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Evaluation of Financial Strategies Based on Structural Analysis

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ABSTRACT

The main objective of this study is to evaluate financial strategies through the application of structural analysis, with a particular focus on identifying the most influential strategies in the banking sector. Data were collected using a mixed-method approach, combining structured questionnaires and semi-structured interviews with relevant experts. The mutual influence analysis technique, operationalized through the Mutual Effects Analysis Matrix, was employed to assess the interrelationships among the identified financial strategies. The research population consisted of bank managers in Iraq, with twelve experienced experts, including senior managers and financial specialists, participating in the study. This methodological approach enabled a systematic evaluation of both the direct and indirect effects of each strategy on the others, providing a comprehensive perspective on their strategic significance. The findings reveal that cost control strategies emerge as the most critical financial strategies, exerting the highest level of influence across the strategic network. This suggests that effective cost management not only improves operational efficiency but also strengthens the implementation and sustainability of other financial strategies. The results provide valuable insights for policymakers and banking executives in Iraq, highlighting the importance of prioritizing cost control measures as a central pillar of financial strategy formulation and implementation.

1. INTRODUCTION

1.1. Financial Strategies: Concept, Development, and Empirical Insights

Financial strategies represent structured and comprehensive frameworks employed by individuals, firms, or organizations to manage their financial assets efficiently. These strategies encompass a wide range of functions such as budgeting, investment planning, debt and liquidity management, risk mitigation, and long-term financial decision-making. The overarching objectives are to ensure financial stability, foster growth, and promote sustainable development.

Strategic financial management involves optimizing the organization's net present value, allocating scarce resources efficiently, and implementing and evaluating chosen strategies to achieve organizational goals. For

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profitable enterprises, a primary strategic goal is the maximization of shareholder wealth. A crucial component of financial strategy is maintaining adequate liquidity, which ensures the ability to meet short-term obligations and capitalize on investment opportunities. Furthermore, effective budgeting enables strategic allocation of resources and prioritization of expenditures aligned with corporate objectives. Investment planning seeks to balance risk and return, ensuring alignment with the organization's long-term goals.

Modern financial strategies have evolved into intricate and data-driven processes involving capital structure decisions, resource allocation, and risk assessment. Their roots can be traced back to classical economic theories, such as those proposed by Adam Smith, emphasizing judicious resource allocation as a foundation for economic prosperity. The advent of formal financial theories including the Modern Portfolio Theory and the Efficient Market Hypothesis has significantly shaped contemporary practices, providing analytical frameworks for understanding market efficiency and risk-return trade-offs.

1.2. The Strategic Financial Planning Process

The formulation of a financial strategy typically involves the following key steps:

Setting Financial Objectives: Clearly defining financial goals whether expanding operations, launching new products, or enhancing liquidity is the cornerstone of the strategic planning process. These goals must align with the broader corporate strategy.

Assessing the Current Financial Position: This involves analyzing financial statements (income statements, balance sheets, cash flow statements) to understand assets, liabilities, revenues, expenses, and cash flows.

Forecasting Financial Scenarios: Using historical data and projected market trends, organizations can anticipate future income, expenses, and cash flow needs to identify potential challenges.

Determining Investment Requirements and Capital Sources: Based on strategic objectives, firms assess capital requirements and identify potential funding sources whether through retained earnings, equity financing, or debt instruments.

Managing Financial Risks: Identifying financial risks (e.g., interest rate, credit, exchange rate risks) and determining appropriate mitigation strategies, such as hedging or operational adjustments, is essential.

Developing a Budget: A comprehensive budget reflecting projected income and expenditures serves as a practical guide for implementing financial strategies.

Monitoring and Revising the Strategy: Continuous evaluation of financial performance enables timely adjustments to strategies in response to internal variances or changes in the external environment.

2. RESEARCH BACKGROUND

Structural analysis, rooted in systems theory and mathematical modeling, has emerged as a powerful approach for evaluating financial strategies by analyzing the interconnected components of financial systems. This method allows researchers and practitioners to assess the robustness, efficiency, and risk of financial strategies by modeling the relationships between economic variables, market dynamics, and organizational structures. Structural analysis provides a framework to understand how financial strategies perform under various economic conditions, making it a valuable tool for portfolio management, risk assessment, and corporate financial decision-making [1].

