

# REVIEW STUDY OF STRATEGIC FINANCIAL MANAGEMENT FROM THE PERSPECTIVE OF ORGANIZATIONAL PERFORMANCE

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**Abstract:** Strategic financial management incorporates financial management objectives within the organization strategy. It works on enhancing the overall financial value of the firm by supporting its strategy. In order to improve firm's performance organization must follow strategic plan. The executives requires entire data of the firm that includes financial data, to make sure that the firms grow consistently, increase its bottom line, gains competitive advantage over its competitor, and locate itself for continuous growth. Alternatively, it can also be stated as a mix of financing and investment policies such that the firm's shares performance increases, and the investor's wealth is optimized, of which the responsibility lies with the top management of the firm. This paper aims to review the existing studies to comprehend this concept thoroughly. A study of thirteen journal relating strategic financial management and organization performance is reviewed.

**Key Words:** Strategic Financial management, Firms performance, financial strategy, organizational financial performance, corporate financial performance, firm financial performance, organizational financial performance

**1.0 Methodology:** One of the important parts of any research journal is the review of related studies that includes research from past and the current one. It is imperative to understand the literature to move forward in the future research. The research for the journal is collected from various sources like Google scholar, journals, thesis, published articles, libraries and other open sources.

## **2.0 Review of Literature:**

Some of the strategic financial management related studies are below:

A research titled "Strategic Financial Management: A Review" (2012) by author **Shruthi Gupta**, she tries to review the existing strategic financial management literature. The study focus on reviewing all the major topics in strategic financial management like capital expenditure reviews, dividend decision by the management, working capital of the firm and capital structure. It observes that the financial management practices play an important role in firm's performance. For supporting this statement it refers to the study on **public sector in India** by **Jain and Yadav (2005)**, which indicate the financial management practices like usage of short term debt for the purpose of investing in long term, purchase of fixed assets from the long term resources, capital budgeting decision in Indian PSE gives preference to IRR method for such decision, followed by payback period and then lastly average rate of return. The change in the dividend payment during downturn to a steady policy was preferred by the PSE. The other observation made by the author were use of corporate finance tools depends on the organization size, and in relation to financial management practices observe negative impact of current ratio on small organization and positive impact of long term policies, usage of total asset turnover ratio and fixed asset management policy. The study concludes that the existing literature is important however, a more comprehensive is the need of the hour.

A study done by **Delkhosh & Mousavi (2016)** title "Strategic Financial Management review on the financial success of an organization" focus on the strategic financial management of the company during the recent recession and the strategies adapted to combat it. As per this study, the biggest challenge for the executive of an organization is during the implementation stage. The financial standards in the execution and scrutinizing the firm's strategy with defined financial objective linked to industry standard will help in measuring and improving of the firm's performance (**Bender & Ward 2012**). This survey further study the various resources and utilization of the firm

apart from the influence and control of the managers in the firm for analyzing the targeted functions, ways of gathering revenues, and the way of managing financial resources. It further suggests control and monitoring as a tool to determine the level of resources available to achieve its target. Furthermore, it discusses the long term consistency of a firm approach is better way of achieving organizations strategic and financial goals for retaining financial success. The study recommends use of better customer satisfaction as internal strategies, determination of strong and weak points through financial perspectives to increase the firm performance and improving the organization value.

Another study by **Butt, Hunjra & Rehman** studies improvement methods to enhance the knowledge of financial management practices and its role in firm's performance expansion among the different stakeholders from various corporate sectors in the journal titled "Financial management practices in Pakistani corporate sector" in the year 2010. The study studies emphasize attempts done by the management to check the financial management practices practically as it has greater significance in firm's succession. It also states that the financial management executives of Pakistani corporate sector give greater importance to corporate policies like working capital and capital structure decision and lesser importance to investment techniques and distribution of dividends.

In his strategic financial management casebook, **Kumar (2016)**, uses case studies that focus on holistic display of strategic of growth, techniques in mergers and acquisition, analysis of the stock returns, organization financial performance over recent years, cost of capital, organizational valuation are given more importance over the conventional capital budgeting and VBM in SFM. The study is done on the firm's of global leaders of wealth generators by evaluating their company's financial decisions and their capital restructuring using strategic financial management technique for firm's growth and improving its performance. Moreover, the study proposes a theoretical framework for merging organizational strategy and its financial policy for value creation.

