



## Effectiveness of Village Financial Management: The Roles of Financial Literacy, Internal Supervision & Leadership Style

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**ABSTRACT:** Village financial management is a crucial factor for realizing accountable and effective local development. This study examines the effects of financial literacy, internal supervision, and leadership style on the effectiveness of village financial management in the Anambas Islands Regency. Data were collected from a survey of 279 village officials (village heads, members of the Village Consultative Body [BPD], and village administrative staff) across 52 villages. The 28-item instrument was tested for validity and reliability and exhibited high internal consistency (Cronbach's  $\alpha$ ). Because normality tests indicated non-normal distributions for the main variables, inferential analysis employed the nonparametric Mann-Whitney U test to evaluate six hypotheses concerning direct effects and inter-variable relationships. Empirical results indicate that financial literacy, internal supervision, and leadership style each have no significant effect on the effectiveness of village financial management; likewise, no significant relationships were found between literacy and supervision, supervision and leadership style, or literacy and leadership style. These findings likely reflect a knowledge-action gap and conceptual mismatches between indicators that measure declarative knowledge and outcomes that are administrative-instrumental; furthermore, supervision as measured emphasizes procedural formality and leadership constrained by collective regulation, which may weaken causal links. Policy implications stress the need for applied training interventions, enhancement of supervisors' technical capacity, and institutional reforms to better integrate technical inputs into decision-making. Future research is recommended using mixed-methods designs, measurement of relevant subdimensions, and multilevel or intervention studies to test mechanisms for translating knowledge into practice.

**Keywords:** Financial Literacy, Internal Supervision, Leadership Style, Financial Management.



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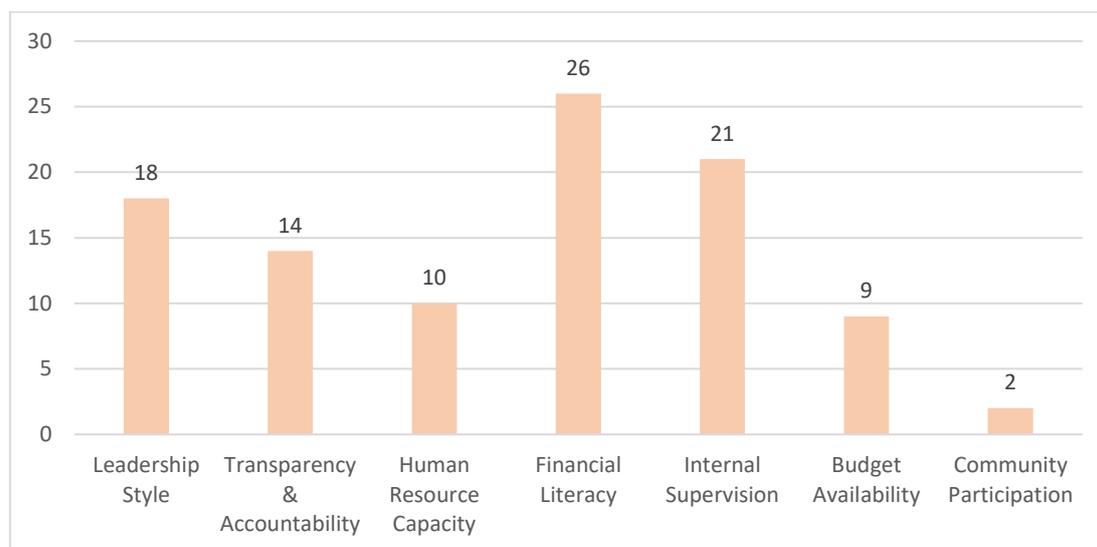
## INTRODUCTION

Village financial management is the practical system for planning, allocating, recording, and reporting public funds at the village level; its effectiveness directly determines whether resources reach basic services, such as primary health clinics, school repairs, road maintenance, and clean-

water projects, and thus is critical for sustainable, accountable local development. Sound management ensures that budget allocations are appropriately targeted toward public services, infrastructure, and community empowerment ([Handayani et al., 2023](#)). Uncertainty in administrative procedures and weak record-keeping can lead to waste and erode public trust. Conversely, transparent management enhances public participation and the effectiveness of village development programs ([Schugurensky & Mook, 2024](#)). Therefore, strengthening village financial management systems is a strategic measure to reduce the potential for irregularities and to accelerate development objectives ([Diansari et al., 2023](#)).

