

**EVALUATING THE IMPACT OF FINANCIAL MANAGEMENT
PRACTICES ON ORGANIZATIONAL PERFORMANCE: THE
MEDIATING ROLE OF WORKING CAPITAL MANAGEMENT
EFFICIENCY IN PAKISTAN'S SERVICE SECTOR**

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Abstract

This study investigates the mediating role of working capital management in the relationship between financial management practices and business performance. The research targets businesses operating in Rawalpindi and Islamabad, Pakistan, using a sample of 150 respondents from 35 industry sectors. Employing a quantitative approach and regression analysis, the study tested its hypotheses and evaluated the validity of the proposed model. Findings reveal that sound financial management practices significantly enhance business performance, contributing to greater stability and growth. Moreover, working capital management was found to strengthen the link between financial management and performance outcomes. The study highlights the importance of adaptive financial strategies in dynamic economic environments. However, limitations such as the cross-sectional design and limited sample size restrict generalizability. Future research should consider longitudinal designs with broader samples to validate these

findings. Despite these constraints, the study contributes valuable insights to financial planning literature in Pakistan and underscores the strategic role of working capital management in improving organizational success.

Keywords: Financial Assessment, Working capital management , Organizational Performance, Rawalpindi-Islamabad Pakistan

INTRODUCTION

Effective financial management practices are central to organizational performance because they determine how firms allocate resources, control liquidity, and manage short- and long-term risk. Decisions about capital budgeting, financing mix, cash-flow forecasting, and short-term asset–liability policies influence a firm’s ability to meet obligations, invest in operations, and maintain Working capital management—all of which are closely linked to operating profitability and firm value (Baños-Caballero, García-Teruel, & Martínez-Solano, 2014). One of the most operationally tangible elements of financial management is working capital management (WCM): the administration of receivables, payables and, where relevant, inventories. Measures such as the cash conversion cycle (CCC) capture how efficiently firms convert operating inputs to cash, and a large body of empirical work finds that more efficient WCM is associated with stronger profitability and performance—although the relationship can be non-linear and industry dependent (Deloof, 2003; Chang, 2018).

Despite the substantial literature linking WCM to performance, less attention has been paid to WCM’s mediating role between broader financial management practices and organizational outcomes. The mediation perspective is theoretically plausible: rigorous financial controls and prudent financing decisions should improve the allocation and timing of resources, thereby reducing the cash tied up in day-to-day operations and enhancing performance via improved working capital efficiency. Empirical evidence supports both the direct effect of WCM on profitability and the idea that optimal investment in working capital maximizes firm value, suggesting that

working capital efficiency can act as an important channel through which financial management practices affect performance (Baños-Caballero et al., 2014; García-Teruel & Martínez-Solano, 2007).

The service sector presents a distinct context for studying these relationships because liquidity profiles differ markedly from manufacturing: services typically require lower physical inventory but exhibit greater sensitivity to receivables, seasonality in demand, and human-capital costs. Consequently, what constitutes “efficient” WCM in services may diverge from manufacturing patterns, and the returns to improvements in WCM may be sector-specific (Chang, 2018). Pakistan’s service sector—which includes banking, healthcare, education, retail and hospitality—has expanded in economic importance, but empirical evidence about how comprehensive financial management practices influence organizational performance via working capital efficiency in this setting remains limited. Existing Pakistani studies document relationships between working capital components and profitability, but a synthesis that integrates broader financial practices and formally tests working capital efficiency as a mediator for service firms is largely absent (Raheman & Nasr, 2007).

This study responds to that gap by evaluating the impact of financial management practices on organizational performance in Pakistan’s service sector and explicitly testing the mediating role of working capital management efficiency. By bridging corporate-finance perspectives with operational liquidity analysis, the research aims to contribute both theoretically—by clarifying mechanism—and practically—by identifying which financial controls and working capital policies most effectively improve profitability and resilience for Pakistani service firms.

