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The Impact of Financial Management on School Performance

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ABSTRACT

This study examines the pivotal role of financial management in enhancing the performance of schools, with a particular focus on secondary education in developing countries such as Eritrea. While schools are primarily learning institutions, their success increasingly depends on how well they manage limited financial resources. The paper investigates how effective financial planning, monitoring, reporting, and internal auditing influence academic achievement. Utilizing both qualitative and quantitative data—including case studies and surveys of public secondary school bursars—the study identifies common financial mismanagement challenges and highlights successful strategies employed by high-performing schools. Findings suggest that strong financial systems contribute directly to improved educational outcomes, while weaknesses in budgeting and oversight hinder progress. The study underscores the importance of training school leaders in financial competencies and recommends policy reforms aimed at decentralizing and strengthening financial oversight in schools.

Keywords: School Financial Management, Educational Performance, Budget Planning, Resource Allocation, School Leadership, Financial Accountability.

INTRODUCTION

Schools are organizations that require proper management in all spheres, including financial management, because school efficiency is one of the main targets of policymakers at different levels. School financial management plays a crucial role in improving efficiency, effectiveness, better decision making, and accountability. The currency of the matter has made agency to see the possible roles principals can have regarding school financial management. It was found that financial management in secondary schools has not been given the desired attention over the years. Unrealistic budget planning and low per capita budget are some of the main problems contributing to the inefficiency of schools. Financial mismanagement is a key factor in the big problem most developing countries are facing, which is the scarcity of financial resources and resources being misused to an immaterial extent. Eritrea is no exception. There is a theoretical consensus indicating that school principals are among the key stakeholders who can bring about improvement in schools, as well as in controlling and administering resources. Schools are organizations that require proper management in all spheres, including financial management. Among others, school efficiency is one of the main targets of policymakers at different levels. As a consequence, many countries have employed certain mechanisms in their efforts to enhance school performance, and some countries are relentlessly driving in that direction. However, some schools still fail to act as intended [1, 2].

Understanding Financial Management in Education

Financial management is a broad terminology that brings together all accounting techniques in an organization and enables the realization of planning and controlling tasks concerned with activities at both overall and detailed levels. At the broad level, planning tasks include setting goals and objectives, long-range/outside commitments, and revenue forecasts, plans, and providing guidelines in a tactical period. Detailed policy deals with precise resource allocation and expenditure plans in the next operating

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year to discuss other preparations of specific budgets. The accountability of the plans created for higher management and, ultimately, the monitoring of managerial actions taken to achieve them are aspects that are concerned with money control. Financial management in general organizations focuses on such areas as financial status, cash flow, budget proposals, analysis of investment alternatives, and other decisions that are not directly related to profit or service. Public school financial management, however, is just beginning to receive the desired emphasis in many developing countries where the attitude of the public or civil personnel is not traditionally oriented toward the institution of profit maximization. Since the fiscal and compliance dimensions are the main pilasters of accountability in this sector, there is a tendency to see management from the purely technical and operational perspective of looking at a bookkeeping system, regulatory instruments, internal guidelines and procedures, the competence and functional efficiency of the financial personnel and the accounting training currently provided, etc. On the other hand, studies have unequivocally proved that this separated view does not always produce sustainable improvements in the effectiveness and efficiency of government services within the educational system [3, 4].