Several factors interact, often complementarily and sometimes compensatorily to determine the quality of village financial management, so unpacking these linkages clarifies why single-target interventions often fall short. Financial literacy enables village officials to interpret budget lines, prepare realistic plans, and make cost-effective decisions; when literacy is low, even adequate budgets may be misallocated or under-utilized, whereas higher literacy amplifies the benefits of available funds ([Nugroho et al., 2023](#)). Internal supervision (control mechanisms, audits, and internal reporting) both depends on and reinforces transparency and accountability: strong supervision uncovers deviations that transparency makes visible, and transparent reporting in turn makes supervision more effective ([Alqudah et al., 2023](#)). The village head's leadership style shapes how tasks are delegated, whether accountability norms are enforced, and how internal supervision is implemented authoritative or centralized styles can weaken downward reporting, while participatory or transformational leaders tend to strengthen oversight and staff commitment ([Hulugalla et al., 2025](#)). Transparency and accountability function as enablers of external oversight and public trust: when financial information is accessible and auditable, public participation and audit outcomes are more meaningful, which pressures officials and leaders to comply with rules ([Matheus et al., 2021](#)). HR capacity (technical competence in administration and financial reporting) is the operational backbone, skilled staff convert budgets and policies into reliable reports and compliant expenditures; weak HR therefore undermines both the effectiveness of internal supervision and the utility of financial literacy training ([Ferry et al., 2024](#)). Budget availability constrains what can be implemented and forces prioritization; adequate funding increases policy space but must be paired with literacy, competent HR, and supervision to avoid waste ([Susilo et al., 2021](#)). Finally, public participation both shapes legitimacy for expenditures and acts as an external check on leaders and administrators, active community engagement improves prioritization of budgets and reinforces transparency, creating feedback loops with supervision and leadership incentives ([Hilmawan et al., 2023](#)). Together, these interdependencies imply that improving village financial management requires coordinated strategies that build literacy and HR skills, strengthen supervision, promote transparent practices, ensure sufficient resources, and encourage meaningful public participation.

The researchers conducted a preliminary survey of 279 village officials in the Anambas Islands Regency concerning seven factors that influence village financial management. The survey results are presented in Figure 1.



**Figure 1.** Factors Affecting Village Financial Management

Based on the survey of 279 village officials; including village heads, members of the Village Consultative Body (BPD), and village administrative staff, across 52 villages in the Anambas Islands Regency, respondents were asked to select the factor they perceived as most influential on the effectiveness of village financial management. The results reveal variation in preferences: financial literacy ranked highest, followed by internal supervision and leadership style; other factors such as transparency, HR capacity, budget availability, and public participation occupied subsequent ranks. This outcome underlies the rationale for this study's focus on the three highest-ranked factors influencing village financial management effectiveness: financial literacy, internal supervision, and the village head's leadership style.

Financial literacy occupies the top position because the ability of village officials to read reports, plan budgets, and understand fiscal implications directly affects decisions on fund utilization. Financial literacy is not merely theoretical knowledge but practical skills in drafting budgets, forecasting cash flows, and assessing financial risks ([Cannistrà et al., 2024](#)). Literate officials tend to implement realistic planning and maintain orderly records, thereby minimizing misallocation. Moreover, financial literacy supports transparency mechanisms because well-structured documentation facilitates audits and public oversight ([Merter & Balcıoğlu, 2025](#)). Hence, interventions to improve financial literacy are a policy priority for enhancing village financial governance.

Internal supervision ranks second because it functions as the frontline defense against errors and fraud in the financial management cycle. Internal supervision entails policies, procedures, and systematic internal audit practices as well as segregation of duties to reduce opportunities for abuse ([Purnamasari et al., 2024](#)). This mechanism also includes periodic reporting and follow-up on findings to ensure accountability. Robust internal supervision supports deterrence effects and improves compliance with village fund management rules ([Paranata, 2022](#)). Furthermore, consistent supervision enhances external trust, from both the community and supervisory authorities at the regency level ([Khorana et al., 2024](#)). Therefore, strengthening internal supervision capacity is a key element in efforts to improve the effectiveness of village financial management.

The village head's leadership style ranks third because the head plays a decisive role in policy direction, spending priorities, and organizational culture within village administration. Leadership style encompasses dimensions such as participative versus authoritarian approaches, transactional versus transformational leadership, and tendencies regarding delegation of authority ([Nhat Vuong et al., 2023](#)). Village heads who adopt participative leadership tend to encourage involvement from the BPD and the community, thereby making budget management more accountable. Conversely, centralized styles increase the risk of unilateral decision-making and opacity in management ([Hofer et al., 2024](#)). Leadership also influences the extent to which officials adhere to financial procedures and the culture of reporting ([Abdelwahed et al., 2023](#)). Thus, examining leadership style is important for understanding variations in financial management practices across villages.