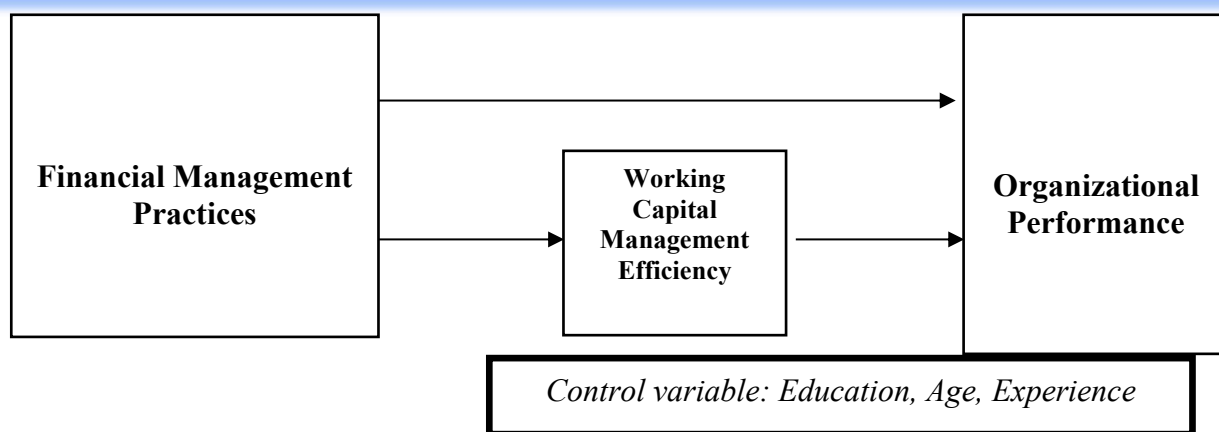


Figure 1: Research Model

LITERATURE REVIEW

Financial Management Practices

The management of financial resources depends on effective financial management, according to Coleman and Cole (2017). Financial management is essential to the future of excellent businesses, according to Vohra and Dhillon (2014) and Waweru and Hgugi (2014). Financial management procedures are described by Ahmed and Mwangi as a set of well-established processes for managing financial reporting, budgeting, and other activities related to business finances. Dwangu and Mahlangu (2021) state that effective financial management practices are necessary for monitoring financial resources and making wise financial decisions. Working capital management, capital budget management, and asset management are described by many authors as parts of financial management methods (Alles et al., 2021). According to Louw et al. (2022), good working capital management is a key component of an organization's financial stability and a significant factor in its profitability and success. Capital budgeting is a key component of financial management and is essential for making decisions about capital investments (Ross et al., 2016). To aid in decision-making in asset management, high-quality asset data from different sources is integrated (Abdirad and Dossick, 2020). Financial management strategies support an organization's financial stability and profitability (Deakins et al., 2018). Effective financial

management practices ensure that there is enough cash flow production (Deakins et al., 2018; Salazar et al., 2013).

Working Capital Management (WCM)

Working capital management (WCM) efficiency has received extensive scholarly attention due to its critical role in maintaining liquidity, minimizing financing costs, and enhancing firm profitability. Deloof (2003), in a seminal study of Belgian firms, found that reducing the cash conversion cycle significantly improves profitability, highlighting WCM as a determinant of firm value. Similarly, Shin and Soenen (1998) documented a strong inverse relationship between the cash conversion cycle and corporate returns across U.S. firms, emphasizing the efficiency-profitability link. Expanding this perspective, García-Teruel and Martínez-Solano (2007) demonstrated that efficient WCM practices positively influence profitability among Spanish SMEs, reinforcing the importance of short-term financial policies in resource-constrained environments. More recent evidence from Baños-Caballero, García-Teruel, and Martínez-Solano (2014) shows that the relationship between WCM and performance is non-linear: both under- and over-investment in working capital harm profitability, while an optimal level maximizes value. Chang (2018), using global panel data, confirmed the robustness of this relationship across developed and emerging economies, further validating WCM efficiency as a critical mediator of financial performance. Collectively, these studies establish that efficient WCM not only sustains liquidity but also strategically contributes to organizational competitiveness and value creation.

