rare, inimitable, and non-substitutable resources and capabilities (Barney, 1991). In the context of this research, financial management is viewed as a strategic organizational resource that not only functions to manage financial transactions but also serves as a strategic capability in supporting the achievement of organizational goals. An organization's ability to develop financial plans, allocate budgets effectively, manage cash flow, implement internal controls, and produce accurate financial reporting will improve operational efficiency, decision-making quality, and long-term value creation. This perspective is reinforced by Dynamic Capability Theory, which states that organizations must be able to integrate, build, and reconfigure resources sustainably to respond to changes in the dynamic business environment (Teece, 2018). Therefore, adaptive financial capabilities, supported by the use of digital technologies such as Enterprise Resource Planning (ERP), Financial Information Systems (FIS), Artificial Intelligence (AI), and Business Intelligence (BI), are crucial factors in increasing competitiveness while strengthening organizational performance through increased efficiency, innovation, and sustainability (Teece, 2018; Barney et al., 2021).

Furthermore, the relationship between financial management and organizational performance can also be explained through Agency Theory and Stewardship Theory. Agency Theory explains that the separation of ownership and management of an

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organization has the potential to create conflicts of interest between principals and agents, necessitating a transparent, accountable, and responsible financial management system to reduce agency costs and information asymmetry (Jensen & Meckling, 1976). Conversely, Stewardship Theory assumes that managers act as stewards, prioritizing organizational interests over personal interests. Therefore, financial resource management is directed toward creating value, increasing efficiency, and ensuring organizational sustainability (Davis et al., 1997). The integration of these four theoretical perspectives provides a comprehensive conceptual foundation that the quality of financial management not only strengthens organizational governance, but also improves the organization's ability to adapt to environmental changes, strengthens stakeholder trust, and encourages increased organizational performance as reflected through financial performance, operational effectiveness, employee productivity, service quality, innovation capacity, and organizational sustainability (Barney et al., 2021; Teece, 2018).

Extensive research has been conducted on the influence of financial management on organizational performance, generally demonstrating a positive and significant relationship. Various studies have found that organizations that implement systematic financial planning, effective budgeting, strong internal controls, optimal cash flow management, and reliable financial reporting tend to have better organizational performance, both financially and non-financially. For example, research by Nguyen and Nguyen (2021) shows that effective financial management practices improve operational efficiency and organizational profitability. Furthermore, Ahmed et al. (2022) report that the quality of financial management contributes significantly to organizational productivity, decision-making effectiveness, and the achievement of strategic goals. Research by Alsharari (2023) also confirms that digitizing financial management through the implementation of Enterprise Resource Planning (ERP) and Financial Information Systems (FIS) can improve transparency, accountability, and sustainable organizational performance. However, most previous studies still focus on financial performance indicators or specific industrial sectors, so this study offers a contribution by examining financial management as a strategic capability that influences organizational performance multidimensionally, including financial performance, operational effectiveness, employee productivity, service quality, innovation capabilities, and organizational sustainability.

Research Methods

This study uses a quantitative approach with an explanatory research design to analyze the influence of financial management on organizational performance. This approach was chosen because it aims to test causal relationships between variables based on hypotheses formulated through a strong theoretical foundation. The study population consisted of organizational leaders, financial managers, financial staff, and officials involved in the financial management process at the organizations being studied. The sample was determined using proportionate random sampling, ensuring that each member of the population had a proportional chance of being selected as a respondent. Primary data were collected through a structured questionnaire using a five-point Likert scale. This questionnaire measured financial management dimensions including financial planning, budgeting, cash flow management, financial reporting, internal financial control, and financial risk management. Organizational performance was measured using indicators of financial performance, operational performance, employee productivity, service quality, innovation capability, and organizational sustainability. Prior to hypothesis testing, the research instruments were tested for validity and reliability to ensure measurement quality.

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Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with the help of SmartPLS software because this method is suitable for testing structural relationships between multidimensional latent variables and is able to accommodate data that does not have to be normally distributed. The analysis stages include evaluating the measurement model (outer model) through testing factor loading, Average Variance Extracted (AVE), Composite Reliability (CR), Cronbach's Alpha, and discriminant validity using the Heterotrait–Monotrait Ratio (HTMT) criteria. Next, the structural model (inner model) was evaluated through the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and hypothesis testing using a bootstrapping procedure to obtain path coefficients, t-statistics, and p-values. The significance level of the study was set at $\alpha = 0.05$. This analytical approach allows for a comprehensive examination of the magnitude of the influence of financial management on organizational performance, while providing empirical evidence regarding the role of financial management as a strategic capability in improving organizational effectiveness, efficiency, and sustainability.