Previous studies consistently indicate that several factors significantly influence the effectiveness of public financial management at the local level. First, research on financial literacy generally finds a positive effect: officials with financial knowledge and skills are more likely to draft realistic budgets, maintain orderly records, and make more rational expenditure decisions, thereby reducing the risk of misallocation ([González-Núñez et al., 2024](#)). Second, studies on internal supervision show that the presence of control policies, segregation of duties, and periodic internal audits help prevent deviations and improve compliance with procedures, which in turn enhances accountability in fund management ([Nadirisyah et al., 2024](#)). Third, studies on leadership style confirm that participative/transformational leadership increases staff and community engagement and the reporting culture, whereas authoritarian/centralized styles are often associated with unilateral decisions and reduced transparency ([Chau et al., 2022](#)). Fourth, some studies examining the combination of financial literacy and internal supervision find synergistic effects: literacy improves the quality of technical implementation while supervision ensures compliance, so their combination contributes more to management effectiveness than either factor alone. Fifth, research on the interaction between internal supervision and leadership style reports that the effectiveness of supervision often depends on leadership support; strong supervision that lacks backing from transparent and empowering leadership is difficult to implement consistently ([Zahari et al., 2024](#)). Methodologically, these findings are primarily supported by cross-sectional quantitative surveys, multiple regression analyses, and several qualitative studies that enrich understanding of causal mechanisms in the field.

The Anambas Islands Regency was selected for this study due to its insular geography, village fragmentation, and logistical challenges, which impart distinctive dynamics to village financial management. Selecting 52 villages and 279 village officials as the sample enables a representative analysis of variations in administrative practices and local contexts. Focusing on village officials; including village heads, BPD members, and administrative staff that ensures the perspectives of policy operators who engage daily with budget management. This research is urgent because optimizing village funds and other assistance requires empirical evidence to design appropriate interventions. The study's results are expected to inform regency policymakers and stakeholders on strengthening literacy, supervision, and leadership. In doing so, the research contributes to efforts to improve the effectiveness of public fund utilization at the village level.

Based on the foregoing, this study aims to examine the effectiveness of village financial management in the Anambas Islands Regency. To achieve this aim, the research questions are

formulated as follows: (1) Is there a significant effect of financial literacy on financial management? (2) Is there a significant effect of internal supervision on financial management? (3) Is there a significant effect of leadership style on financial management? (4) Is there a significant effect of financial literacy on internal supervision? (5) Is there a significant effect of internal supervision on leadership style? (6) Is there a significant effect of financial literacy on leadership style?

## Financial Literacy and Financial Management

Financial literacy of village officials refers to the knowledge, skills, and professional attitudes that enable village personnel to understand the principles of budget preparation, accounting recordkeeping, cash management, and the relevant legal provisions and procurement procedures applicable to the management of village funds (Widyastuti et al., 2024). Core components of this literacy include the ability to prepare realistic budgets, maintain systematic records and reports, understand fiscal accountability mechanisms, and recognize risks while applying basic internal controls (Lotfi et al., 2024). In the village context, specifically in the villages included in this study in the Anambas Islands Regency, financial literacy is crucial because of constrained resources, the complexity of village fund regulations, and the need to translate national policy into locally appropriate programs (Tapsoba et al., 2024). Financially literate village officials tend to prepare needs-based budgets, reduce recording errors, and ensure that cash flows and expenditures conform to their designated purposes, thereby lowering the risk of misallocation (Arkedis et al., 2021). Moreover, literacy facilitates clearer communication with local stakeholders (e.g., the Village Consultative Body/BPD and the community), enhances transparency in decision-making processes, and simplifies monitoring and evaluation of financial performance (Mogues et al., 2023). Conceptually and supported by empirical evidence from local government studies, improvements in financial literacy are closely associated with greater accountability, procedural compliance, and more effective use of public funds (Alessandro et al., 2021). Therefore, this study expects that the financial literacy of village officials will have a positive and significant effect on the effectiveness of village financial management in the Anambas Islands Regency.

H1: Financial literacy has a significant effect on village financial management in the Anambas Islands Regency

## Internal Supervision and Financial Management

Internal supervision of village officials encompasses the policies, procedures, and control mechanisms designed to ensure compliance with regulations, completeness of records, and accuracy of financial reporting (Ratmono & Frendy, 2022). Its main components include segregation of duties, supervisory oversight, internal or periodic audits, document verification, and reporting systems with follow-up on findings. In practice, internal supervision functions to prevent irregularities by detecting errors and potential fraud early, thereby reducing the risk of budget leakage (Tarjo et al., 2022). Effective supervision also improves the quality of financial data used for budget planning and program evaluation, which in turn enables more targeted allocation decisions.

Additionally, transparent and consistent supervisory mechanisms enhance the accountability of village officials to the BPD and the public, increasing public trust in fund management ([Pratolo et al., 2022](#)). However, supervision effectiveness depends on human resource capacity, the independence of internal audit processes, and leadership support for implementing supervisory recommendations ([Hirota et al., 2022](#)). Based on these roles, this study anticipates that internal supervision will have a positive and significant effect on the effectiveness of village financial management in the Anambas Islands Regency.