Organizational Performance

The idea of organizational performance is multifaceted and complex (Ateke & Akani, 2018; Singh et al., 2016; Wood & Ogbonnaya, 2018). The extent to which an organization achieves its objectives is known as its organizational performance (Zhang et al., 2008; Nitzl et al., 2018). This perspective is supported by many authors, who argue that a firm's performance is

determined by its capacity to create strategies that are compatible with the complexities and dynamic aspects of a changing environment (Rehman et al., 2019; Shea et al., 2012). In a similar vein, many academics argue that organizational performance is a critical indicator of the accomplishment of defined organizational goals and objectives (Laaksonen & Peltoniemi, 2018). Richard et al. (2009) contend that an organization's performance may be assessed either objectively using financial performance indicators or subjectively using non-financial metrics to measure its success in attaining its goals and objectives. The literature, nevertheless, promotes the integration of financial and non-financial indicators (Dryer and Reeves, 1995; Harris and Mongiello, 2001). The financial, capital market, organizational, and human resource elements associated with organizational performance were all analyzed in this study.

H1: Financial Management Practices has a significant positive effect on Organizational Performance.

H2: Financial Management Practices has a significant positive effect on Working capital management.

H3: Working capital management has a significant positive effect on Organizational Performance.

H4: Working capital management mediates the relationship between Financial Management Practices and Organizational Performance.

RESEARCH METHODOLOGY

Information was collected from a range of full-time and part-time workers in Pakistan's Rawalpindi and Islamabad Service industry. The data gathering subjects were selected using convenient sampling methods. Data was gathered online via email, Facebook, WhatsApp, and hard copies. The survey was accompanied by a secret letter that outlined the study's goals to the participants. Additionally, it told participants that their survey responses are kept private and confidential. Their response is solely utilized for educational purposes. Of the 170 questionnaires that were distributed, 160 were returned,

and 150 were deemed useful. The percentage of usable data returned was 88.23%. Details about the distribution and characteristics of the sample may be found in Table 1. The findings indicated that the distribution and demographic characteristics of the 150 respondents in the study sample. The majority of participants were male (58.66%), while females accounted for 41.33%. Most respondents were single (60%), whereas 40% were married, indicating a relatively young and unmarried population. In terms of age, the largest group (60%) fell within the 18–25 age range, followed by 26.66% aged 26–40, and 13.33% aged 41–60, with none over 60 years old. Regarding employment, 80% worked full-time, while 20% were part-time employees. The highest proportion of respondents (63.33%) held management positions, with smaller shares in clerical (20%), maintenance (10%), and technical service (6.66%) roles. Most participants (80%) had between 0–5 years of work experience, reflecting a relatively new workforce, while only a few had over 10 years of experience. Overall, the sample represents a predominantly young, male, and early-career group engaged mostly in full-time management roles.

Measures

Asset management (Kelly and Hardy, 2018), capital budget management (Balarabe, 2020), and were used to assess financial management practices. The reliability rating for the fourteen items was 0.782. The study on Working capital management, which served as the mediating variable (Biddle, 2009), yielded five findings. Working capital management had an alpha reliability of 0.855. Financial results (Rowe and Morrow, 1999), organizational results (Chenhall and Langfield-Smith, 2007), human resource outcomes (Dryer and Reeves, 1995), and capital market outcomes (Richard et al., 2009) were used to evaluate organizational performance. All variables in the study were assessed using a five-point Likert scale, with one representing significant disagreement and five representing strong agreement. The alpha reliability for organizational performance was 0.877.

Table 1: Distribution and Characteristics of Sample

Variable	Categories	No	(%)
Gender	Male	88	58.66
	Female	62	41.33
	Total	150	100
Marital Status	Signal	90	60
	Married	40	40
	Total	150	100
Age	18-25	90	60
	26-40	40	26.66
	41-60	20	13.33
	Over 60	0	0
	Total	150	100
Work status	Full time	120	80
	Part time	30	20
	Total	150	100
Position	Management	95	63.33
	Maintenance	15	10
	Technical Service	10	6.66
	Clerical	30	20
	Total	150	100
Experience	0-5	120	80
	6-10	15	10
	11-20	10	6.66
	21-30	05	3.33
	Over 30	0	0
Total		150	100

Every item was scored using a Likert scale of 1 to 5, where 1 meant "Strongly Disagree" and 5 meant "Strongly Agree." Organizational Performance 's Cronbach alpha reliability was (0.899).

