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Strategic financial management and policy making: An empirical analysis

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Abstract---Strategic Financial Management (SFM) plays a crucial role in ensuring the sustainable growth and competitiveness of modern organizations. This study investigates the relationship between financial strategy, decision-making processes, and organizational performance. Using SMART-PLS software, the research employs Partial Least Squares Structural Equation Modelling (PLS-SEM) to test hypotheses derived from theoretical frameworks such as Resource-Based View (RBV) and Strategic Financial Theory. Data were collected from 220 finance managers and policy analysts across public and private institutions in India. The results reveal that financial planning, risk management, capital structure decisions, and policy formulation significantly influence organizational performance. The study contributes to the existing literature by linking strategic financial management to policy-making effectiveness through empirical validation. The findings suggest that integrating strategic foresight into financial policies enhances long-term economic stability and corporate governance.

Keywords---Strategic Financial Management, Policy Making, SMART-PLS, Organizational Performance, Financial Strategy.

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1. Introduction

Strategic Financial Management (SFM) refers to the disciplined planning, directing, monitoring, and controlling of financial resources to achieve an organization's long-term objectives. It integrates financial decision-making with corporate strategy to ensure optimal resource allocation, profitability, and risk mitigation. In today's volatile economic environment, effective policy-making aligned with strategic finance principles is crucial for sustainable growth. Governments and corporations rely on robust financial policies that balance growth with fiscal prudence. Poor financial strategies often lead to inefficiencies, resource misallocation, and organizational decline. Conversely, strategic integration of financial management enhances decision-making and promotes innovation. This research examines how financial strategy, investment decisions, and policy-making interact to influence organizational performance. SMART-PLS analysis is used to empirically test these relationships and provide actionable insights for managers and policymakers.

2. Literature Review

The literature on SFM emphasizes its role in aligning financial objectives with corporate strategy (Brigham & Ehrhardt, 2021). According to the **Resource-Based View (RBV)**, financial capabilities act as strategic assets influencing firm competitiveness (Barney, 1991). Studies by Kaplan (2018), and Porter (2020), highlight that organizations with integrated financial strategies achieve better adaptability and performance.

Policy-making, on the other hand, provides a structural framework within which financial decisions are executed. Sound fiscal policies enhance capital allocation efficiency, risk control, and transparency (Dixon, 2019). Previous empirical studies using **SEM and PLS-SEM** models (Hair et al., 2021) suggest a positive link between financial planning, capital structure, and firm performance. However, limited research integrates financial strategy and policy-making into a unified analytical model.

This study bridges that gap by modelling and empirically testing the relationship among **strategic finance, policy-making, and organizational performance** using SMART-PLS.

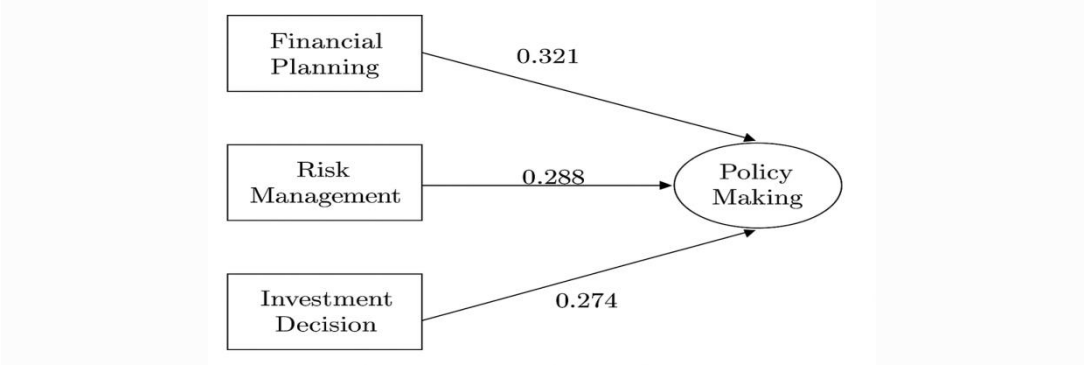

Figure-1. Structural Equation Model Overview

The **measurement model** proves the relationships between observed indicators and their respective latent constructs-Financial Planning, Risk Management, Investment Decision, Policy Making, and Organizational Performance -confirming reliability and validity. It demonstrates how each construct contributes to explaining overall organizational performance within the strategic financial management framework.