H2: Internal supervision has a significant effect on village financial management in the Anambas Islands Regency

### Leadership Style and Financial Management

The leadership style of the village head refers to the patterns of attitudes, behaviors, and decision-making strategies employed by the head when leading staff and managing local resources and public policy ([Berenschot et al., 2021a](#)). Practically, styles range from transformational or participative leadership which encourages empowerment, delegation, and two-way communication to authoritarian or centralized approaches that prioritize centralized control and unilateral decision making ([Racheal et al., 2024](#)). Village heads who adopt a participative style are more likely to involve the BPD, administrative staff, and community members in budget planning, resulting in budgets that are more responsive to local needs and more transparent decision-making processes. Conversely, authoritarian leadership can impede stakeholder participation, suppress openness in reporting, and weaken the effectiveness of internal supervision when recommendations are not acted upon ([Schugurensky & Mook, 2024b](#)). Leadership also shapes organizational culture: leaders who support learning and training enhance officials' capacity to apply sound accounting, recordkeeping, and control practices. Empirical evidence at the local government level generally shows a positive relationship between transformational/participative leadership and transparency, procedural compliance, and financial management performance, whereas centralized styles are often associated with less accountable management practices ([Abdi et al., 2024](#)). Consequently, this study treats leadership style as a key variable expected to have a significant effect on the effectiveness of village financial management in the Anambas Islands Regency.

H3: Leadership style has a significant effect on village financial management in the Anambas Islands Regency

### Financial Literacy and Internal Supervision

Financial literacy among village officials comprises the practical knowledge, skills, and attitudes that enable staff to understand budgeting principles, recordkeeping, cash controls, and regulations relevant to village fund management ([Yi et al., 2024](#)). This literacy includes the ability to read and prepare simple financial statements, comprehend cash flows and procurement mechanisms, and recognize risk indicators and inconsistencies ([Suprianto & Salim, 2024](#)). With such understanding, village officials become more capable of designing and implementing relevant internal control

procedures, such as segregation of duties, document verification, and routine reconciliation. Adequate levels of literacy make it easier for officials to detect anomalies, interpret audit findings, and execute timely technical follow-up on supervisory recommendations ([Lenz & O'Regan, 2024](#)). Financial literacy also improves technical communication between implementers and internal auditors, enabling supervisory recommendations to be formulated and implemented more effectively ([Musah et al., 2025](#)). At the organizational level, investment in literacy can strengthen a compliance and accountability culture because officials better understand the rationale and benefits of internal controls ([Graña-Alvarez et al., 2024](#)). Therefore, in the context of the 52 villages in the Anambas Islands Regency, this study expects that financial literacy will have a positive and significant effect on the effectiveness of internal supervision.

H4: Financial literacy has a significant effect on internal supervision in the Anambas Islands Regency

### Internal Supervision and Leadership Style

Internal supervision of village officials includes the policies, procedures, and mechanisms designed to ensure regulatory compliance, segregation of duties, document verification, periodic audits, and follow-up on findings ([Ginting et al., 2024](#)). This function helps to prevent fund misuse, improve recording accuracy, and provide reliable operational information for decision making ([Novatiani et al., 2024](#)). The relationship between internal supervision and the village head's leadership style is functional because leaders determine priorities, resource allocation, and the independence of supervisory mechanisms ([Koeswayo et al., 2024](#)). Village heads who support transparency and empowerment tend to strengthen supervision as a tool for improvement, whereas centralized leaders may limit supervision's effectiveness by restricting access to information or impeding enforcement of recommendations ([Bradley et al., 2023](#)). Moreover, the quality of internal supervision can shape leadership behavior by providing data, evidence, and recommendations that encourage leaders to adopt evidence-based policies ([Lenz et al., 2024](#)). Thus, there is a bidirectional dynamic in which leadership influences supervision implementation, while credible supervision can promote shifts toward more accountable and participative leadership practices. Accordingly, this study hypothesizes that internal supervision has a significant effect on the village head's leadership style in the Anambas Islands Regency.

H5: Internal supervision has a significant effect on leadership style in the Anambas Islands Regency

