Strategic Financial Management and its Role in the Organisational Performance and Profitability: A Qualitative Study

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Abstract

Strategic financial management is essential to an organization's overall effectiveness and profitability. It includes developing and putting into action financial strategies and choices that support the corporation's long-term objectives and goals. One of the key roles of strategic financial management is to ensure the efficient allocation of financial resources. This involves assessing the organization's financial needs, evaluating investment opportunities, and determining the most effective ways to raise capital. By carefully analyzing investment options and making informed financial decisions, organizations can maximize their returns and minimize risks. Furthermore, strategic financial management helps in managing and mitigating financial risks. It involves identifying potential risks and developing appropriate risk management strategies to protect the organisation's financial health. By implementing risk mitigation measures, such as hedging, diversification, and insurance, organizations can safeguard their financial resources and withstand unforeseen market fluctuations. Moreover, strategic financial management contributes to enhancing profitability by optimizing the organization's cost structure and improving operational efficiency. Through effective budgeting, cost control measures, and financial analysis, organizations can identify areas of improvement, reduce unnecessary expenses, and enhance overall profitability.

Keywords: Strategic Financial Management, Organizational Performance, Profitability, Financial Strategies, Financial Decisions, Investment Opportunities, Risk Management, Cost Control

Introduction

A crucial factor in determining an organization's overall performance and profitability is strategic financial management. It encompasses a comprehensive approach to managing financial

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resources and making choices that are in line with the ultimate objectives and goals of the organisation. By effectively strategizing and executing financial plans, organizations can optimize their financial performance and achieve sustainable growth.

To begin with, strategic financial management is instrumental in ensuring the efficient allocation of financial resources. This involves a thorough assessment of the organization's financial needs, followed by a careful evaluation of investment opportunities. By employing rigorous financial analysis and evaluation techniques, organizations can identify and prioritize investment avenues that offer the highest potential returns. Furthermore, strategic financial management involves determining the most effective ways to raise capital, whether through debt financing, equity financing, or a combination of both. By intelligently sourcing funds and allocating them to areas that generate the highest value, organizations can optimize their financial resources and drive performance.

Moreover, strategic financial management plays a crucial role in managing and mitigating financial risks. Organisations face a variety of financial risks in the quickly changing business environment of today such as market volatility, credit risks, and liquidity constraints. Strategic financial management involves identifying these risks and implementing appropriate risk management strategies to safeguard the organisation's financial health. This may include hedging strategies to mitigate market risks, diversification of investments to reduce concentration risks, and maintaining adequate liquidity buffers to handle unforeseen contingencies. By proactively managing risks, organizations can protect their financial resources and ensure the continuity of their operations, even in challenging times.

Additionally, strategic financial management contributes significantly to enhancing profitability by optimizing the organization's cost structure and improving operational efficiency. Through effective budgeting, organizations can allocate resources efficiently, ensuring that funds are allocated to activities that yield the highest returns. Cost control measures, such as streamlining processes, negotiating better supplier contracts, and adopting technology-driven solutions, can help organizations reduce unnecessary expenses and improve profit margins. Furthermore, strategic financial management involves ongoing financial analysis and performance monitoring, enabling organizations to identify areas of improvement and take timely corrective actions. By continuously striving for operational excellence and cost optimization, organizations can

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enhance their profitability and gain a competitive edge in the market. Figure 1 shows the various benefits of Strategic Financial Management.