Controlling Element / Controller Variable

According to a prior Khan research carried out in 2022, the study's control variables included age, education, and experience. The variables were coded as follows in the study: age (1 = under 25 years, 2 = 26–30 years, 3 = 31–40 years, 4 = 41–50 years, 5 = 51–60 years, and 6 = over 60), gender (1 = male, 2 = female), and section (1 = public, 2 = private).

A 5-point Likert scale was used to evaluate all study variables, with 1 indicating strong disagreement and 5 indicating strong agreement.

RESULTS

One-way ANOVA was used to investigate how the demographic variable examined in this research affected Organizational Performance. The mean Organizational Performance score did not differ significantly between different Education, Age, or Experience, according to the One-Way ANOVA findings (see table 2).

Table 2: One-way ANOVA

Sources of variation	OP	
	F statistics	p-value
Education	.411	.980
Age	1.773	.188
Experience	.899	.555

OP= Organizational Performance

Statistical Tools: Means, standard deviation, correlations, Reliabilities and multiple regression analysis also using SPSS 22 version.

RESULTS

Table 3: Means, Standard deviation, correlation and Reliabilities

	Mean	SD	1	2	3
FMP	3.71	0.78	(0.785)		
FF	3.90	0.91	0.689**	(0.859)	
OP	3.61	0.98	0.889**	0.998**	(0.879)

FMP= Financial Management Practices, **FF**= Working capital management ,
OP= Organizational Performance

As shown by the data in Table 3, Financial Management Practices have a strong positive correlation with Organizational Performance (0.889, $p = .000$), which provides total support for hypothesis 1. Furthermore, there is a positive relationship between Financial Management Practices and Working capital management (0.689, $p = .000$), which supports hypothesis 2. Lastly, working capital management has a positive relationship with Organizational Performance (0.998 $p = .000$), which supports hypotheses 3 and 4, respectively.

Regression Analysis

The current study made use of the Baron and Kenny (1986) mediation criteria. Regression analysis was used to determine the primary and mediating effects of the variable. Table 4 displays the regression analysis's findings. The results, which are in line with Hypothesis 1, indicate that Financial Management Practices have a highly beneficial and significant impact on Organizational Performance ($\beta = 0.988$, $R^2 = 0.288$, $p = .000$). Given the obviously advantageous and significant impact of Financial Management Practices on Working capital management ($\beta = 0.899$, $R^2 = 0.244$, $p = .000$), Hypothesis 2 has been accepted. The findings also show that Working capital management has a large and beneficial impact on Organizational Performance ($\beta = 0.999$, $R^2 = 0.989$, $p = .000$). As a result, we concur with hypothesis 3.

Table 4: Regression Analysis

Predictor	Working Capital Management			Organizational Performance		
	B	R ²	▲R ²	B	R ²	▲R ²
Direct effect						
FMP	0.899***	0.244	0.245***	0.988***	0.288	0.289***
WCM				0.999***	0.989	0.965***
Indirect effect						
FMP X				0.898***	0.899	0.799***
WCM						

N = 150. FMP = Financial Management Practices, WCM = Working capital management

*=p < .05. ** = p < .01. *** = p < .001. ns = not significant

Based on the results of the mediating regression analysis presented in Table 3, Working capital management mediates the relationship between Financial Management Practices and Organizational Performance ($\beta = 0.898$, $R^2 = 0.899$, $\Delta R^2 = 0.799$, $p = .000$). As a result, Hypothesis 4 is accepted.

DISCUSSION AND MANAGERIAL IMPLICATIONS

Financial Management Practices have a beneficial and substantial impact on organizational performance in the Rawalpindi and Islamabad Region, which is mediated by Working capital management. The present study demonstrates that Financial Management Practices are crucial for organizational performance, particularly in the service sector. Financial management should be prioritized by Management and Administration in order to enhance performance and gain a competitive edge in the industry.

LIMITATION AND FUTURE RESEARCH

Because it was carried out in Pakistan's Rawalpindi and Islamabad-based service sector, the findings of this study may not be generalizable to other situations. In order to produce and find reliable findings, future research might cover more industries from throughout the country. Future research may focus on other demographic factors because the current study accounted for employee characteristics like age, education, and experience.

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