### Financial Literacy and Leadership Style

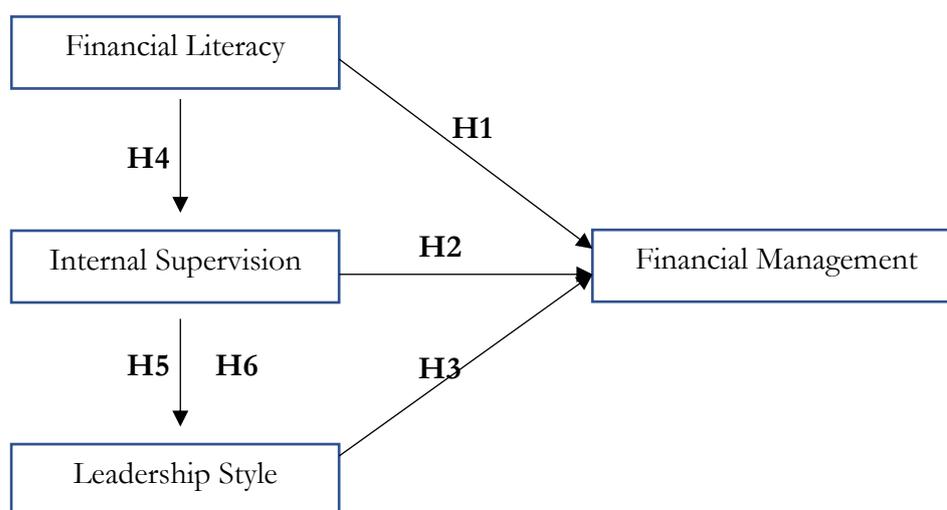
Financial literacy among village officials is the set of knowledge, skills, and attitudes that enable staff to understand budget preparation, basic accounting, cash management, procurement regulations, and fiscal accountability. Its main components include the ability to prepare and interpret basic financial statements, identify risk indicators, perform reconciliations, and apply basic internal controls ([Jamil et al., 2022](#)). At the leadership level, village heads with financial literacy

tend to adopt participative, evidence-based leadership styles: they delegate tasks, promote training, and involve the BPD and staff in budget planning (Johnson et al., 2021). Conversely, village heads with low financial literacy often prefer more centralized styles due to technical uncertainty, relying on unilateral decisions or a small circle of trusted advisors (Yin, 2025). Financial literacy also affects leaders' confidence to implement transparency measures, act on audit findings, and cultivate a culture of accountability at the village level (Nasfi et al., 2023). Empirical evidence from local government contexts indicates that increased financial competence among leaders is associated with more participative, accountable, and proactive leadership in risk management (Fitriani et al., 2024). On this basis, the present study expects that the financial literacy of village officials will have a significant effect on the village head's leadership style in the Anambas Islands Regency.

H6: Financial literacy has a significant effect on leadership style in the Anambas Islands Regency

## METHOD

This study employed a quantitative design using the independent-sample t-test method. The t-test was chosen to determine the outcome of hypotheses concerning significant differences between two groups of data (Risdayani & Rino, 2024). The research framework is presented in Figure 2.



**Figure 2.** Research Framework

The study was conducted in 52 villages in the Anambas Islands Regency. Data were collected in 2025, and the population comprised 279 village officials who were serving in those villages at the time of data collection. Samples were selected using random sampling with a quota/percentage technique (Mengistu et al., 2023). Quotas were set proportionally across the 52 villages and key role strata (e.g., village head, treasurer, secretary), and individuals were then chosen by simple random selection within each quota cell to ensure coverage of smaller but important subgroups. This approach improves representativeness compared with convenience sampling and was chosen for its balance of precision and field feasibility; sampling fractions, quota definitions, and response rates are reported in Table 1.

Table 1. Sampling Procedure

No.	Village Name	No. of Village Officials	Pilot Sample (25%)	Main Sample (75%)
1	Tebang	7	2	5
2	Ladan	9	2	7
3	Putik	7	2	5
4	Candi	5	1	4
5	Langir	5	1	4
6	Piabung	7	2	5
7	Belibak	5	1	4
8	Payalaman	7	2	5
9	Payamaram	5	1	4
10	Teluk Bayur	5	1	4
11	Batu Ampar	5	1	4
12	Matak	5	1	4
13	Sunggak	5	1	4
14	Keramut	5	1	4
15	Impol	5	1	4
16	Mampok	5	1	4
17	Rewak	5	1	4
18	Air Biru	5	1	4
19	Landak	5	1	4
20	Batu Berapit	5	1	4
21	Genting Pulus	5	1	4
22	Kuala Maras	5	1	4
23	Bukit Padi	4	1	3
24	Ulu Maras	5	1	4
25	Piasan	5	1	4
26	Bayat	5	1	4
27	Mubur	5	1	4
28	Batu Belah	5	1	4
29	Munjan	5	1	4
30	Nyamuk	7	2	5
31	Serat	5	1	4
32	Air Putih	5	1	4
33	Temburun	5	1	4
34	Lidi	5	1	4
35	Air Sena	5	1	4
36	Air Asuk	5	1	4
37	Teluk Siantan	5	1	4
38	Liuk	5	1	4
39	Teluk Sunting	5	1	4
40	Telaga	5	1	4
41	Kiabu	5	1	4
42	Tiangau	5	1	4
43	Mengkait	5	1	4
44	Air Bini	5	1	4

