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The impact of financial management on increasing productivity and profitability of organizations

Abstract. The goal of this study was to analyze the strategic impact of financial management towards organizational productivity and profitability improvement. The present study is implemented in terms of intention and descriptive-survey in terms of data type. The required data were collected during 2023-2024, using a standard questionnaire from a sample of 250 managers and Uzbek financial experts of organizations and analyzed through structural equation modeling in Smart-PLS software. The findings showed that financial management has positive and significant effects on all the performance measures. Specifically, planning with an influence coefficient of 0.297 showed the strongest relationship with organizational productivity. Investment analysis with a coefficient of 0.267, nonetheless, had the strongest effect on profitability. Budget control also showed positive and significant effects on both variables of productivity (0.231) and profitability (0.198). The obtained results reveal the core role of the financial management system as a strategic tool in achieving organizational performance to the fullest. The findings of this study can provide a proper theoretical rationale for managers to make logical choices and pave the way for developing better financial policies in organizations.

Keywords: Financial Management; Organizational Productivity; Profitability; Financial Planning; Budget Control; Organization; Enterprise; Manager; Performance

JEL Classifications: E24; E41; E64; I18; J28; J31

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1. Introduction and Brief Literature Review

With today's changing and dynamic world, organizations being the pillars of the economies of societies always face numerous challenges in order to continue existence and achieve a better position (Ashvin, 2017). Two significant productivity and profitability measures have emerged as the ultimate benchmark for assessing the achievement and long-term survival of any economic enterprise (Bil Huda & Layyinaturobaniyah, 2025). Achieving the desired levels of these two parameters requires using an effective measures and tools package, the leader of which is sound and judicious financial management (Amirah et al., 2025). Financial management, rather than being a simple accounting function, is the intelligence and fiscal mentor of the organization. This technical function, by way of planning, direction, control and monitoring financial assets, cash flows and capital structure, enables optimum allocation and efficient utilization of these scarce resources (Marus-Eton et al., 2022). In fact, financial management is a bridge between the organizational long-term objectives and the short-term market environment, without which key decisions would be denied the necessary analytical support (Williams et al., 2025).

This is especially true when we consider that financial choices directly and indirectly impact all aspects of an organization's business (Nwogu et al., 2025). From the decision to purchase a new machine to developing a product pricing policy, all of them are based on financial analysis (López-Iturriaga & Crisóstomo, 2007). A poor financial choice can waste precious resources and even lead to the organization's demise (Ranjan, 2025). On the other hand, prudent financial management can unlock opportunities for the growth and establishment of the organization by acknowledging and focusing on lucrative capital projects (Utuk, 2023). By strategic measurement of return and risk, it steers clear of money-losing projects and directs resources to those opportunities which have the greatest return and most value to stakeholders and shareholders (Noor, 2025).

In addition, proper management of finance resources is a sure ingredient that increases operational effectiveness (Wadesango & Muwishi, 2024). Through strict control of cost, inventory, and the cash conversion cycle, an organization can produce more output with the same inputs (Devi, 2025). Such operational effectiveness improvement not only increases profitability, but also creates long-term competitive edge for the organization. Therefore, a deep insight into the relationship between financial management practices and the two fundamental goals of productivity and profitability is extremely crucial for any company which wishes to make progress and enhance its grip on the competitive market. This awakening makes managers optimistic towards the future and enable them to take strategic choices (Al-Hashimy & Yao, 2024).

Due to this requirement, the present study tries scientifically and systematically to analyze how financial management as an empowering driver can unleash the hidden potential of the firm to reach greater performance levels and establish the foundation for sustainable competitive advantage. Based on the above and the purpose of the present study, the following hypotheses are formulated:

- H1: Financial planning has a positive & main effect on organizational productivity.
- H2: Financial planning has a major and direct effect on organization profitability.
- H3: Budgetary control has a major and direct effect on organizational productivity.
- H4: Budgetary control has a major and direct effect on the organization profitability.
- H5: Investment analysis has a major and direct effect on organizational productivity.
- H6: Investment analysis has a major and direct effect on organization profitability.

2. Methodology

From the objective perspective, this research falls under the applied research category that seeks to discover facts and establish issues present in the organizational environment and provide solutions on how they can be addressed. From the data collection method, this research is descriptive survey-type research where views of the statistical population will be interpreted and analyzed. The main approach of this research is a quantitative approach that uses a questionnaire for collecting the necessary information to confirm the research hypotheses.