Traditional financial strategy evaluation often relied on statistical methods, such as regression analysis or time-series forecasting, to predict returns and risks. These approaches, while effective in stable environments, often fail to capture the complex interdependencies within financial systems [2]. Structural equation modeling (SEM), a key technique in structural analysis, has been widely adopted to address this limitation by modeling latent variables and their causal relationships. For example, SEM has been used to evaluate the impact of macroeconomic factors, such as interest rates and inflation, on portfolio performance [3].

In portfolio management, structural analysis helps optimize asset allocation by modeling the relationships between asset classes, market volatility, and investor preferences. Studies have shown that structural models can

improve diversification strategies by identifying hidden correlations among assets, leading to more resilient portfolios [4]. Similarly, in corporate finance, structural analysis is used to evaluate capital structure strategies, assessing how debt-equity ratios influence firm value under varying market conditions [5]. These models often incorporate stochastic processes to account for uncertainty, providing a more dynamic evaluation of financial strategies [6].

Risk management is another critical application of structural analysis. By modeling the structural relationships between market risks, credit risks, and operational risks, financial institutions can better anticipate systemic failures. For instance, structural models have been applied to assess the stability of banking systems during financial crises, revealing vulnerabilities in interconnected financial networks [7]. Additionally, network analysis, a subset of structural analysis, has gained traction for evaluating financial strategies by mapping the relationships between financial institutions, markets, and regulators [8].

Machine learning techniques have recently been integrated with structural analysis to enhance the evaluation of financial strategies. Deep learning models, for example, can uncover non-linear relationships in financial data, improving the accuracy of structural models in predicting market behavior [9]. However, these approaches require large datasets and computational resources, posing challenges for real-time applications [10]. Furthermore, structural analysis often assumes stable relationships between variables, which may not hold during extreme market events, such as the 2008 financial crisis or the COVID-19 market crash [11].

Behavioral finance has also influenced the evaluation of financial strategies using structural analysis. By incorporating psychological factors, such as investor sentiment and overconfidence, structural models can better explain deviations from rational financial decision-making [12]. For instance, studies have used structural analysis to model how investor behavior impacts market volatility and strategy performance [13]. These insights are particularly valuable for designing adaptive financial strategies that account for human biases.

Optimization techniques, such as genetic algorithms and particle swarm optimization, have been applied to refine structural models for financial strategy evaluation. These methods optimize model parameters to improve predictive accuracy and strategy robustness [14]. Moreover, structural analysis has been extended to sustainable finance, evaluating how environmental, social, and governance (ESG) factors influence financial strategies. Research indicates that integrating ESG criteria into structural models can enhance long-term investment outcomes [15].

Despite its advantages, structural analysis faces challenges, including model complexity, data quality, and interpretability. Overly complex models may lead to overfitting, while poor-quality data can undermine model reliability. Future research should focus on developing simpler, more interpretable structural models and integrating real-time data to enhance the practicality of financial strategy evaluation.

Also, Numerous studies have investigated the application and outcomes of financial strategy in different contexts:

Baqaei et al. (2009) explored strategic financial approaches during economic recessions, identifying methods to navigate financial constraints and mitigate total risk. The study recommended strategies that prevent firms from entering financial distress and offered practical guidelines for strategic implementation during downturns [16].

A'arabi and Abedi (2010) analyzed the alignment between business-level and financial strategies and its impact on organizational performance. Their findings highlighted the importance of both vertical alignment (between corporate and financial strategies) and horizontal alignment (among financial subsystems), showing a strong correlation with enhanced Return on Assets (ROA) [17].

A'arabi and Razmjoee (2012) investigated the relationship between financial strategy and stock returns among firms listed on the Tehran Stock Exchange. The study reaffirmed the performance benefits of both vertical and horizontal alignment of financial strategies [18].

Abedi and Zeynalzadeh (2016) presented a model linking financial strategy with the organizational life cycle. Their results demonstrated that firms aligning these two elements experienced superior financial performance metrics such as ROA, ROE, Tobin's Q, and profit margins compared to firms without such alignment [19].

Pouralireza et al. (2019) examined how financial constraints affect investment efficiency and working capital strategies. The research concluded that financial constraints hinder optimal investment, particularly in firms with aggressive working capital policies, while firms with conservative strategies were less affected [20].

Mahjoub et al. (2016) focused on the determinants of financial strategic decisions at the University of Tehran. The study underscored the influence of environmental, organizational, and individual factors especially cognitive elements on strategic decision-making. Among these, individual cognition had the most pronounced effect on decision-making conditions. Technological advancement, internal regulations, decision procedures, and individual knowledge were identified as key drivers of strategic financial choices [21].

