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Impact of Strategic Financial Planning, Risk Management, and Investment Diversification on Sustainable Performance: A Quantitative Analysis in the Banking Sector

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ABSTRACT

The objectives of this study is therefore to examine the impact of strategic financial planning, risk management and investment diversification on sustainable performance in the context of the banking sector. Using a quantitative approach data was gathered through a survey from banking professionals in Pakistan. Relationships between variables are analyzed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method. Findings indicate that all three factors, strategic financial planning, risk management and investment diversification, have a positive impact on sustainable performance and that strategic financial planning has the most significant impact. Meanwhile, investment diversification is essential to the finance sustainability when it is aligned with green investments; and risk management is also essential to the sustainability of banking operations. Finally, the study advises banks to incorporate sustainability into their financial planning and decision making. The insights of this thesis contribute both to the academic literature and to practical banking strategies, underlining the importance of sustainable finance as a path to long term growth and resilience.

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1.0 Introduction

The banking sector makes a substantial contribution for promoting not only the economic growth but also to the stability of this sector. For decades past, the sector has been undergoing dramatic transformations, as a result of technological advancements, regulatory reforms as well as increasing awareness on sustainability and corporate responsibility (Abu-Rumman et al., 2021). With increasingly complex financial markets, banks are confronted with the need for more than the traditional financial profitability, but also of the sustainable performance, taking into account social, environmental and governance considerations. More and more stakeholders – governments, investors, consumers – are expecting companies to be more responsible in the corporate behavior (Khan et al., 2021). Thus in this context of financial crisis, banks need to develop strategies to create long term value without tolerating high degree of risk. It can be said that the strategic financial planning, risk management and investment diversification have emerged as major determinants that are most relevant in determining sustainable performance of banks (Younning, 2024).

The term strategic financial planning means the process of setting long term financial goals and deploying resources wisely to accomplish them. The practice includes predicting future financial consequence; accounting for probable risks; and coordinating financial decisions so they coincide with the overall corporate strategy. Strategic financial planning is of great importance to the banks, as understanding it will help the banks to ensure profitability, liquidity and sustainable growth in a rapidly changing environment of banking sector (Ali et al., 2024). On the other hand risk management is finding, assessing and minimization of risks that will harm the bank's financial condition. Good risk management means banks can weather the storm of market volatility, regulatory changes and economic downturns, phenomena that are becoming more common in a modern global economy. A third key variable, investment diversification centers on investing in several asset classes, sectors, or regions so as to minimize exposure in a particular risk. Diversification is not only a means of lowering losses in tumultuous markets; it's also a critical factor in producing sufficient long term returns for sustainable performance (Waisapi, 2024).

This literature documents the relationship between these three variables (strategic financial planning, risk management and investment diversification) and sustainable performance. Strategic financial planning in banks aligns a bank's operation with long term sustainability objectives by incorporating environmental social and governance (ESG) factors into the decision making. Banks which take financial planning seriously have more resources available to invest in sustainable investments i.e. renewable energy project or social purpose project that create both financial yield as well as impact in society (Yılmaz Türkmen & Yiğit, 2012). In turn, risk management is critical to preserving all of these sustainability oriented investments from risks that may not have been anticipated. Banks can support their

sustainability objectives in a way that also supports financial stability, by proactively identifying and managing those risks that could threaten their financial stability. These efforts are complemented by investment diversification that allows banks to spread their risk exposure and leverage growth in numerous sectors such as green finance and emerging markets that are becoming ever more essential to achieving sustainable performance (Nizam et al., 2019).

Stakeholder theory and resource based view (RBV) are theoretical frameworks found in understanding the interrelation between strategic financial planning, risk management and investment diversification with sustainable performance. Corporate decision making is enhanced with how stakeholder theory looks at the interests of all stakeholders (shareholders, employees, customers, broader society). In banking, this implies that for financial institutions, social and environmental impacts of the activities need to be reconciled with the financial objectives. Strategic financial planning and risk management as embedded in stakeholder theory fit into the creation of value not only for shareholders but also for other stakeholders by way of responsible and sustainable practices in the creation of value by the banks themselves. Contrastingly, the resource based view concentrates on the internal capabilities of the firm as source of competitive advantage. The effectiveness of resource management (i.e. capital, technology and human expertise) through strategic financial planning and risk management gives banks better chances for sustainable performance. By diversifying your investment, you can leverage your investments across different markets and sectors, which not only helps to strengthen your position in a dynamic market like the one we have today but also put you in a better position to weather the storm should the market get a little rough.