The statistical population for this research is financial managers (250 cases), head accountants, and specialists in the financial department of industrial and service companies and institutions in Uzbekistan during 2023-2024. As the statistical population is infinite, the first non-probability sampling technique at hand will be employed. The sample size will be calculated through the Cochran formula to ensure that the requisite sample will be large and representative enough to reflect the characteristics of the significant population with a desired statistical confidence.

The researcher-developed, standard questionnaire will be the major data collection tool for this study. This survey is segmented into three crucial sections; the first section is utilized to collect respondents' demographic information. The second section includes items for assessing financial management variables that capture factors such as financial planning, budgetary control, working capital management, and investment analysis. The third section measures organizational productivity and profitability factors. A five-point Likert scale will be used in the questionnaire.

To determine the quality of the research instrument, content validity and face validity of the questionnaire will be ensured by taking views from experts in financial management and professors of the university. The aim is to achieve an alpha coefficient of more than 0.7 for all of the main constructs of the questionnaire, which indicates the appropriate reliability of the measuring instrument.

After collection of questionnaires, the data will be transferred to statistical software and descriptive and inferential statistical methods will be used to analyze it. During the descriptive statistics stage, measures such as frequency, mean, and standard deviation are provided. In the part of inferential statistics, and to test the research hypotheses, the structural equation modeling method is utilized with SmartPLS.

3. Results

This section presents the empirical findings of the research, as derived from the data analysis of the collected data. The results are structured in a way that they initially provide sample description, followed by measurement model testing, and lastly, structural model testing to identify the hypothesized relationships.

The demographic analysis of the 250 participants provides a clear picture of the sample composition (Table 1). The majority of respondents were male (59.2%) and fell within the 36-45 age bracket (42.0%), indicating a sample with considerable professional maturity. In terms of work experience, a significant portion (34.8%) had between 5 to 10 years of experience, while another 30.4% had 11 to 15 years, suggesting that the data reflects informed perspectives from seasoned professionals. The distribution of positions was relatively even between Financial Managers (35.2%) and Senior Accountants (38.0%), with Financial Analysts constituting the remainder.

The assessment of the measurement model confirms its robustness and reliability. As shown in Table 2, all constructs demonstrated excellent internal consistency, with Cronbach's Alpha and Composite Reliability values exceeding the recommended threshold of 0.70. Furthermore, the Average Variance Extracted (AVE) for each construct was above 0.50, establishing strong convergent validity. This indicates that the items used to measure each latent variable (e.g., Financial Planning, Productivity) are highly correlated and collectively capture the essence of the construct they are designed to represent.

Discriminant validity, which ensures that each construct is distinct from others in the model, was verified using the Fornell-Larcker criterion. The results in Table 3 show that the square root of

Table 1:
Demographic Profile of Respondents (N = 250)

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Male	148	59.2
	Female	102	40.8
Age Group	25-35	74	29.6
	36-45	105	42.0
	46-55	58	23.2
	55+	13	5.2
Experience	<5 years	42	16.8
	5-10 years	87	34.8
	11-15 years	76	30.4
	>15 years	45	18.0
Position	Financial Manager	88	35.2
	Senior Accountant	95	38.0
	Financial Analyst	67	26.8

Source: Authors' own findings

Table 2:
Reliability and Convergent Validity of Constructs

Construct	Items	Cronbach's Alpha	Composite Reliability (rho_a)	Average Variance Extracted (AVE)
Financial Planning (FP)	5	0.891	0.897	0.678
Budgetary Control (BC)	4	0.852	0.859	0.665
Investment Analysis(IA)	4	0.874	0.881	0.702
Productivity (PROD)	5	0.908	0.912	0.715
Profitability (PROF)	4	0.869	0.874	0.691

Source: Authors' own findings

Table 3:
Discriminant Validity (Fornell-Larcker Criterion)

Construct	FP	BC	IA	PROD	PROF
FP	0.823				
BC	0.512	0.815			
IA	0.487	0.554	0.838		
PROD	0.621	0.598	0.570	0.846	
PROF	0.605	0.563	0.589	0.682	0.831

Note: Diagonal elements (in bold) are the square root of the AVE.

Source: Authors' own findings

the AVE for each construct (diagonal values) is greater than its highest correlation with any other construct (off-diagonal values). This confirms that while the constructs are related, they are indeed measuring unique phenomena and are not interchangeable, thus strengthening the validity of the measurement model.