This body of literature confirms that strategic financial planning is both multi-faceted and critical to organizational success. Effective strategies not only optimize financial performance but also enhance adaptability and competitiveness. Moreover, the alignment of financial strategies with business objectives, organizational life cycle, and internal capacities significantly improves outcomes. As global financial environments become increasingly complex, the integration of theoretical frameworks and empirical insights remains essential in developing adaptive and resilient financial strategies.

3. RESEARCH METHODOLOGY

The purpose of this research is to evaluate financial strategies and provide suggestions and recommendations in this field. This research is practical in terms of purpose. The method of carrying out this research is descriptive because in gathering information, interviews with experts and experts in the banking field and questionnaires were used in order to seek opinions and information available in the sources. At first, financial strategies were used using questionnaires at the disposal of experts and Experts were appointed to judge and determine the degree of relationship between the strategies. In this research, interviews and questionnaires were completed by twelve banking experts.

4. DATA ANALYSIS

In this part, the financial strategies that have been identified by reviewing the literature and interviews with bank managers are introduced, and then the analysis performed on the data collected in each of the research stages is expressed, and finally the outputs related to the software It is Micmac. In order to analyze the obstacles, first seven important strategies were extracted, then these strategies were distributed among the bank managers in the form of a questionnaire to measure the importance of each one.

Table 1. Financial Strategies

No	Strategies
1	Risk Management Strategies
2	Investment Strategies
3	Capital Structure Strategies
4	Cost Control Strategies
5	Liquidity Management Strategies
6	Tax Planning Strategies
7	Financial Restructuring Strategies

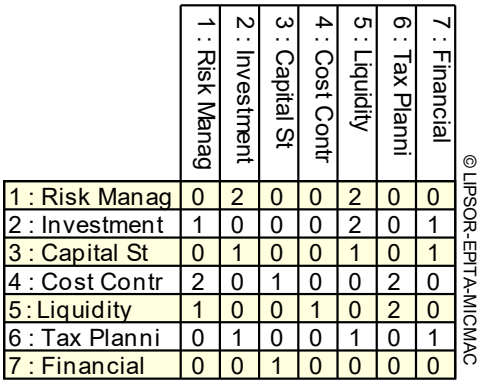

Fig. 1. The matrix of mutual effects of Financial Strategies

Following the entry of questionnaire data into the software, both the direct and indirect strategies were computed, as presented in Tables 2 and 3.

Table 2. Matrix of mutual effects of Financial Strategies

N°	Variable	Total number of rows	Total number of columns
1	Risk Management Strategies	4	4
2	Investment Strategies	4	4
3	Capital Structure Strategies	3	2
4	Cost Control Strategies	5	1
5	Liquidity Management Strategies	4	6
6	Tax Planning Strategies	3	4
7	Financial Restructuring Strategies	1	3
	Totals	24	24

Table 3. Matrix of indirect effects of Financial Strategies

N°	Variable	Total Number of Rows	Total Number of Columns
1	Risk Management Strategies	56	48
2	Investment Strategies	49	42
3	Capital Structure Strategies	31	16
4	Cost Control Strategies	59	22
5	Liquidity Management Strategies	51	70
6	Tax Planning Strategies	31	56
7	Financial Restructuring Strategies	9	32
	Totals	24	24

Table (4) lists the Financial Strategies based on its influence and dependence directly and indirectly.

Table 4. Impact score of Financial Strategies based on its influence and dependence

rank	label	direct influence	label	direct dependence	label	indirect influence	label	indirect dependence
1	Cost Contr	2083	Liquidity	2500	Cost Contr	2062	Liquidity	2447
2	Risk Manag	1666	Risk Manag	1666	Risk Manag	1958	Tax Planni	1958
3	Investment	1666	Investment	1666	Liquidity	1783	Risk Manag	1678
4	Liquidity	1666	Tax Planni	1666	Investment	1713	Investment	1468
5	Capital St	1250	Financial	1250	Capital St	1083	Financial	1118