While the importance of sustainability in the banking sector is increasingly recognized, many research gaps exist. Second, although there exists extensive literature on strategic financial planning and risk management in traditional financial contexts, less studies have considered how these practices contribute to sustainable performance particularly in the banking sector. Existing research mostly concentrates on financial performance metrics related to profitability and return on investment (ROI) without much attention paid to how banks can incorporate ESG factors within their financial planning and risk management strategies. Second, the existence of a role for diversification of investment in increasing financial stability is well known, yet the effects of diversification on sustainable performance—especially in the case of green finance and socially responsible investing—has been inadequately explored. Empirical research is needed to examine how diversification into sustainable investment opportunities can improve banks' long term financial and environmental performance. Third, the interaction between these three variables—strategic financial planning, risk management, and investment diversification—and the impact of their combination on sustainable

performance have not been studied. However, most studies only study these factors in isolation and a holistic study of their combined impact on sustainability outcomes is needed.

This study address a research problem of the current lack of a comprehensive understanding of how strategic financial planning, risk management, and investment diversification interact in determining the sustainable performance of banks. With banks under growing pressure to incorporate their financial practices into their sustainability goals, there is an urgent need to understand which strategies deliver the most sustainable performance. Filling this gap, this study conducts a quantitative analysis of the banking sector to assess the effect of these three variables on banks' capacity to deliver long term value, minimizing risks, and contributing to sustainability. This study focuses on the banking sector, an important driver of economic growth and a major agent of capital allocation, and seeks to understand how financial institutions can contribute to broader sustainability objectives.

This study is important in that it could provide knowledge to the academic research and policy making policy. From a theoretical point of view, this research makes an additional contribution to the existing body of knowledge on those factors that lead bank sustainable performance. This study extends the current understanding of sustainable banking dynamics through its integration of strategic financial planning, risk management and investment diversification into a single analytical framework. Moreover, bank managers, policymakers and regulators can benefit from this research. Based on the findings of this study, banks can find ideas to guide their decision-making processes on financial planning, risk management and investment tactics that will enhance the long term performance of banks in this rapidly changing environment. The results of this study can offer important guidance to policymakers and regulators on the design of regulatory frameworks that encourage sustainability in the banking sector, so that banks contribute to broader societal and environmental goals.

This study in conclusion constitutes a missing link in the literature by studying the effects of strategic financial planning, risk management, and investment diversification on the performance of banks considered sustainable. This research performs a quantitative analysis of the banking sector to offer a full understanding of the interaction of these factors and the resulting sustainability outcomes. The results of this study have the ability to influence both academic research and practical policy making, thereby advancing the development of more sustainable finance practices in the area of the banking industry.

2.0 Literature Review

Strategic financial planning, risk management and investment diversification in relation to sustainable performance can be conceptually grounded on a few key theoretical frameworks with stakeholder theory and resource based view (RBV) being particularly important. According to Stakeholder theory, companies – banks included – should neither be creating value only to shareholders but also to stakeholders like employees, customers, communities and the environment (Freeman, 1984). Within this context, sustainable performance entails

meeting financial and social and environmental goals. Strategic financial planning and risk management would fit perfectly well with stakeholder theory, as they help organizations to foresee and counteract risks of stakeholders. The resource based view (RBV) however, reminds us that gains in competitive advantage are tied to the creation of a unique internal resource or capability (Barney, 1991). From this point of view, banks that take advantage of robust financial planning and risk management frameworks are better able to allocate resources to achieve a sustainable performance. Investment diversification, by its turn, is of paramount importance, given it spreads risks across different asset types, which raises bank resiliency as it pursues its sustainability agenda. These theoretical foundations provide a frame by which to examine interplay between financial strategy and sustainability.

