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Research paper

Analyse The Impact of Financial Management on Public Growth

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Abstract

This study investigates the influence of financial management practices on public sector growth, focusing specifically on Indian government ministries. It examines how budgeting, financial planning, and internal control mechanisms contribute to financial performance and policy effectiveness. While small and medium-sized enterprises (SMEs) are briefly referenced in the literature context, the core empirical focus of this study is on ministries rather than SMEs. Data was collected from 226 respondents across central government directorates and analyzed using SPSS tools. The findings provide actionable insights for public financial management reform and support inclusive financial governance in India.

Keywords: *Financial Management Practices; Agency Cost; SMES; Working Capital.*

1. Introduction

Financial institutions are the middlemen that mobilize savings and make it easier to allocate funds in the most effective and suitable way. Financial institutions can be divided into two categories: banking and non-banking(Harif et al., 2013). Nonbanking financial institutions are merely credit purveyors, whereas banking institutions are both credit creators and purveyors(Rahaim et al., 2024).In contrast to non-banking entities, bank liabilities constitute a component of the money supply (International Labor Organization, 2013).
The role and character of these financial organizations' operations have changed significantly during the post-reform era. Financial institutions increasingly perform banking functions, while banks now engage in non-bank businesses. Financial markets are the primary source of money for financial institutions (Karadag, 2015; Almaliki& Al-saedi, 2023).
In every nation, the financial market plays a significant role in determining economic growth. According to financial economics, a financial market is a tool that makes it simple for people to buy and sell various financial goods and services at low exchange rates and at prices that reflect the state of the economy(Othman & Hussein, 2023). Over several hundred years, financial markets have undergone tremendous development, and ongoing advances are made to enhance price discovery and liquidity. A financial market is regarded as a venue for the purchase and sale of financial instruments at a specific price. Consequently, a financial market can be defined as a commercial hub where transactions involving financial resources are carried out. The primary function of financial markets is to promote the transfer of financial assets from those who have them to those who require them in order to engage in financial activities(Othman & Hussein, 2023). Therefore, to achieve monetary progress and sustainable development, the financial market promotes the growth of reserve funds and venture capital. Investors with extra money invest in a variety of financial assets. Development in the reserve funds results from this. Additionally, industrial and other commercial enterprises obtain subsidies from budgetary representatives or directly generate funds from financial markets by issuing financial instruments (Lavia-López &Hiebl, 2015; Niazi, 2017).
Numerous problems plague public financial management (PFM), such as widespread corruption, inadequate use of public funds, incorrect project and initiative prioritization, and ineffective administrative and managerial practices. Reorganizing financially distressed enterprises, improving economic performance, and delegating government functions are all made possible by the use of PFMRs (Matsotso& Benedict, 2014). According to (SundaraBalaMurugan et al., 2024), the ongoing reforms are being rolled out in response to a mix of political crises, pressure from donors, public demands, fiscal challenges, and the need for regional connections(SundaraBalaMurugan et al., 2024).

1.1 Objectives

The objectives of this study are as follows:
1. To explore how budgeting and financial planning (BFP) affect the financial performance of government ministries in India.
2. To assess the influence of Internal Control (IC) on the financial performance of these ministries.

2. Literature Review

In his discussion of poverty, Sen (2000) noted that poverty is not just a lack of money but also the lack of many qualities, such as security and the capacity to engage in political and economic processes. As a result, the impoverished and deprived must be given much-needed financial support to lift them out of their predicament. He recommended that any developing economy should have the right kind of policy assistance to direct financial resources toward economic improvement (Mohammed, 2015b).

The fundamental issue of bankable people was brought up by the United Nations (UN) in its seminal research study. According to the Blue Book, an inclusive financial sector would give everyone access to savings and payment services, insurance for all insurable individuals and businesses, and credit for all bankable individuals and businesses. Thus, financial inclusion has gained international attention and is now equally important in the economies of industrialized, developing, and underdeveloped countries(Conti et al., 2017). Creating an inclusive financial sector has become increasingly well-known worldwide, highlighting the necessity of development plans that affect everyone's life rather than just a few (United Nations, 2006; Huy, 2018).

Recent scholarship emphasizes the role of digitalization, accrual accounting, and public financial transparency in driving better outcomes in government finance (Almaliki& Al-saedi, 2023; SundaraBalaMurugan et al., 2024). These studies suggest that digital transformation improves traceability in spending, while accrual accounting offers a more accurate representation of assets and liabilities. However, gaps remain in integrating these frameworks with performance evaluation at the ministry level, especially in developing countries. This study addresses this by examining the practical influence of budgeting and internal control on financial outcomes, expanding upon the latest public financial management (PFM) literature.

Financial exclusion, which is closely related to social exclusion, is the state in which individuals find it difficult to obtain appropriate financial services in the conventional market(Chibba, 2009). Many people have since added their opinions on the definition of financial exclusion. Scholars such as {Sinclair, 2001; Carbo and Molyneux, 2005; Gloukoviezoff, 2006; Kempson, 2006; and Anderloni and Carluccio, 2007} are among them. According to the prevailing agreement, it describes individuals who struggle to obtain suitable financial services and products within the mainstream financial services industry.This definition has two crucial components:A large portion of the exclusion seems to result from the mainstream commercial providers' inability to offer a variety of products and services that are suitable for the needs of all societal segments, first about suitable products and then about the mainstream financial services market. There is also a broad realization that financial exclusion forms part of a much greater social exclusion (Leyshon & Thrift, 1995).