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No.	Village Name	No. of Village Officials	Pilot Sample (25%)	Main Sample (75%)
45	Telaga Kecil	5	1	4
46	Lingai	5	1	4
47	Tarempa Selatan	5	1	4
48	Tarempa Barat Daya	5	1	4
49	Tarempa Barat	9	2	7
50	Tarempa Timur	7	2	5
51	Pesisir Timur	5	1	4
52	Sri Tanjung	5	1	4
<b>Total</b>		279	70	209

Source: Village officials in the Anambas Islands Regency, 2025

Table 1 above shows the approach applied for selecting both the instrument pilot sample and the main study sample. This quota/percentage procedure ensures balanced representation of village officials across all sampled villages. Accordingly, 70 respondents were assigned to the instrument pilot test and 209 respondents comprised the main study sample. The research instrument was a questionnaire. The pilot questionnaire is shown in Table 2.

**Table 2.** Trial Questionnaire

No.	Variable	Indicator	Code
1	Financial Management (Y) ( <a href="#">Atatsi et al., 2023</a> )	Effective and measurable budget planning	FM1
		Accurate revenue management and recording	FM2
		Expenditure control and procedural compliance	FM3
		Transparency and public financial reporting	FM4
		Regulatory compliance and internal control mechanisms	FM5
		Community participation and social accountability	FM6
		Asset management and financial sustainability	FM7
2	Financial Literacy (X1) ( <a href="#">Dorkas Rambu Atahau et al., 2023</a> )	Basic financial knowledge	FL1
		Budgeting & cash-flow planning skills	FL2
		Record-keeping & financial documentation skills	FL3
		Regulatory & compliance knowledge	FL4
		Risk awareness & internal control comprehension	FL5
		Financial decision-making & investment appraisal skills	FL6
		Ethical attitudes & financial integrity	FL7
3	Internal Supervision (X2) ( <a href="#">Rahayu et al., 2020</a> )	Segregation of duties and authorization mechanisms	IS1
		Internal audit & periodic review	IS2
		Standard operational procedures (sop) & documentation	IS3
		Monitoring systems & internal reporting	IS4
		Regulatory compliance & control procedures	IS5
		Risk identification & preventive control activities	IS6
		Capacity, independence & communication of internal oversight	IS7
4	Ethical Leadership	LS1	

No.	Variable	Indicator	Code
	Leadership Style (X3) (Sarmawa et al., 2020); R(Riyadh et al., 2023)	Entrepreneurial / Innovative Leadership	LS2
		Directive / Instructional Leadership	LS3
		Consultative Leadership	LS4
		Participative / Collaborative Leadership	LS5
		Delegative / Empowering Leadership	LS6
		Transformational / Visionary Leadership	LS7

Source: Trial Questionnaire

All questionnaire items were measured on a five-point Likert scale: 1 = strongly disagree, 2 = disagree, 3 = neutral, 4 = agree, and 5 = strongly agree. To compare mean values of the study variables; financial management (Y), financial literacy (X1), internal supervision (X2), and leadership style (X3), an independent-sample t-test was employed. In addition to the t-test, a series of supporting analyses were performed, including validity and reliability tests for the instrument and a normality test of the research data prior to the t-test (Nazarwin et al., 2025). All statistical analyses were carried out using IBM SPSS Statistics version 25.

## RESULT AND DISCUSSION

The results of the instrument validity and reliability tests are detailed in Table 3.

**Table 3.** Validity Test of Research Variable

Variable	No.	Code	r-calculated	Result
r-critical = 0.2319				
Financial Literacy (X1)	1	FL1	0.906	Valid
	2	FL2	0.862	
	3	FL3	0.940	
	4	FL4	0.958	
	5	FL5	0.911	
	6	FL6	0.850	
	7	FL7	0.913	
Internal Supervision (X2)	8	IS1	0.890	Valid
	9	IS2	0.856	
	10	IS3	0.893	
	11	IS4	0.917	
	12	IS5	0.901	
	13	IS6	0.915	
	14	IS7	0.938	
Leadership Style (X3)	15	LS1	0.954	Valid
	16	LS2	0.964	
	17	LS3	0.945	
	18	LS4	0.935	
	19	LS5	0.965	
	20	LS6	0.964	
	21	LS7	0.921	
	22	FM1	0.938	

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Variable	No.	Code	r-calculated	Result
Financial Management (Y)	23	FM2	0.883	Valid
	24	FM3	0.913	
	25	FM4	0.850	
	26	FM5	0.944	
	27	FM6	0.914	
	28	FM7	0.878	

Source: SPSS Analysis

The reliability analysis for the pilot sample, using Cronbach's alpha, is presented in Table 4.