In the study conducted by **Mubashir et.al (2012)** in their article "Co- Alignment among corporate strategy, financial structure and firm performance in non-financial sector of Pakistan" state that strategy formulation is important part of the strategic management. It further states that corporate finance decision should be in combination with organizational financial decisions to evade the probability of financial distress and insolvency in organization. The study aims at linking firm performance with corporate strategy and financial structure. It collected data from 158 publicly listed company's financial statements from Karachi stock exchange for over a decade (1998-2009). They have focused on organization sales growth variables, organizational liquidity and the organizational growth to gauge the organizational strategy to find out the likely alteration in the organizational performance computed as return on assets and free cash flows. Of this research FCF has a positive impact on the organization growth and liquidity. It also linked negative impact of debt ratio to return of asset and FCF.

In the article "Quest for the Superior Financial Performance Measures", by **Arabsalehi & Mahmoodi (2012)** compared value based measure a strategic financial management technique to traditional accounting based measures to figure out which is the better technique to predict organization stock performance. The researcher has conducted it studies on 115 companies that are listed in Tehran stock exchange using the panel data analysis method. It collected the financial statement and market data from 2001 to 2008. The studies uses four Value based techniques that are economic, market, shareholder and refined and for accounting measure he uses techniques like EPS, ROE, ROA, ROS and operating cash flow. The findings of the study suggest accounting based measure has upper hand over the value based measures in predicting the stock performance. The value based measures support the other measures by adding some marginal information through incremental test.

**Calandro & Flynn (2007)** in "On financial strategy" links financial functions and strategies to better understand management decisions and buy in. The study aims at proposing a financial strategy framework through observation of academician's work, financial strategy blends adapted by management in productive manner. The major finding of the study is organization financial performance management, resource allocation of the organization and the strategy works produces more value when linked together to have an effective management. This method is not mere combination of three instead it is a method of capitalizing on the interface of all within an inclusive framework. The study practical implication is that strategy should be apparently define the allotment of resources in production to implement strategic scheme and organizational performance evaluation that work as a single management and feedback structure instead of just a way of remuneration or charges.

**Kim et.al (2012)** in its journal of hospitality management entitles "Effects of the size of the board of directors and board involvement in strategy on a private club's financial performance" discusses the impact of the size of board of directors and their participation in organizational financial strategy on organization performance. The data collection was done through online survey and the response of 360 executives was recorded. The record suggests a positive influence of their involvement on financial performance of the organization.

**Graham and Harvey (2001)** in their study titled "The theory and practice of corporate finance: evidence from the field", has performed an inclusive study that observe 70 organizational finance practices with target area capital budgeting and capital structure. In relation to capital budgeting technique the observation made was much organization follows financial theoretical knowledge application and makes use of discounted cash flow method and net present value techniques for evaluating the future profit while investing a particular project. However, in capital structure they follow practical approaches. The various other factors like profit equity ratio, firm's dividend policy, the industry in which function was taken into consideration to study that the organizational size is an important factor influencing organization finance practices.

In the study of **Short, Palmer & Ketchen (2003)**, "Multi level influence on firm performance" states that based on how the organization keep a hold on strategic asset and the method of their financing is based on the organization financial performance and its competitive advantage. As per the resource based view, organization distinctive resources and its capability make the organization more valuable and its performance is increased. However, the conflict arises among different literature in finding the source of the competitive advantage.

**Dimitropoulos & Asteriou, (2009)** has observed in its study "The value relevance of financial statements and their impact on stock prices" after researching 101 non financial organization listed on Athens market using statistical regression method, the importance of financial reporting. A model was proposed to identify modified financial statement by using specific ratios. The findings were working capital to total assets has a depressing impact on the company's share return, similar effect were seen with net profit to sales percentage. This show the accruals has an impact on the financial statement. The ratio of net profit to total assets and with sales and total assets has constructive influence. Based on the impact they suggest that the non discretionary accruals are more impactful.

**Ebaid (2009)** in his study "The impact of capital structure choice on firm performance" aims at influence of capital structure on organization performance for which they selected firms from Egypt as its economy is undergoing a transition using multiple regression analysis method. It uses the firm's information on leverage and its performance with the help of accounting based procedures like ROE, ROA and Gross profit margin. It concludes that decisions relating to capital structure have very feeble or no influence on the organizational performance.

**Teeratansirikool (2013)** study of 101 Thailand stock exchange listed companies using analytical model. It analyses that competitive strategies improves the organization performance through strategic performance management. The differentiation strategy adapted by the firm has direct impact on organizational performance from the perspective of financial measures. Indirect influence can be seen through the execution of cost leader strategy through financial performance measures. Choice of performance management will help firm in gaining competitive advantage over its competitor.

### **3.0 Conclusion:**

In conclusion, an appendix is that every firm that follows strategic management practices yields more, therefore the financial success of a firm following strategic financial management results in a definite goal. In the above study the importance of various factors relating to SFM is well established on organizational performance still there is scarcity of more studies to examine these functions more deeply. Further holistic and empirical studies can be conducted to explore the topic in future.

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