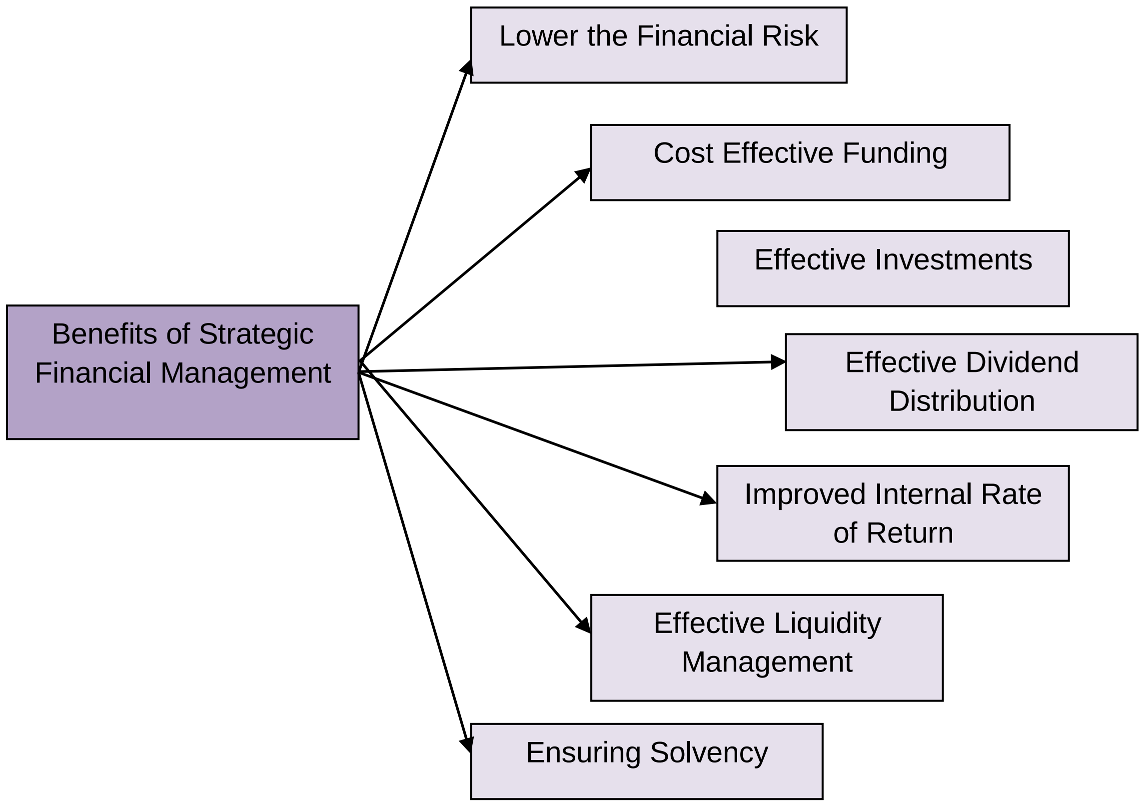

Figure 1 Benefits of Strategic Financial Management

Literature Review

An article examined the moderating impact of capital structure on Indonesia's state-owned companies' ability to balance their financial stability, strategic profitability, and public assistance. Data was gathered from seven state-owned firms between the years 2005 and 2016 using a purposive sample method. Government subsidies have a significant detrimental effect on financial strength, in contrast to strategic profitability, according to the empirical evidence presented in this paper. The capital structure is improving the connections between economic strength and "government subsidy" and "real earnings management." According to the research, state-owned companies shouldn't receive excessive government support, and enterprises should innovate and adopt best practices to grow their operations. (Assagaf et. al., 2017). Another paper

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argues that enterprise competence theory is a well-liked area of research. Based on the state of an enterprise's capabilities, strategic financial management is a functional strategy of enterprise strategic management. Additionally, it should support the company's goals of creating competitive advantages. (Wei-ping, 2011).

This article helps us understand how strategic controls affect business unit performance. The findings demonstrate that to increase monetary or market share profitability for all business units, strategic controls are more crucial than financial controls. The empirical investigation overcomes these barriers and offers astonishing control mechanism efficacy results. (Seifzadeh & Rowe, 2019). Another research came to several conclusions, including the following: Strategic management accounting techniques are the most modern tools for attaining success for Romanian organisations, and the adoption and implementation of strategic principles in management and financial operations are becoming increasingly vital for businesses of all sizes and in all industries. (Majeed & Hamza, 2012).

