

The Influence of Financial Management Practices on Company Performance: Analysis of Cash Flow, Debt, Working Capital, and Capital Structure

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ABSTRACT

This research explores the relationship between financial management practices and corporate performance. It aims to analyze how key components such as cash management, debt management, working capital management, and capital structure impact the financial outcomes of firms, using performance indicators like Return on Assets (ROA) and Return on Equity (ROE). The study highlights the importance of efficient cash flow management, strategic debt usage, and optimized working capital in driving profitability and stability. Additionally, the research identifies how technology, particularly financial management software and big data analytics, plays a pivotal role in enhancing decision-making processes. The findings suggest that companies adopting a balanced approach to financial management, coupled with technological advancements, experience better financial performance and long-term sustainability. This paper provides actionable insights for business managers, financial analysts, and policymakers aiming to improve financial management strategies.

INTRODUCTION

Financial management is a vital component in ensuring the operational sustainability and optimal performance of a company amidst increasingly tight market competition. In this era of globalization, a company's ability to manage financial resources efficiently plays an important role in achieving financial stability and maximizing shareholder value. Financial management covers various aspects such as cash flow management, capital structure, debt control, and working capital, all of which contribute to the company's growth and profitability (Brigham & Houston, 2019).

Various theories have been developed to help companies understand and apply the principles of good financial management. One of them is the Modigliani-Miller theory which highlights that capital structure, under certain conditions, does not affect the value of the company, although in practice there are many factors that impact the optimal capital structure (Modigliani & Miller, 1958). Agency theory also plays an important role, highlighting the importance of financial management to ensure that managers work in accordance with the interests of shareholders (Jensen & Meckling, 1976). In a more practical context, cash and working capital management becomes essential to maintain liquidity and ensure that the company can meet its financial obligations in a timely manner.

This study aims to explore how effective financial management practices can improve company performance. By focusing on the relationship between financial management and company performance as measured by profitability indicators, such as Return on Assets (ROA) and Return on Equity (ROE), this study is expected to provide practical and theoretical contributions for business actors in optimizing financial management in their companies.

LITERATURE REVIEW

Modigliani-Miller Theory, developed by Modigliani and Miller in 1958, suggests that under perfect market conditions, capital structure does not affect firm value. This theory assumes that the choice between debt and equity should not have a significant impact on firm value because investors can invest in the same way. However, in real practice, imperfect market conditions such as taxes, bankruptcy costs, and information asymmetry change this dynamic, so that an optimal capital structure is very important for firm stability (Modigliani & Miller, 1958). This theory has been widely criticized and refined by various further studies that try to understand the real impact of capital structure in a dynamic and uncertain business world (Brealey, Myers, & Allen, 2020).

Furthermore, Agency Theory proposed by Jensen and Meckling in 1976 highlights the problems that arise from the relationship between the company owner (principal) and the manager (agent). When the interests of the owner and manager are not aligned, the potential for conflict increases, which can lead to agency costs that are detrimental to the company. In this context, financial management serves as a tool to minimize such conflicts by aligning management and shareholder objectives through appropriate supervision, incentives, and capital structure (Jensen & Meckling, 1976). The implementation of this theory is

important for companies because it increases efficiency and ensures that financial management truly supports the company's goals.

On the other hand, the literature on cash and working capital management focuses on optimal cash flow management to maintain the company's liquidity and financial health. This view emphasizes the importance of efficient cash management to ensure smooth daily operations, which are closely related to the company's profitability. Brigham and Houston (2019) explain that by managing working capital, such as inventory turnover, companies can minimize operating costs and avoid liquidity problems that can hinder business growth. Companies that are efficient in managing working capital often have shorter operating cycles and more stable cash flows, which in turn support better financial performance.

In addition, the application of financial technology (fintech) in financial management is also an increasingly relevant topic. Several studies have shown that the use of data analytics and financial software helps companies predict cash flow, manage risk, and improve strategic financial decision-making (Kumar & Rajan, 2021). In this context, fintech has the potential to strengthen financial management by providing digital solutions that increase efficiency and provide deeper insights into the company's financial condition.

By integrating the various theories and studies above, this literature review shows that strategic financial management can cover many aspects, including capital structure, cash management, technology utilization, and managing the relationship between managers and shareholders. This comprehensive approach supports the idea that effective financial management is the main key to achieving and maintaining optimal company performance in today's competitive era.

METHODOLOGY

This study uses a quantitative approach with secondary data collected from the financial statements of listed companies during a certain period. The research sample was taken from companies in the manufacturing and service sectors listed on the stock exchange. Data analysis was carried out using linear regression to see the relationship between financial management and company performance as measured by return on assets (ROA) and return on equity (ROE). The stages in this methodology include; Data Collection: Collecting financial statements from available databases. Data Interpretation: Interpreting the results of statistical analysis to draw relevant conclusions.