Result and Discussion

The results of the Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis show that Financial Management has a positive and significant effect on Organizational Performance. The evaluation of the structural model produces a path coefficient value of 0.742, with a t-statistic value = 16.384 and a p-value <0.001, so that the research hypothesis (H1) is accepted. These findings indicate that improving the quality of financial management, which includes financial planning, budgeting, cash flow management, financial reporting, internal control, and financial risk management, can significantly improve organizational performance. Organizations that implement financial management practices systematically tend to have higher operational effectiveness, better human resource productivity, increased service quality, and stronger capabilities in achieving strategic goals. Table 1. Hypothesis Testing Results (PLS-SEM)

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Hypothesis	**Structural Relationship**	**Path Coefficient (β)**	**t-Statistic**	**p-Value**	**Effect Size (f^2)**	**Decision**
H1	Financial Management → Organizational Performance	0.742	16.384	< 0.001	1.228	Supported

In addition, the structural model shows an R^2 value of 0.551, indicating that 55.1% of the variation in Organizational Performance can be explained by Financial Management, while the remaining 44.9% is influenced by other factors outside the research model. The effect size (f^2) value of 1.228 indicates that Financial Management has a very large influence on Organizational Performance. Meanwhile, the predictive relevance (Q^2) value of 0.381 indicates that the model has good predictive ability. Overall, these results confirm that strengthening the financial management system is one of the strategic factors that

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contributes to the continuous improvement of organizational performance, both from financial and non-financial aspects.

Discussion

The results of the study indicate that financial management has a positive and significant effect on organizational performance, as indicated by a path coefficient of $\beta = 0.742$, $t = 16.384$, and $p < 0.001$. This finding indicates that the better the financial management practices implemented by an organization, the higher the resulting level of organizational performance. Financial management, which encompasses financial planning, budgeting, cash flow management, financial reporting, internal control, and financial risk management, significantly contributes to increased operational effectiveness, resource efficiency, and the achievement of an organization's strategic goals. From a Resource-Based View (RBV) perspective, financial management capabilities are strategic assets capable of creating sustainable competitive advantage because they enable organizations to optimize resource utilization and improve decision-making quality (Barney et al., 2021). Thus, financial management functions not only as a financial administration mechanism but also as a strategic resource that supports organizational value creation.The R^2 value of 0.551 indicates that 55.1% of the variation in organizational performance can be explained by the quality of financial management, while the remainder is influenced by other factors such as leadership, organizational culture, innovation, human resource competency, and external environmental dynamics. The strong explanatory power of this model confirms that financial management is a critical determinant in improving organizational performance. Realistic budget planning, effective cost control, and a transparent financial reporting system provide a more accurate information basis for management in determining strategic policies. These results align with Agency Theory, which states that a sound financial management system can reduce information asymmetry, strengthen accountability, and reduce agency costs through more effective monitoring and control mechanisms (Jensen & Meckling, 1976). Therefore, the quality of financial governance is a crucial factor in increasing stakeholder trust while improving overall organizational performance.

The research findings also show that effective financial management practices not only impact financial indicators but also improve operational performance, employee productivity, service quality, innovation capability, and organizational sustainability. Organizations with sound financial management systems tend to allocate resources more efficiently, accelerate operational processes, and provide funding support for innovation and organizational development. These results support Stewardship Theory, which views managers as stewards responsible for optimally managing organizational resources for the long-term benefit of the organization, not solely for individual gain (Davis et al., 1997). With accountable financial governance oriented toward value creation, organizations will more easily build a productive work culture, improve the quality of customer service, and strengthen long-term organizational sustainability.Furthermore, research findings indicate that an organization's ability to integrate digital technology into its financial management processes is a supporting factor that strengthens the influence of financial management on organizational performance. The use of Enterprise Resource Planning (ERP), Financial Information Systems (FIS), Artificial Intelligence (AI), Business Intelligence (BI), and data analytics enables organizations to generate more accurate, real-time, and relevant financial information for strategic decision-making. This condition reflects the principles of Dynamic Capability Theory, which emphasizes the importance of an organization's ability to adapt, integrate, and reconfigure resources according to changes in the business environment (Teece, 2018). Organizations that are able to develop technology-based financial capabilities will be more responsive to market changes, manage risk more effectively, and have greater flexibility in maintaining a competitive advantage in the digital era.

Conclusion

The findings reveal that financial management has a positive and statistically significant effect on organizational performance. Effective financial planning, budgeting, financial reporting, cash flow management, and internal financial control contribute substantially to enhancing organizational efficiency, operational effectiveness, accountability, and the achievement of strategic objectives. The structural model demonstrates strong explanatory power, indicating that improvements in financial management practices significantly increase organizational performance. These findings support the Resource-Based View (RBV), which emphasizes that sound financial management represents a valuable organizational capability capable of generating sustainable competitive advantages. The study concludes that organizations should strengthen financial governance through transparent budgeting systems, accurate financial reporting, digital financial management technologies, and continuous capacity development for financial personnel. Such initiatives are expected to improve organizational sustainability, accountability, and overall institutional performance.

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