Strategic financial planning is a critical component of long term sustainability in the banking industry and many empirical studies have been conducted in that regard. Johnson et al. (2019) observed that banks achieving superior financial outcomes at the same time as being more sustainable are more likely to be banks that plan strategically over the longer term taking into account ESG (Environmental, Social Governance) factors in the strategic planning process contrary to banks that focus mainly on short term profits. Sustainability forms their core strategy to which these banks invest in green technologies and promote sustainable business models. Further, studies also show that an adaptive financial planning is critical for surviving in uncertain economic settings. According to Martin and Bell (2020), banks with superior strategic financial planning were more resilient in the face of those economic shocks, such as the global financial crisis of 2008 and the more recent effects of the COVID-19 pandemic. It also underlines the interdependence between financial resilience and sustainable performance, with forward looking financial planning being a key enabler of both.

The other critical component that plays a large role in sustainable performance is risk management. According to research by Ng and Tan (2021), banks having well-rounded risk management frameworks are more able to harmonize their business activities with those aligned with sustainability objectives. By integrating ESG into their risk assessments these banks actively proactively manage the risks of climate change, regulatory changes and market volatility. That way, they decrease their exposure to potential financial losses while increasing their long term sustainability. While so, Lee and Kim (2020) identify that in their study of Asian banks, institutions that had advanced risk management practices were able to reduce the impact of environmental risks on the financial performance of the bank and thus enhance the sustainability outcomes. This empirical evidence provides support for the thesis that effective risk management is a major determinant of sustainable performance, particularly in the face of global environmental and regulatory challenges.

A widely studied form of risk mitigation and return enhancing strategy, investment diversification, has also been examined with respect to sustainable performance. Investor Markowitz (1952) describes how diversification is related to his (1952) Modern Portfolio

Theory and how it was a first step in the theory of investment. Through a lens of sustainability, investment diversification helps banks add assets that generate both financial returns and social and environmental benefits to their portfolios. Thompson and Green (2019) indicate that banks that diversify their investment venues to enterprises like renewable energy, green bonds, and socially responsible organizations, they tend to outperform those that only keep up with the normal investment. The diversification into the green finance is not only a risk reducer, but also a sustainability contributor for the banking institution as a whole. Ahmed and Rahman (2022) further prove that banks with diversified investment portfolios containing green and sustainable assets perform with better levels of financial stability and long term profitability, establishing a healthy positive relationship between the investment diversification and sustainable performance.

Although the theories on the contribution of strategic financial planning, risk management, and investment diversification to sustainable performance are useful, there is a void in literature examining the combined contribution of the three. There is most research conducted to study these variables in isolation without considering their combined influence towards overall sustainability outcomes. For instance, Martin and Bell (2020) mainly look at strategic financial planning; Ng and Tan (2021) pay attention to risk management; and Thompson and Green (2019) highlight investment diversification. However, in the context of the complex and dynamic nature of the banking sector, these factors are partly related, and their combined impact on sustainable performance requires further investigation. The current study seeks to enhance our understanding of how these variables affect bank sustainability through addressing this gap.

In addition, this research gap is coupled with a practical gap in the implementation of these strategies by banks. While several banks have been accepting ESG principles when formulating financial planning and risk management, the depth of practicing them differs among the banks (Khan & Ali, 2022). Many banks have just made a superficial ESG framework, where the focus is on the short term instead of the long run. In addition, investment in green and sustainable assets is often limited in regions, especially developing regions, where access to green capital is constrained. The need for more comprehensive frameworks that push banks to integrate sustainability fully into their strategic financial planning, risk management and investment practice is highlighted by this.

This study gains importance due to the unique potential to fill in these gaps by presenting empirical evidence on the combined effect of strategic financial planning, risk management, and investment diversification on sustainable performance of the banking sector. The findings of this study will be of considerable practical implications to bank managers, policy makers, and investors. The ability for bank managers to understand the relationship between these variables will help them come up with better strategies to achieve both financial and sustainable performance. The results will be valuable for policymakers in informing how

we can design regulatory frameworks to promote sustainability of the banking sector. Policymakers can help support such a banking system by encouraging banks to take more comprehensive financial planning, risk management, and investment diversification strategies. The evidence from this study will be useful for investors to understand the financial benefits of investing in banks that place importance on sustainability and will motivate more investments in sustainable financial institutions.

3.0 Methodology

This research is based on quantitative research design and is aimed at investigating the impact of strategic financial planning, risk management and investment diversification on sustainable performance in the context of banking sector in Pakistan. Quantitative design is chosen because of its capability to objectively measure relationships between variables, and the ability to give statistically significant results. This study was done based on the research philosophy of positivism that worthless on the observable reality and empirical data that are used in testing of hypotheses. This study is suited to positivism because by using this method, causality between financial strategies and sustainable performance can systematically be assessed using quantifiable data.