RESEARCH RESULT

This study produces a number of significant findings that show a close relationship between strategic financial management practices and a company's financial performance. By measuring Return on Assets (ROA) and Return on Equity (ROE) as key performance indicators, this study analyzes four main areas of financial management: cash flow management, debt management, working capital management, and capital structure. The following are the results of the analysis of each of these aspects.

Cash Flow Management

The findings in this area indicate that effective cash flow management contributes significantly to financial stability and the company's ability to meet short-term obligations. Based on the data analysis, several key findings related to cash flow management include:

Operating Cash Flow to Total Assets Ratio: Companies with a higher operating cash flow to total assets ratio show better ROA performance. The data shows that companies with this ratio above the industry average tend to have stable liquidity, which allows them to finance operations without having to rely on external financing. This ratio is also directly related to efficiency in managing operating costs and income.

Relationship between Cash Flow and Business Growth: This study found that companies with positive cash flow from operating activities have higher flexibility to fund expansion, innovation projects, and investments without sacrificing liquidity. With adequate liquidity, these companies tend to record higher ROE, indicating that the company's ability to maintain and increase net income provides long-term benefits for shareholders.

Debt Management

Good debt management has been shown to have a positive impact on the company's capital structure and financial stability. Some important findings obtained related to debt management are:

Debt-to-Equity Ratio: Companies with an optimal debt-to-equity ratio show higher ROE performance compared to companies with ratios that are too high or too low. Companies that use debt efficiently utilize leverage to increase profits without burdening their financial structure. This study found that a moderate ratio (neither too low nor too high) provides a balance between the benefits of leverage and financial risk, which contributes to the stability and growth of the company's profitability.

Interest Expense and Liquidity Risk: The analysis shows that companies that are able to manage interest expenses well have more stable ROA and ROE performance. Companies that allocate part of their cash flow to pay off short-term debt show lower liquidity risk, so that companies have better resilience to economic fluctuations or market uncertainty. This finding underlines the importance of debt control in maintaining financial stability.

Working Capital Management

The efficiency of working capital management, including inventory turnover and cash cycle, has been shown to have a positive correlation with company performance. The results of the study identified several important factors in working capital management:

Inventory Turnover: Companies with faster inventory turnover tend to show higher ROA performance. This shows that companies that are efficient in managing inventory can reduce storage costs and increase cash flow from sales. This finding is in line with the view that good inventory management strengthens working capital and affects liquidity, which in turn increases profitability.

Cash Conversion Cycle: A shorter cash cycle has been shown to correlate with higher ROE. An efficient cash cycle allows companies to speed up the receivables collection process and reduce the risk of late payments to suppliers, which helps companies maintain cash flow stability. Companies with shorter cash cycles tend to have better liquidity, which strengthens operational capacity and drives profit growth.

Capital Structure

The selection of the right capital structure plays an important role in creating a balance between equity and debt financing. Findings related to capital structure include:

Effect of Equity Ratio: Companies with a larger proportion of equity capital show better financial stability, especially in industries facing high volatility. This study shows that companies with larger equity have a lower risk of bankruptcy and higher level of shareholder confidence. In the long run, companies with more dominant equity tend to achieve more consistent ROA performance.

Effect of Capital Structure on Profitability: A balanced capital structure between debt and equity shows a positive relationship with higher ROE performance. Companies with an optimal capital structure are able to reduce excessive interest expenses while maximizing returns for shareholders, because more efficient financing supports more productive investments.

Use of Technology in Financial Management

Along with the adoption of financial technology (fintech), the use of digital solutions and data analytics in financial management has proven to provide great benefits for companies. Some of the main findings in this aspect include:

Implementation of Financial Software: Companies that adopt financial software to manage cash flow and monitor debt show increased efficiency and accuracy in financial decision making. Data shows that the implementation of this software has a positive relationship with higher ROA, because companies can optimize time and resources in financial management.

Data Analytics for Financial Planning: The use of data analytics helps companies plan cash and working capital needs, as well as identify financial risk patterns. The analysis results show that companies that implement financial analytics technology have better cash stability and can be more responsive to market changes. In addition, the use of data analytics allows for more accurate predictions, which contributes to higher ROE due to smarter investment decisions.

DISCUSSION

Good financial management practices can help companies achieve financial stability. Efficient cash flow management can ensure the continuity of company operations, while structured debt management can reduce the risk of bankruptcy. In addition, efficient working capital management can improve the company's competitiveness in the long term.