**Table 4.** Reliability Test of Instrument

No.	Variable	R-value	R-table	Result
1	Financial Literacy (X1)	0.974	0.60	Reliable
2	Internal Supervision (X2)	0.913	0.60	
3	Leadership Style (X3)	0.987	0.60	
4	Financial Management (Y)	0.973	0.60	

Source: Research Data

From these validity and reliability results, it was concluded that the 28-item questionnaire is suitable for administration to the main study sample (209 respondents).

Before hypothesis testing (t-test), a normality test was conducted as a prerequisite for the independent-sample t-test. The normality test results are presented in Table 5.

**Table 5.** Data Normality Test Results

No.	Variable	Criterion	Shapiro-Wilk Sig.	Result
1	Financial Literacy (X1)	> 0.05	0.00	Not Normal
2	Internal Supervision (X2)	> 0.05	0.00	
3	Leadership Style (X3)	> 0.05	0.00	
4	Financial Management (Y)	> 0.05	0.00	

Source: Research Data

Since all four variables failed the normality test, the Mann–Whitney U test was applied instead of the independent-sample t-test (Dao, 2022). Results for the six hypotheses are shown in Table 6.

**Table 6.** Results of Six Hypotheses Tests

No.	Hypothesis Test	Sig. Criterion	Asymp. Sig. (2-tailed)	Result
1	X1 towards Y	< 0.05	0.710	H1 rejected
2	X2 towards Y	< 0.05	0.347	H2 rejected
3	X3 towards Y	< 0.05	0.372	H3 rejected
4	X1 towards X2	< 0.05	0.462	H4 rejected
5	X2 towards X3	< 0.05	0.957	H5 rejected
6	X1 towards X3	< 0.05	0.525	H6 rejected

Source: SPSS Result

Hypothesis testing was conducted by comparing the Asymp. Sig. (2-tailed) value in the nonparametric test statistic for two groups of data. The statistical decision rule was set as follows:

if Asymp. Sig. (2-tailed)  $< \alpha$  (0.05), the hypothesis is accepted; if Asymp. Sig. (2-tailed)  $\geq \alpha$ , the hypothesis is rejected. All computations were performed using IBM SPSS Statistics version 25.

The results show no significant effect across all hypotheses, suggesting that the measured constructs may not adequately capture practical financial management outcomes. Based on the results for Hypothesis 1, it can be argued that financial literacy is often measured as declarative knowledge, i.e., understanding concepts, terms, and basic principles rather than as practical competencies that are directly applied to village financial management (Stubenvoll & Binder, 2024). If literacy indicators emphasize theoretical aspects, respondents' answers will not necessarily reflect their capacity to plan budgets, prepare reports, or perform operational risk assessments. Consequently, the causal link between literacy and management effectiveness weakens when procedural skills and financial decision-making are not represented within the literacy construct (Struckell et al., 2022). Moreover, literacy is multidimensional: respondents may perform well in simple bookkeeping but poorly in cash management or long-term planning, which blurs aggregate effects (Conrad et al., 2024). Differences across subdimensions make the impact of literacy on management practices difficult to detect when only total scores are used. Therefore, disaggregating and measuring literacy subdimensions (declarative, procedural, strategic) is necessary for revealing the real relationship between knowledge and practice.

Hypothesis 2's rejection can be explained by how internal supervision is measured in practice. Common indicators, such as the existence of procedures, inspection frequency, or audit documentation mainly capture formal compliance. These measures may not reflect substantive supervisory effectiveness (Roszkowska-Menkes et al., 2024). If X2 indicators stress administrative compliance (e.g., checklists, signatures, routine reports), the variable may not reflect the quality of supervision that genuinely improves operational practice, such as risk detection, follow-up on findings, or system improvement (Hutchinson et al., 2024). Ceremonial supervision or documentation-based control without enforcement and follow-up mechanisms will yield weak correlations with management effectiveness, which depends on behavior change and decision making (Chance et al., 2024). In addition, aggregating different forms of oversight (internal audit, BPD oversight, administrative inspections) without separating dimensions of intensity, independence, and inspector capability can obscure the real relationship between X2 and Y (Boeken, 2024). Small variation in formal supervision measures across many villages (e.g., all villages maintaining minimum procedures) can also reduce X2's ability to explain differences in management practices (Young et al., 2024). Therefore, if X2 primarily represents the existence of oversight rather than its quality, depth, and responsiveness, its effect on management effectiveness will appear non-significant.