6	Tax Planni	1250	Capital St	833	Tax Planni	1083	Cost Contr	769
7	Financial	416	Cost Contr	416	Financial	314	Capital St	559
Rank	Label	Potential direct influences	Label	Potential direct dependence	Label	Potential indirect influence	Label	Potential direct dependence
1	Cost Contr	2083	Liquidity	2500	Cost Contr	2062	Liquidity	2447
2	Risk Manag	1666	Risk Manag	1666	Risk Manag	1958	Tax Planni	1958
3	Investment	1666	Investment	1666	Liquidity	1783	Risk Manag	1678
4	Liquidity	1666	Tax Planni	1666	Investment	1713	Investment	1468
5	Capital St	1250	Financial	1250	Capital St	1083	Financial	1118
6	Tax Planni	1250	Capital St	833	Tax Planni	1083	Cost Contr	769
7	Financial	416	Cost Contr	416	Financial	314	Capital St	559

The primary output generated by the MICMAC software is the Influence–Dependence matrix of the strategies. In this chart, the strategies are categorized into four distinct quadrants, with each financial strategy's position indicating its specific strategic role. Figure 2 illustrates the distribution and positioning of the strategies within this framework.

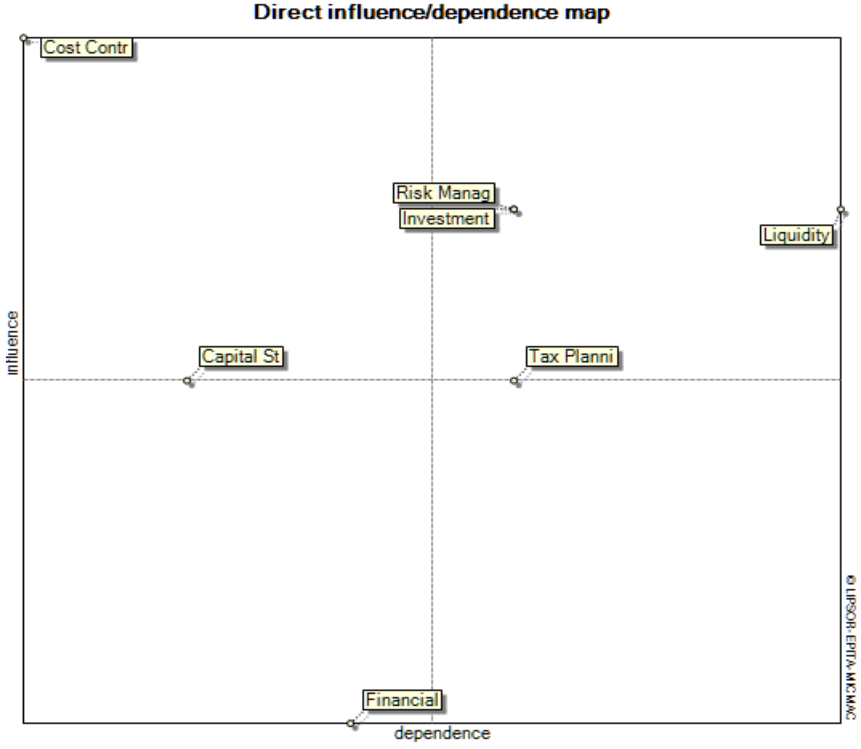

Fig. 2. The positioning of Strategies based on their status

Following the classification of each strategy's status, their interrelationships were analyzed using the MICMAC method. The direct and indirect effects among the strategies are illustrated in Figures 3 and 4. Additionally, the potential direct and indirect influence diagrams are presented in Figures 5 and 6.