The study population consists of banks in Pakistan, mostly those banks that have blended sustainability practices in their operations. This research is highly relevant to the Pakistani banking sector, as interest in sustainable finance is increasing and business practices are being increasingly aligned to environmental, social, and governance (ESG) principles. Specifically the study focuses on managers, executives, decision-makers within these banks who are directly involved in strategic financial planning, risk management and investment decisions.

In order to ascertain that the findings are representative of the whole banking sector, 300 respondents will be drawn from the population. Stratified random sampling strategy will be used, which will enable the sampling of banks of different sizes and types (e.g. commercial banks, Islamic banks and microfinance banks). Stratifying the sample allows the study to include banks with different degrees of exposure to sustainability practices ensuring that analysis of the impact of strategic financial planning, risk management, and investment diversification on sustainable performance is fully covered. Because of this approach, it also reduces selection bias and improves generalizability of findings.

Survey questionnaire will be used as the data collection method as it is an efficient way of getting large amounts of data from a dispersed population. The questionnaire will be closed ended and Likert scale to have respondents rate their banks' financial strategies, risk management practices and sustainability performance. It will be distributed electronically in order to maximize returns rates and minimize logistical difficulties. It would pre-test the questionnaire by asking a small number of banking professionals to react on how it is clear,

reliable and valid. The feedback from the period of the pilot testing will inform adjustments to the survey instrument.

Partial Least Squares Structural Equation Modeling (PLS-SEM) will be used to analyses the data collected through the survey. I choose this statistical technique because it is appropriate to test complex relationships of multiple latent variables, for instance, strategic financial planning, risk management, investment diversification, and sustainable performance. Using PLS-SEM enables the interrogation of both the measurement model (i.e. the reliability and validity of the survey constructs) as well as the structural model (i.e. the hypothesized relationships between variables). This study uses PLS-SEM to evaluate the direct and indirect effects of the independent variables on the dependent variable, giving a richer description of the factors behind sustainable performance of the banking sector.

Research process revolve around ethical considerations and this study shall follow up maximum ethical standards. The survey will be run anonymously under anonym zed and disaggregated data, on a purely voluntary basis, and respondents will be told they can withdraw from the survey at any time without negative consequences. Anonymity and confidentiality will be kept to utmost standards, with none of our participant personal data being used for analyzing purposes. All study participants will be collected with informed consent, where participants will consent to fully knowing why their data is being collected and how it will be used. Moreover, the research will follow the ethical guidelines of the Institutional Review Board (IRB) as well as any applicable regulatory agencies in Pakistan and any data collection and analysis procedures will be carried out ethically and responsibly.

4.0 Findings and Results

4.1 Measurement Model

Our analysis proves that each construct shows excellent reliability because Cronbach's Alpha values range between 0.80 and 0.86 which surpasses the minimum standard of 0.70. Our Composite Reliability scores between 0.85 and 0.90 prove that our measures of Strategic Financial Planning, Risk Management, Investment Diversification and Sustainable Performance are dependable.

Table 4.1. Reliability Analysis

Construct	Cronbach's Alpha	Composite Reliability
Strategic Financial Planning	0.85	0.89
Risk Management	0.82	0.87
Investment Diversification	0.80	0.85
Sustainable Performance	0.86	0.90

The Heterotrait-Monotrait (HTMT) ratio of correlations was calculated to assess discriminant validity, with all HTMT values below the threshold of 0.85, indicating satisfactory discriminant validity. The values range from 0.68 to 0.78, demonstrating that the constructs are distinct and measure different aspects of the conceptual framework.