Effective financial management requires a deep understanding of the company's financial and operational aspects. It is important for companies to have clear financial policies that can adapt to market changes. This study confirms that effective financial management is critical to a company's financial stability and profitability. Each of the aspects analyzed, including cash flow management, debt management, working capital, capital structure, and technology utilization, play a crucial role in influencing the company's bottom line. The results of this study support the view that a comprehensive approach to financial management, especially one that utilizes modern technology and data analytics, can help companies achieve optimal performance and add value to shareholders.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Effective financial management practices have a significant impact on improving company performance. Key findings show that companies that successfully manage cash flow, debt, and working capital efficiently tend to have higher *Return on Assets* (ROA) and *Return on Equity* (ROE). These results support previous research showing that good financial management contributes to a company's financial stability and profitability in the long term (Brigham & Houston, 2019). Specifically, this study shows that companies that have a balanced debt management policy are able to improve capital efficiency and maximize returns to shareholders without sacrificing liquidity or financial stability (Modigliani & Miller, 1958).

In relation to working capital management, companies that adopt a fast inventory turnover strategy and an efficient cash cycle tend to have stable operating cash flows, which allows them to fund expansion or innovation without relying too much on external funding. This is in line with research by Kumar & Rajan (2021), which shows that strategic working capital planning supports sustainable growth and provides additional competitiveness in a competitive market.

Recommendations

Based on the above findings, the following recommendations can help companies improve financial management and overall performance:

1. **Implementation of Tight Cash Flow Policy**

Companies are advised to strengthen cash flow management policies in order to maintain liquidity and anticipate urgent financial needs. The application of tools such as cash flow projections and data analytics can help companies estimate capital needs more accurately (Kumar & Rajan, 2021). Companies can also consider proactively managing operational cash flow to support daily operational activities without interruption.

2. **Optimizing Capital Structure**

Another recommendation is that companies should consider a balanced capital structure between debt and equity to minimize capital costs and reduce the risk of bankruptcy. Based on research by Modigliani and Miller (1958), an optimal capital structure can help companies increase

company value sustainably. Therefore, management must pay attention to the debt-to-equity ratio and choose a funding composition that supports long-term profitability.

3. Improving Working Capital Management

Working capital efficiency is essential to ensure that the company has adequate liquidity. Companies are advised to accelerate inventory turnover and shorten the cash cycle in order to support stable cash flow and increase profitability (Brigham & Houston, 2019). Utilizing technology to monitor inventory and collect receivables can also improve the efficiency of working capital management.

4. Utilization of Financial Technology

In the digital era, the use of financial technology (fintech) and financial management software can help companies accelerate the decision-making process, conduct risk analysis, and strengthen financial strategies. This technology allows companies to identify investment opportunities and respond to market changes more quickly, thereby strengthening the company's competitiveness (Kumar & Rajan, 2021). Thus, companies should adopt analytical software and automation in their financial management processes.

By implementing these recommendations, companies can better utilize financial resources, maintain financial stability, and achieve sustainable optimal performance. These recommendations are also expected to provide a strong foundation for companies in developing financial management strategies that are adaptive and responsive to changing market conditions.

ADVANCED RESEARCH

To deepen the understanding of the relationship between financial management and corporate performance, further research can be directed at several areas that have not been fully explored in this study. First, future research can expand the scope of the industry to identify whether there are significant differences in the effect of financial management on corporate performance across sectors, such as technology, healthcare, or finance, which have different market dynamics and risks. This cross-sector study will provide insight into specific financial management strategies that can be applied in various industry contexts (Brealey, Myers, & Allen, 2020).

Second, future research can examine the influence of the use of financial technology in more depth, especially related to the application of artificial intelligence (AI) and big data analytics in financial prediction and decision making. With the increasing development of digital technology, research can explore the impact of automation in financial processes, such as AI-based cash prediction systems that can improve efficiency in operational cash management. This is in line with the recommendations of Kumar and Rajan (2021) who showed that digital financial technology can provide a competitive advantage for companies.

Furthermore, research can also explore further the influence of external variables such as macroeconomic conditions, government regulations, or interest

rates on the effectiveness of the financial management strategies implemented. These macroeconomic variables are often external factors that influence a company's financial decisions, so future research can evaluate the extent to which financial management strategies need to be adjusted to changes in economic policies or global market uncertainty (Brigham & Houston, 2019).

In addition, future research can focus on the influence of corporate culture and leadership style on financial management decisions. These internal factors influence how financial strategies are implemented and adjusted within a company, especially in terms of risk management and response to financial crises. A more in-depth study of these internal aspects will help clarify the psychological and organizational factors that contribute to the success of financial management in different types of companies.

Finally, further research on the long-term effects of financial management practices on sustainability can provide important insights into the role of financial management in driving sustainable business practices. In the modern era, investors and shareholders are increasingly demanding companies to adopt ESG (Environmental, Social, and Governance) principles, and a more in-depth study can evaluate whether environmentally and socially responsible financial management practices can improve a company's reputation and provide added value to shareholders (Eccles & Klimenko, 2019).

By directing research to these areas, it is hoped that a more holistic and in-depth understanding of the role of financial management in supporting the stability, sustainability and optimal performance of companies in the long term will be created.

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