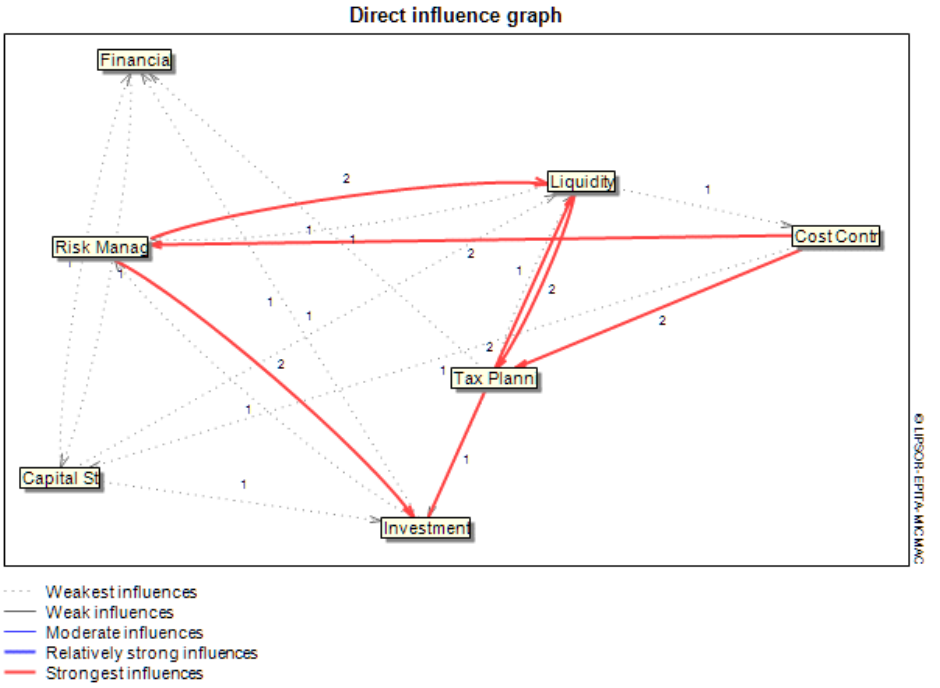

Fig. 3. Direct effect diagram

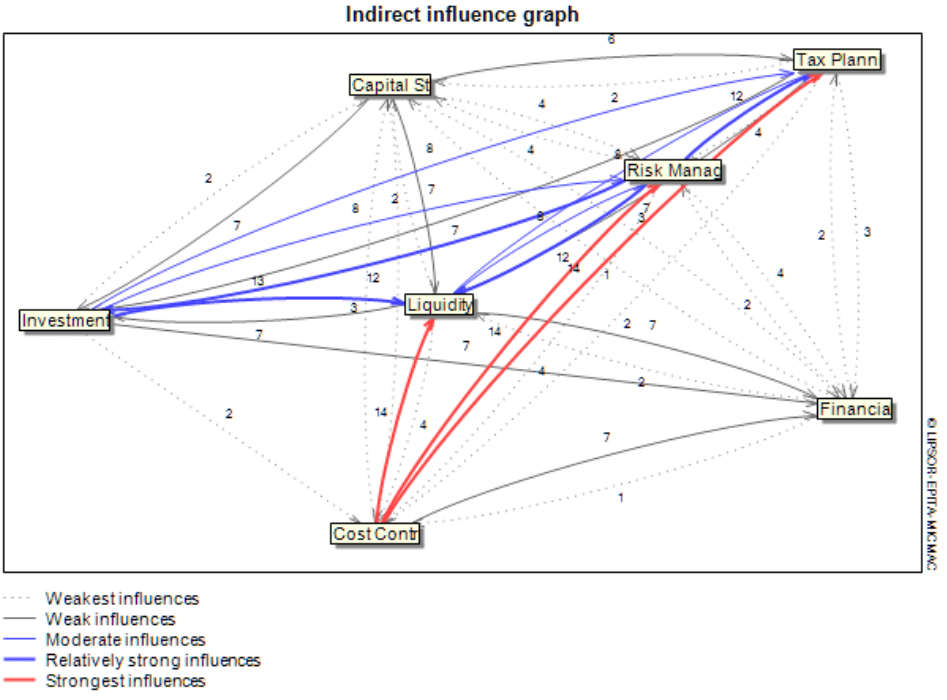

Fig. 4. Indirect Strategy Diagram

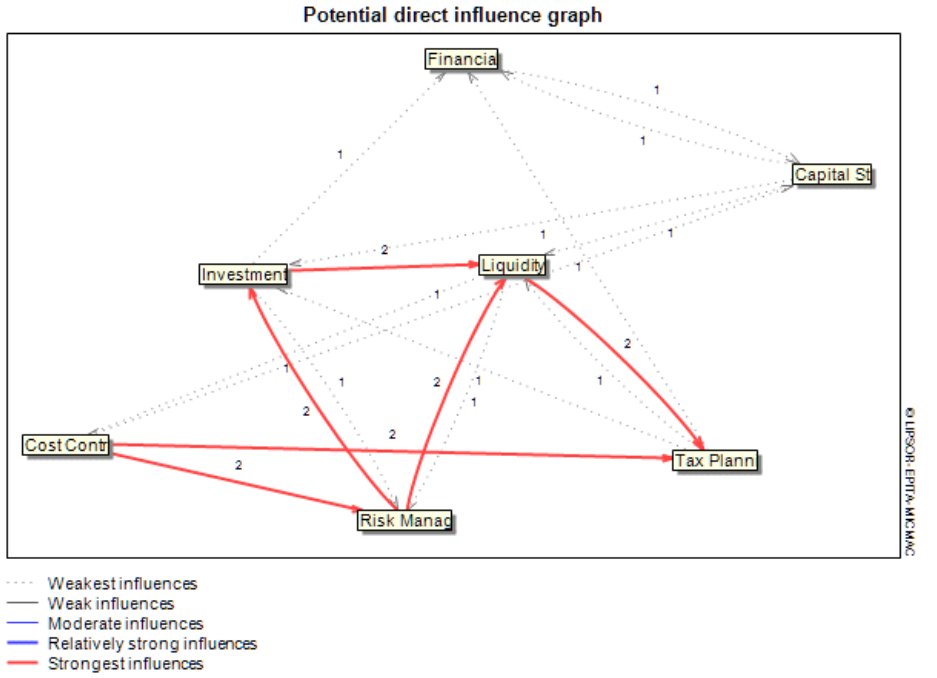

Fig. 5. Potential direct Diagram

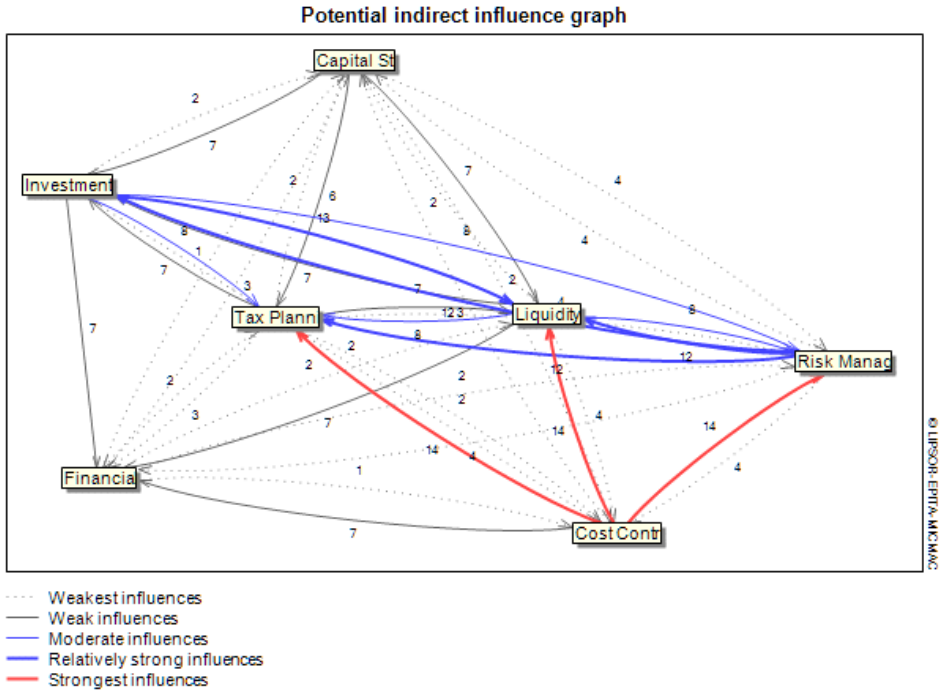

Fig. 6. Potential Indirect Diagram

According to the results of the research, Cost Control Strategies is the most important Financial Strategies.

5. CONCLUSION

A financial strategy encompasses the systematic approach adopted by an individual or organization to manage and allocate financial resources in pursuit of defined goals. It constitutes a critical component of the overall business strategy, encompassing a wide array of financial activities such as investment planning, budgeting, fundraising, cost control, risk management, and forecasting. The primary aims of a financial strategy are to enhance shareholder value, maintain the financial stability of the organization, and ensure the availability of adequate capital for future development or unforeseen challenges.

Developing a financial strategy is not a one-time effort but rather a dynamic, ongoing process involving continuous planning, execution, and reassessment. This process demands a blend of financial acumen, strategic insight, and careful management. Engaging financial experts either internal or external can significantly contribute to the effectiveness of strategic financial planning.

The objective of the present study was to evaluate financial strategies through structural analysis. Data were collected using expert interviews and questionnaires, which were analyzed using the mutual influence analysis technique. The target population consisted of bank managers in Iraq, and a total of twelve professionals participated in the study. Based on the findings, Cost Control Strategies emerged as the most influential and significant financial strategy among those examined.

Declaration

We acknowledge that we used ChatGPT to enhance the academic writing of our manuscript while ensuring the originality and integrity of our work.

Transparency Statement

The data supporting this study are available upon reasonable request to the corresponding author, subject to ethical and confidentiality considerations.

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Declaration of Interest

The authors declare that they have no competing interests.

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