3. Methodology

This study employed a descriptive and explanatory research design. This study outlines and evaluates the factors that influence how public financial management affects the government's financial performance. Purposive sampling and a descriptive research approach were employed in the study. The nine chosen central line ministry directorates (Finance and Accounting, Finance Policy/Macro-Economic, and General Budget Directorates) received 480 questionnaires in total.226 people responded in all, or almost 43% of the complete surveys that were sent out. Thirteen responses from directors, twenty-three from managers, 146 from officers, and thirty-five from advisors and experts made up the sample of 217 usable and appropriate for analysis responses.

The questionnaire consisted of 18 closed-ended items, grouped into three dimensions: budgeting and planning, internal control, and financial performance. A five-point Likert scale (1 = Strongly Disagree to 5 = Strongly Agree) was used to measure perceptions. Cronbach's alpha was calculated for internal consistency, with values above 0.8 for all constructs. The response rate was 43%, and the sampling was purposive, targeting mid-to-senior level personnel in ministry directorates. While the study provides valuable insights, its generalizability is limited to central ministries and may not reflect decentralized or state-level finance units.

SPSS was used to examine the information obtained from the questionnaire. Multiple regression analysis and Pearson product-moment correlations were employed to assess the research hypotheses and demonstrate the connection between PFM and financial success.

4. Statistical Measures

The Inclusive Development Index (IDI), which rates nations according to 12 key performance indicators of inclusive development, is one of the new measures for assessing growth that have emerged because the productivity of the economy dictates the degree of affluence it may attain. The IDI broadens the viewpoint beyond GDP growth, which is predicated on three pillars: GDP per capita growth, productivity and labor force participation, and a healthy life expectancy are all examples of growth and development. Impact of Financial Management on Public Growth is shown in Table 1.

Table 1: Impact of Financial Management on Public Growth

Job performance	**Extremely confident**	**Quite confident**	**Somewhat confident**	**Slightly confident**	**t Statistics**	**p Value**
How does financial management affect the public sector's ability to attract and retain investment?	4.3400	3.8136	4.0000	3.8400	4.160*	0.000
What is the relationship between financial management and public sector performance measurement and evaluation?	3.6400	3.8475	3.8889	3.6267	0.082	0.935
How do financial management systems and processes impact public sector human resource management and development?	3.6177	3.6102	3.5848	3.7800	1.004	0.318
What are the challenges faced by public sector organizations in implementing effective financial management practices?	3.8200	3.6441	3.2222	3.9200	0.743	0.459
How do financial management practices influence the public sector's ability to respond to changing economic and social conditions?	3.9000	4.2000	4.0000	4.0533	1.238	0.218
What is the impact of financial management on public sector risk management and internal control?	4.2000	3.8400	3.8889	3.8904	0.066	0.947
How does financial management affect the ability of public	3.8400	3.7600	3.5848	3.7600	3.202*	0.002

sector organizations to achieve their strategic objectives?						
What are the key financial management factors that influence public sector innovation and entrepreneurship?	3.7600	3.9800	3.2222	3.5467	1.770	0.079
How do financial management systems and processes impact public sector information technology and digital transformation?	3.9800	4.0200	4.2000	3.6667	0.592	0.555
How do financial management systems and processes impact public sector accountability and transparency?	4.0200	3.8475	3.8400	3.7337	1.849	0.067
What is the relationship between financial management decisions and the efficiency and effectiveness of public services?	3.9000	3.6102	3.7600	3.7067	2.205*	0.029
To what extent do effective financial management practices contribute to public sector growth and development?	3.9400	3.6441	3.9800	3.6000	2.202*	0.030
What is the impact of financial management on public sector procurement and supply chain management?	3.9200	3.8136	4.0200	3.6933	1.862	0.065
How do financial management practices influence the public sector's ability to achieve sustainable development goals?	3.9400	3.8475	3.8889	3.8667	0.361	0.718
What are the benefits and challenges of implementing accrual accounting in public sector organizations?	4.2800	3.6102	3.5848	4.0267	1.640	0.104

Interpretation of Table 1:The results indicate statistically significant relationships between financial management and public sector outcomes in key areas. For example, the item “How does financial management affect the public sector's ability to attract and retain investment?” shows a p-value of 0.000, indicating strong significance. Similarly, “Financial management and strategic objective achievement” (p = 0.002), “Efficiency and effectiveness of public services” (p = 0.029), and “Public growth and development” (p = 0.030) are also significant. These findings validate the critical role of financial management practices in achieving growth and effective service delivery.
Image Captions and Relevance:
All visuals (e.g., image1.png) should be re-labeled as “Figure 1,” “Figure 2,” etc., with proper captions (e.g., Figure 1: Conceptual Model of Financial Control Pathways). Each figure should be referenced explicitly within the text to clarify its interpretive value.

5. Conclusion

Based on the analysis, financial planning and internal control mechanisms significantly influence the financial performance of public ministries. Policymakers should consider adopting structured frameworks for accrual-based accounting to enhance transparency and asset tracking. Digital tools (e.g., e-procurement, AI-based audit systems) can also be introduced for real-time financial tracking. Future research should explore cross-country comparisons and the use of artificial intelligence in budget prediction and anomaly detection within public financial systems.

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