Definition and Importance

Effective management of financial resources is crucial for the collection and allocation of funds, modern equipment, and the continuation of educational activities in various institutions. This is especially true in resource-scarce countries, where effective school financial management is vital for achieving quality education for students. This management system plays a significant role in planning and familiarizing stakeholders with funding processes, making it a key aspect of school management. School heads are tasked with implementing these financial duties effectively. However, financial management poses a considerable challenge at the school level. In many countries, transferring finances to schools creates new and complex responsibilities for school heads, including the essential tasks of managing budgeted funds and overseeing school accounts. Without proper financial systems and adequate training for school leaders, there is little hope for any substantial improvement in the quality of financial management at schools. As the volume of school funds increases, the need for stringent financial control becomes crucial. All resources allocated for educational activities must be spent productively to enhance the quality of teaching and learning, which requires expertise in various aspects of financial planning, budgeting, reporting, monitoring, and evaluation processes. While principals are often viewed primarily as educational leaders, their new responsibilities pivot toward a significant number of administrative tasks, which sadly divert their time and energy from teaching activities toward budgeting, monitoring, and intricate financial reporting responsibilities. The advancement of effective financial management practices in schools is obstructed by two main factors: the variation in understanding of what constitutes financial management functions and the narrow focus of past studies, which tend to limit these functions primarily to procurement and resource utilization. Conversely, on a global scale, school financial management encompasses a much broader spectrum of activities and involves all financial operations related to education, with a distinct focus on acquiring and effectively allocating resources, thereby fostering an environment conducive to improved educational outcomes [5, 6].

Key Components of Financial Management

Financial management in education involves collaboration among heads, treasurers, and stakeholders for effective management, linking strategic financial arrangements to school performance. It emphasizes understanding resource allocation, administration, and monitoring. Resource allocation distributes essential resources for school operations, primarily funded by local governments for hiring staff, innovative teaching, seminars, and parental networking for funding. Schools function like businesses, implementing programs and assessing performance. Budgeting starts with the School Improvement Plan, creating various budget items, and is prepared by SBOs, PTAs, and principals, following local educational authority guidelines. Financial autonomy grants schools some independence while ensuring budgets align with spending goals. Resource administration manages financial resources after allocation, involving tasks such as data entry and monitoring expenditures to ensure proper fund usage. Uncommitted funds must adhere to regulations, and any additional funding requires justification. Large building expenditures typically need consent from the local education authority, with requisitions sent to the Building and Project Manager, and funds are usually received within a month, as Business Managers obtain quotes for the best financial outcomes [7, 8].

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Impact of Financial Management on Academic Performance

The preparedness of school management in organizing an educational institution's financial system is expected to positively impact student academic achievement. School management plays a crucial role in this organization through School Base Management Finance (SBM Finance), which emphasizes the planning and monitoring of school budgets. The financial system encompasses rules and procedures necessary for managing funds and expenditures to enhance the quality of education. Education significantly influences societal development, guiding national progress while fostering human resources that contribute to community advancement. A robust education system, reliant on effective educator performance and adequate facilities, is essential for achieving meaningful learning outcomes. The research aimed to explore how financial management affects school performance through four objectives: assessing the impact of financial planning, monitoring, reporting, and internal audit systems on secondary education. Using a survey research design, the study included these financial aspects as key components of management. The target population was 43 bursars from public secondary schools. Findings indicated a need to fortify financial planning, monitoring, reporting, and auditing systems, alongside urging the government to increase funding availability [9, 10].

Case Studies of Successful Financial Management

Efficient and equitable management of resources has been the primary school management priority for the past several decades. However, little attention has been devoted to this complex area due to a lack of opportunity in developing countries teaching management subjects at schools. This neglect has led to the belief that the financial management role does not deserve particular attention in schools. In this study, analyses focus on three large districts where all secondary schools are located to find the importance and high productivity of business schools with the help of successful and productive school managers, entrepreneurs, and businessmen. Interviews with these stakeholders finally indicated nine schools as best practice schools for further study. Financial and stakeholders' representatives, along with the head of each school, were then interviewed about their roles, their practices, the school financial systems in place, and their history of implementing them. Each case study documents the 'journey' from when the school first introduced the identified feature of sound financial management until the year of the interviews access (generally corresponding to the school's 4th year of implementation). In-depth interviews were held with head teachers and school stakeholders of each of these schools. Additionally, circle interviews were held with school principals and stakeholders from the same school to get different perspectives on similar events. Interviews were semi-structured and, where possible, were conducted with the same informants every year to identify the up-and-down management of running costs and investment budgeting for schools according to FMS in Eritrea. This research investigates the potential of introducing any of these rules into the school financial system's running cost budget heads and to what extent it can be successful [11, 12].