Hypothesis 3 shows that the village head's leadership style also does not affect village financial management. One reason is that leadership style is often measured as interpersonal tendencies or managerial preferences, e.g., authoritarian versus participative which do not necessarily relate directly to technical capabilities in financial management (Gemeda & Lee, 2020). Strong socio-political leadership does not automatically translate into sound budgetary practice if the village head lacks administrative skills or technical staff support to implement financial policies. In addition, village financial management typically follows strict bureaucratic procedures and regulations, so the head's discretionary space over technical budget decisions is relatively limited

([Mutua & Kiruhi, 2021](#)). In many cases, operational financial decisions are taken collectively (involving the BPD, treasurer, and secretariat), which dilutes the effect of a leader's personal style ([Indriani et al., 2020](#)). Therefore, the influence of leadership style on financial outcomes can be minimal if not accompanied by organizational capability and adequate authority ([Berenschot et al., 2021b](#)).

The result for Hypothesis 4 indicates that village officials' financial literacy does not affect internal supervision. A primary reason is that financial literacy typically measures individuals' knowledge of concepts and basic procedures, whereas internal supervision requires institutional capabilities and technical audit skills ([Usman et al., 2023](#)). In other words, possessing financial knowledge does not automatically render one competent in designing, conducting, and following up supervisory mechanisms such as audit sampling, evidence verification, or reporting of findings ([Khulsum et al., 2025](#)). In village government, supervisory responsibilities are often allocated to specific units or actors (treasurer, internal auditor, or BPD), so individual literacy outside those roles does not directly influence supervisory practice ([Ueda, 2025](#)). The functional distinction between "knowledge" and "supervisory practice" weakens the causal link, because effective supervision requires formal procedures, document access, and authority to demand improvements. Moreover, literacy measured by self-report tends to capture declarative aspects, whereas supervision depends on operational experience, evidence-analysis skills, and the willingness to apply sanctions when violations are found ([Merter & Balcioglu, 2025b](#)). Therefore, without interventions that change roles, authority, and supervisors' technical capabilities, improvements in individual literacy alone are unlikely to translate into stronger internal supervision.

Hypothesis 5 indicates that internal supervision by financial staff does not affect the village head's leadership style, which can be explained by the different functional domains of the two constructs. Leadership style primarily reflects relatively stable interpersonal behavior patterns, value orientations, and managerial preferences shaped by personal, socio-political, and leadership experience, and thus is not easily changed by technical supervisory activities ([Wang et al., 2023](#)). Conversely, internal supervision typically focuses on compliance, document verification, and administrative control that assess outcomes rather than altering leadership orientation or communication style ([Du et al., 2021](#)). Therefore, the intensity or quality of supervision carried out by financial staff often does not directly influence a village head's motivation, decision-making style, or strategic vision. Additionally, if supervision is routine and instrumental (checklist-oriented), the head may view it as a formal obligation for staff rather than as feedback that would change leadership style ([Nævestad et al., 2021](#)). Thus, the absence of an empirical relationship between X2 and X3 may result from supervision and leadership operating at different levels of determination.

Hypothesis 6 states that village officials' financial literacy does not influence the village head's leadership style. This finding is plausible given the functional and psychological domain differences between the two constructs. Financial literacy measures individuals' cognitive and technical capacity to understand instruments, procedures, and fiscal practices, whereas leadership style reflects relatively stable interpersonal behaviors, value orientations, and decision-making modes ([Singh et al., 2023](#)). High technical knowledge among staff does not automatically alter a head's leadership preferences, particularly when the head makes decisions based on political values, social

strategies, or entrenched managerial habits (Christensen, 2023). Furthermore, staff literacy is often localized within technical roles (treasurer, administrative staff), so its impact on leaders' strategic decisions occurs only if formal channels exist to transmit technical input and influence (Asthana et al., 2024). If communication channels, legitimacy of recommendations, or technical authority are inadequate, superior knowledge will not translate into changes in leadership behavior. Hence, the separation between staff technical capacity and leaders' motivational/organizational dimensions explains the weak empirical relationship between X1 and X3.

## CONCLUSION

This study shows that financial literacy (X1), internal supervision (X2), and leadership style (X3) do not have significant effects on the effectiveness of village financial management (Y) in a sample of 279 officials from 52 villages in the Anambas Islands Regency. The non-significant results likely reflect limitations in measurements and contextual constraints rather than the irrelevance of the variables. The results suggest capacities like financial literacy, supervision, and leadership matter only insofar as they improve procedural competence and implementation, while institutional constraints and incentive misalignment determine whether that competence leads to correct spending and reporting. In other words, the absence of empirical associations is more likely to reflect a gap between knowledge and practice, rather than the theoretical invalidation of the three constructs. Thus, improvements should focus on applied training and mentoring, while also reforming institutions to strengthen supervision and integrate technical inputs into decision-making. For future research, we recommend mixed-methods designs and measurement approaches that disaggregate literacy subdimensions (declarative, procedural, strategic), supervision quality (independence, intensity of follow-up), and leadership behavior, as well as the application of multilevel models or experimental/intervention designs (e.g., applied training plus mentoring) to test causal relationships and mechanisms for translating knowledge into practice within the differing autonomy and resource constraints of each village.

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