The structural model was evaluated to test the research hypotheses. The path coefficients (β), presented in Table 4, indicate the strength and significance of the relationships between the independent and dependent variables. All hypothesized paths are positive and statistically significant, as evidenced by T statistics greater than 1.96 and P values less than 0.001. FP shows the strongest impact on Productivity ($\beta = 0.297$), while IA has the strongest direct effect on Profitability ($\beta = 0.267$). These results provide strong initial support for all six hypotheses.

Based on the rigorous bootstrapping procedure, all six hypotheses are confirmed. Table 5 provides a concise summary of the hypothesis testing outcomes. The data offers empirical evidence that the core facets of financial management-Financial Planning, Budgetary Control, and Investment Analysis-each exert a statistically significant and positive influence on both organizational productivity and profitability. There is no hypothesized relationship in this model that was not supported.

Apart from establishing significance, effect size (f^2) was calculated to identify the substantive contribution of each independent variable towards the dependent variables. As per the guidelines of Cohen, effects of 0.02, 0.15, and 0.35 are considered small, medium, and large, respectively. Table 6 reflects that Financial Planning has a medium effect on Productivity ($f^2 = 0.112$) and a small-to-medium effect on Profitability ($f^2 = 0.088$). Investment Analysis has a medium effect on

Table 4:
Path Coefficients (Bootstrapping)

Hypothesis	Path	β Coefficient	Standard Deviation	T Statistics	P Values
H1	FP -> PROD	0.297	0.051	5.824	0.000
H2	FP -> PROF	0.254	0.049	5.184	0.000
H3	BC -> PROD	0.231	0.048	4.813	0.000
H4	BC -> PROF	0.198	0.046	4.304	0.000
H5	IA -> PROD	0.185	0.045	4.111	0.000
H6	IA -> PROF	0.267	0.050	5.340	0.000

Source: Authors' own findings

Table 5:
Hypothesis Testing Summary

Hypothesis	Proposed Relationship	β Coefficient	P Value	Supported
H1	FP has a positive effect on PROD.	0.297	0.000	Yes
H2	FP has a positive effect on PROF.	0.254	0.000	Yes
H3	BC has a positive effect on PROD.	0.231	0.000	Yes
H4	BC has a positive effect on PROF.	0.198	0.000	Yes
H5	IA has a positive effect on PROD.	0.185	0.000	Yes
H6	IA has a positive effect on PROF.	0.267	0.000	Yes

Source: Authors' own findings

Profitability ($f^2 = 0.102$). The other effects are small but significant, suggesting that each of the financial management practices adds specific explanatory value to the model.

Table 6:
Effect Size (f^2)

Independent Variable	Dependent Variable: PROD	Dependent Variable: PROF
Financial Planning (FP)	0.112	0.088
Budgetary Control (BC)	0.072	0.051
Investment Analysis (IA)	0.049	0.102

Source: Authors' own findings

4. Conclusion

The research was carried out in a bid to explain the pivotal role played by financial management in enhancing the productivity and profitability of organizations. The findings of the study evidently demonstrate that financial management works neither as an auxiliary activity, but as a strategic component and a generator of major driving forces toward achieving the operational and financial goals of the organization. Results of data analysis findings, which were obtained via the structural equation model, tested and confirmed all six hypotheses of the study. Based on these research findings, planning in terms of finances has the most imminent impact of raising organizational productivity. This revelation points out that the development of good and future-looking financial plans is the key to realizing appropriate use of resources and increasing the output of the organization. On the other hand, investment analysis exercised maximum direct influence on the profitability index, something that justifies the need for wise investment decisions based on good finance analysis in an effort to maximize net profit. Additionally, budget control as an effective control tool has been found to exert considerable and affirmative impact on productivity and profitability.

In general, it can be asserted that the various components of financial management exist as an integrated entity and, in their interaction, act as the necessary platform for creating value and achieving higher organizational performance. From a pragmatic perspective, this research highlights the need for investment in improving the specialized expertise of financial managers and creating advanced financial systems. By making these three pillars of planning, control, and analysis powerful, organizations not only achieve better financial performance in the short term, but they also achieve long-term growth and excellence through the creation of a sustainable competitive advantage. But this research has been conducted in one setting only and generalizability of its results requires research from other industries and countries. Subsequent research considering moderation variables such as organization size, macroeconomic conditions, and organizational culture can shed further light on these complex interactions. Last but not least, this research is a step toward proving the age-old proposition that proper financial management is the foundation of any organization's health and success.

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