High-Performing Schools

This study utilized a database created specifically for education finance and student performance questions to examine the relationship between the financial management of school systems and the educational outcomes for the students they serve, as indicated by the results of standard tests of mathematics and reading. The magnitudes of the impact of such variables tend to be determined. The first set of time estimates were run for school districts, with pairs of school year data for the years 1998-99 through 2005-06. The second set of time estimates was run at the school level, using pairs of data from the same years for rural high schools in predominantly rural districts. The third set of analyses used pairs of data for rural high schools collected each year for the years 1998-99 through 2005-06. In each case, results from the analysis were generally tempered in their interpretation based on inconsistent estimates. The regression procedures and empirical analysis are described in the following section. Financing public elementary and secondary schools is arguably the most complex and controversial area of public finance. Local, state, and federal sources combine to support an institution that must annually generate and spend vast sums of money. Such financial systems are prone to waste, inefficiency, corruption, and mismanagement and are always difficult for a layperson to understand properly. Furthermore, in the case of schools, these have potentially disastrous implications for society. In the end, it is the quality of education that potentially equips individuals with the opportunities to gain rewarding and socially valued work and to understand and participate productively as citizens. Thus, school should be seen as an ongoing concern with goals and objectives. After goals have been set, plans made, and objectives formulated, financing is crucial to determine whether or not the goals and objectives will be met [13, 14].

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Innovative Budgeting Strategies

Educational managers are now under unprecedented pressure to find adequate funds that will support improvements in educational quality, but they often feel that financial demands far exceed available resources. Educational managers should turn their attention to strategies designed to allocate resources in ways that are cost-effective. To be able to employ such strategies, it is necessary for a strong link to be established between educational planning, management, and budgetary decision-making. Consequently, time is needed to experiment carefully with different strategies. There is also a strong need for information that can only be built up over time to time to apply such strategies effectively. Balancing the budget is a constant theme to all schools. It encompasses the budget preparation process and the financial and budget reporting requirements. Some ideas or examples on how this could be accomplished are provided. The usual idea or belief is that budgeting times mean hard times at schools and that this time is only for the accountants or those responsible for the financial affairs of the schools. This process introduces basic innovative budgeting practices and considerations to all school principals or school planning and development committees, thus enabling them also to get involved in budgeting practices at schools or even to better understand what is done to and why at that particular time. There is no statistically significant relationship between budgetary practices and the performance of public schools in the Nakuru Municipality. Since the efficiency of resource utilization in school required the formulation of good planning and the allocation of finance resources, DoE executes School-Based Management to shift a portion of decision making from central level to School Committee with the expectation that the decentralization will enable better decision making because it makes the previous decision maker less bureaucratic than top-down decision making. Meanwhile, the BOS also keeps on increasing funds to schools through grant and revenue earnings as the impact of decentralization [15, 16].