In an article, the performance of Nigeria's manufacturing industry was compared to the effects of strategic management (SM). Data were evaluated using ANOVA, correlation analysis, and descriptive analysis on five large-scale listed manufacturing enterprises. The findings demonstrated that SM has considerable impacts on operational efficiency and profitability as well as a favourable relationship with the level of competition. This study concluded that SM is crucial for improving business performance in Nigeria's manufacturing industry. (Monday et. al., 2015). Another research investigated how financial management may support sustainable business development and practices. It was discovered that using the right financial management models is essential for boosting productivity and reducing financial risks. The competitive advantage of the company is increased by capital budgeting for sustainable issues, and both Western and Islamic finance are effective sustainability strategies. (Breiki & Nobanee, 2019).

A paper discusses the theoretical components of the author's applied strategic financial analysis based on the financial portion of the balanced scorecard for research on strategic organisation economic activities. The author uses the BSC, applied strategy analysis, and target forecasting of the organization's financial flows based on its financial situation analysis. According to the author, applied strategic financial analysis is a cutting-edge and effective instrument for investigating and bolstering strategic components of an organization's economic activity.

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(Krylov, 2015). In another research, the working capital management, dividend policy, investment appraisal methods, and financial performance evaluation practices used in the corporate sector of Pakistan are all used to measure the relationship between organizational performance and financial management practices. (Hunjra et. al., 2010).

An article considers theoretical facets of applied strategic financial analysis based on the balanced scorecard's financial component. Both the applied strategic analysis idea created by the author and the Balanced Scorecard concept (BSC) presented by R. Kaplan and D. Norton serve as the study approach. The comparison evaluation, variance diagnostics, and indicators forecast of the financial BSC element within the strategic financial goals are all included in the applied strategic financial analysis. The applied strategic financial analysis, according to the author, is a useful tool for researching strategic aspects of an organization's economic activity and developing an analytical foundation for its strategic financial management. (Krylov, 2016). Another research examined how financial management practices affect small and medium firms in Kiambu, Kenya. Working Capital Management, Investment decisions, and Financing decisions measured financial performance. Working capital management, investment decisions, and financial decisions individually improve financial performance, according to the study. Financial performance was moderately positive with financial management practices. To improve financial performance, organizations should adopt credit policies to guide credit sales, the government should create a favourable policy and economic environment through legislation, and SMEs must develop strategies and policies to improve financial decisions. We'd like a review of different business settings in the country. (Nthenge & Ringera, 2017).

Research discovered a bad link between profitability and working capital. Both the firm's profitability and the financial debt ratio were poor. It was discovered that the larger firm size has a positive and considerable impact on profitability. Finally, although the leverage-factor variable had a positive impact on business profitability, the effect was not statistically significant. The findings show that work management has an impact on profitability and should be a key component of a company's financial strategy. (Garg & Gumbochuma, 2017). Another paper presents the essential ideas of strategic vision, objectives, strategy creation, implementation, evaluation, and corrective action while focusing on strategic management as a crucial corporate management concept. Additionally covered are the several stages of pitching strategy, the corporate governance component of strategic management, and the function of the board of directors in developing and putting strategy into action. The importance of these ideas in the effective and efficient management of business organisations is highlighted by the examination of these ideas. (Tapera, 2014).

Conclusion

In conclusion, strategic financial management is an indispensable function within organizations, serving as a guiding force in shaping their performance and profitability. By emphasizing efficient resource allocation, effective risk management, and cost optimization, organizations can achieve sustainable growth and financial success. This multifaceted discipline requires a proactive and forward-thinking approach, where economic decisions are aligned with long-term objectives and strategic goals. It entails a comprehensive evaluation of investment opportunities, careful consideration of financial risks, and the implementation of robust risk management strategies to protect the organization's financial health. Moreover, strategic financial management involves continuous monitoring and analysis of financial performance, allowing organizations to identify areas of improvement and make timely adjustments. Organizations can enhance their profitability and gain a competitive edge in the market by optimizing cost structures, streamlining operations, and embracing innovation. Successful execution of strategic financial management enables organizations to navigate challenges, capitalize on emerging opportunities, and thrive in the ever-evolving business landscape. Ultimately, it is the strategic financial management framework that equips organizations with the necessary tools and insights to make informed decisions, steer the organization towards its long-term goals, and ensure sustained economic success.

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