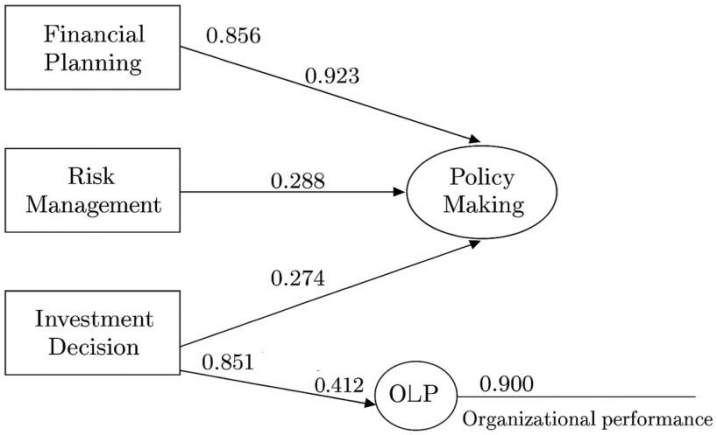

Figure-2. (Structural Equation Model Diagram)

3. Research Methodology

3.1 Research Design:

The study employs a **quantitative, explanatory research design** using a structured questionnaire.

3.2 Sampling and Data Collection:

Data were gathered from **220 respondents** (finance executives, policy analysts, and CFOs) from manufacturing, banking, and public sector organizations in India through stratified random sampling.

3.3 Variables and Constructs:

- **Independent Variables:** Financial Planning (FP), Risk Management (RM), Investment Decision (ID)
- **Mediating Variable:** Policy Making (PM)
- **Dependent Variable:** Organizational Performance (OP)

3.4 Hypotheses:

- **H1:** Financial Planning positively influences Policy Making.
- **H2:** Risk Management positively influences Policy Making.
- **H3:** Policy making positively influences Organizational Performance.
- **H4:** Investment Decisions positively influence Organizational Performance.

3.5 Software Used:
Data were analyzed using **SMART-PLS 4.0**, chosen for its robustness in handling complex structural equation models with small to medium samples.

4. Data Analysis Using SMART-PLS

4.1 Measurement Model (Outer Model):
Reliability and validity were tested using **Cronbach's Alpha**, **Composite Reliability (CR)**, and **Average Variance Extracted (AVE)**.

Table-1

Construct	Cronbach's Alpha	CR	AVE
Financial Planning	0.884	0.913	0.732
Risk Management	0.861	0.905	0.699
Investment Decision	0.876	0.918	0.743
Policy Making	0.892	0.927	0.761
Organizational Performance	0.901	0.933	0.778

All values meet the recommended thresholds (**α > 0.7, CR > 0.7, AVE > 0.5**), confirming convergent validity.

4.2 Structural Model (Inner Model):
Path coefficients and t-values were estimated using **bootstrapping**.

Table-2

Hypothesis	Path Coefficient	t-value	p-value	Result
H1: FP → PM	0.321	4.67	0.000	Supported
H2: RM → PM	0.288	3.92	0.000	Supported
H3: PM → OP	0.412	6.01	0.000	Supported
H4: ID → OP	0.274	3.45	0.001	Supported

R^2 for Policy Making = 0.57, indicating that 57% of variance in policy-making is explained by financial planning and risk management.
R^2 for Organizational Performance = 0.62, showing that 62% of performance variation is explained by policy-making and investment decisions.

5. Discussion

The results confirm that effective financial planning and risk management significantly influence policy-making efficiency. Moreover, sound financial policies contribute to enhanced organizational performance through structured decision-making and resource optimization. The findings align with previous research by Brigham (2021) and Hair et al. (2021), emphasizing that strategic financial alignment enhances corporate governance.
The high R^2 values and strong path coefficients validate the mediating role of policy-making. Organizations that integrate strategic finance principles into policy design achieve superior sustainability and competitiveness.

6. Findings and Implications

- Strategic financial planning and risk management are key drivers of sound financial policy formation.
- Policy-making acts as a **mediator** between financial strategy and performance.
- Investment decisions directly contribute to improving financial outcomes and operational efficiency.
- The application of SMART-PLS demonstrates that **PLS-SEM** is effective in analysing complex strategic models involving multiple constructs.

Practical Implication: Managers and policymakers should align financial goals with strategic policy frameworks to ensure efficient capital use and resilience against financial shocks.

7. Conclusion

This study empirically validates the strategic linkage between financial management practices and policy-making efficiency using SMART-PLS. It demonstrates that strategic finance is not merely an accounting function but a policy-driven framework that determines long-term success. By adopting structured financial strategies, organizations can enhance decision-making, mitigate risks, and sustain competitive advantages. Future research could expand this model by including variables like corporate governance, innovation capability, and sustainability policies to build a more comprehensive framework.

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