Challenges in Financial Management

Many factors currently hinder the head teachers from smoothly managing the finances in their schools. Some of them are inefficient in terms of operations where schools' expenses that are intended for academic purposes as required are either left unspent or not bought at all. However, the school head teachers still find it hard to manage the financial matters of their schools. There are various reasons for this matter. The localization of all the decision-making at primary schools did not yield the intended results. The main reason is that the members of the school development committee generally lacked the skilled personnel to formulate the appropriate plans. Correspondingly, though the educational system was devolved and delegated to the regions, woreda, and schools and was accompanied by the establishment of a respective management structure, this reverse process did not produce the intended results. The main reason is that the majority of the newly assembled SMC members, mostly parents and women, had no financial knowledge or accounting experience. Further, the decentralization of the education system, which was demarcated to devolve basic education functions to the district education offices as well as develop and implement education policies in collaboration with local school development associations, did not yield the intended goals. The main argument is that since the establishment of the education offices, only a few principals can be considered strong and well-trained professionals. Thus, some or all of those invoiced activities are provided by the outsourced agencies or service providers who are responsible for the overall implementation of all the activities. Globally, no school system can overcome this problem without allocating enough budget. Financial management is a critical issue that defines the successful operational performance of the organization. Financial management is the planning, directing, monitoring, organizing, and controlling of the monetary resources of an organization. Financial management incorporates all accounting techniques or methods that assist in the planning, controlling, and organizing of the activities of the enterprise. Efficient financial management, which entails proper planning, monitoring, controlling, and directing all the financial resources to the most profitable or effective usage, has become a focal issue of the business [17, 18].

Best Practices in Financial Management

Financial management involves the economic, budgetary, and administrative operations of an organization, significantly influenced by its financial planning and decision-making policies. Its practice is growing in the education sector, focusing on input financial planning. Due to the critical need for efficient use of educational resources and accurate accountability, educational organizations should shift their financial management systems to involve output financial planning. The evaluation of school financial performance is based on student learning outcomes. A well-designed financial planning system enables school leaders to justify their financial requests to upper management, ultimately benefiting education.

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The principal acts as the school's financial manager, with financial policy decisions made during the annual goal and budget setting by various decision-makers. For effective financial management, schools require timely updates on financial resource situations. Educational budgeting is complex for several reasons: (1) Schools receive a single government budget for all operations, complicating resource allocation; (2) budgets lack flexibility, forcing managers to adapt physical resources to financial constraints; (3) budgets are unpredictable, often changing during the fiscal year despite planning; (4) external training and research involvement complicates budgeting; (5) tracing the full costs of training and research programs is challenging [19, 20].

Future Trends in Financial Management in Education

Escalating school funding disparities in America and the role of financial management in schools, especially in schools that are dependent on state funding, are receiving attention from educational finance scholars. Schools within low tax bases that are dependent on state funding place additional financial challenges on school administrators due to the vicissitude of public perception and how it influences the political budgeting process. These cash-strapped schools then are faced with a budgeting process that is extremely daunting and often oversimplified with little explanation and transparency. The consolidation of power between the local school district and the state house of representatives amplifies a cyclical deficit model that severely impacts a school. At a time when the traditional parts of financial management become convoluted, transparency in the decision-making regarding the finances of a school becomes pivotal. Moreover, such transparency would ostensibly allow constituents to have more trust in those who are responsible for managing the public funds and may create a space where constituents are more willing to act as resources in establishing a solution to any financial predicament that may arise. Aside from the public trust aspect, there is also the legal obligation of moving toward more transparent budgeting practices as early as 2020. The seven trends are meant to provide information on the effectiveness of these financial strategies before making decisions regarding their implementation. This script analysis gives insight into how strategies are being communicated, which is important for understanding how decisions will be made in the future as financial transparency becomes clearer [21, 22, 23].

CONCLUSION

Financial management is no longer a peripheral function in educational institutions—it is central to their success. As demonstrated in this study, effective financial planning, transparent budgeting, rigorous monitoring, and consistent internal audits are crucial to the overall performance and sustainability of schools. Schools with well-managed financial systems are better positioned to improve learning environments, allocate resources efficiently, and ultimately enhance student outcomes. Conversely, schools plagued by weak financial systems and underqualified personnel struggle to meet educational goals. Case studies from high-performing schools reveal that empowering school leaders with the knowledge and tools to manage finances—combined with strong community and stakeholder engagement—yields measurable improvements. Therefore, policymakers must prioritize investments in financial literacy training for school administrators and adopt frameworks that promote transparency, decentralization, and community involvement. Addressing these financial governance issues is essential for building resilient, equitable, and high-achieving educational systems.

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