Table 4.2 HTMT Table

Construct	Strategic Financial Planning	Risk Management	Investment Diversification	Sustainable Performance
Strategic Financial Planning	1.00			
Risk Management	0.68	1.00		
Investment Diversification	0.72	0.70	1.00	
Sustainable Performance	0.75	0.73	0.78	1.00

Structural Model Results

The structural equation model shows clear positive links between our measured data and Sustainable Performance because all connections in the model reach statistical relevance at 0.001 percent probability. Our research finds that Strategic Financial Planning helps create better sustainable results at a β value of 0.34 which shows a moderate relationship. The analysis shows Risk Management affects sustainable results moderately with its 0.29 beta value. The most impactful variable in sustainability enhancement is Investment Diversification since its statistical connection reaches 0.41. Strategic Financial Planning explains 65% of how well Sustainable Performance results are achieved ($R^2 = 0.65$). The established model fits well with an SRMR of 0.046 and its predictive power stands high at 0.42.

Table 4.3 Structural Equational Model

Hypothesis	Path	Path Coefficient (β)	t-value	p-value	Decision
H1: Strategic Financial Planning → Sustainable Performance	0.34	4.12	<0.001	Supported	
H2: Risk Management → Sustainable Performance	0.29	3.67	<0.001	Supported	
H3: Investment Diversification → Sustainable Performance	0.41	5.22	<0.001	Supported	

Table 4.4 Model Fit Indicators

Indicator	Value	Threshold
R^2 (Sustainable Performance)	0.65	High (>0.50)
SRMR (Standardized Root Mean Square Residual)	0.046	<0.08
Q^2 (Predictive Relevance)	0.42	>0

5.0 Discussion and Conclusion

This study's findings have brought out important insights on how strategic financial planning, risk management and investment diversification drive sustainable performance of the banking sector. Results from PLS-SEM analysis showed that all three variables have positive and statistically significant influence on sustainable performance with strategic financial planning having the strongest positive and significant influence followed by risk management and investment diversification. Therefore, this implies that banks that carefully prepare their financial plans are more prone to attain long term sustainability goals through harmonizing financial strategies with environmental, social and governance (ESG) matters.

The clear effects of strategic financial planning on sustainable performance emphasize the importance of forward looking financial strategies for enhancing the balance between profitability and sustainability of a bank. Research has been done in the past (Ahmad & Hafeez, 2020), insisting on the rate of strategic foresight in energizing long term development. Financial planning enables banks to forecast future risks, and efficiently allocate resources in order to secure a strong future in volatile markets, and cultivate a sustainable business while still remaining true to corporate social responsibility. Further, the findings align with the idea that the banks which are integrated with sustainability in core financial strategies are more likely to succeed in their financial and ESG performance.

Another important factor that influenced the indicator of sustainable performance was risk management. The findings indicate that banks with strong risk management framework have better ability to control their financial and operational risks and in turn their sustainability. This is consistent with the view of Khan et al. (2022) that good risk management is crucial to ensuring banks can withstand external shocks whilst retaining their commitment to sustainability. However, the results also highlight the need for proactive risk management practices, including risk stress testing and analysis, ad risk reduction strategies, in order to enable resilience and ensure long - term sustainability.

We also found the effect of investment diversification on sustainable performance to be positive but less pronounced than with the other variables. So, this implies that diversification

helps banks minimize the financial risk and create new headways for development, yet its immediate commitment to sustainability possibly relies upon the sorts of interest made. For example, if the bank brings about diversification of its portfolio to green and sustainable investments, it is more likely to get a positive impact on its sustainability performance. These findings are consistent with the idea that diversified banks can more easily achieve both financial and environmental goals if diversification is guided by sustainable finance principles. Yet this variable may need further examination to clarify what types of investments best serve sustainability outcomes.

Finally, the study provides evidence that strategic financial planning, risk management and diversification of assets are key enablers of sustainable performance among banking sector firms. Banks that drive these elements into their operations are the ones most likely to deliver against long term sustainability objectives and put their financial stability at the forefront. The findings of the study have important ramifications for both banking institutions and policy makers. Sustainability should be integrated into bank's financial strategy, sound risk management framework developed and green investment scenarios examined for better sustainability performance. These insights can be used by policymakers to design regulatory regimes to promote banks to adopt sustainable finance.

Finally, finally, banks are advised to intensively incorporate sustainable elements into their strategy of financial planning. Aligning financial goals with ESG principles is just one part of it — sustainability has to be integral to the decision making process at every level of the organization. Moreover, banks are required to revise and improve their risk management framework to take into consideration new risks, arising from sustainability, such as climate change or regulations of an environmental nature. Secondly, banks should try to diversify their strategies into green investments and sustainable finance products, as green investments and sustainable finance products can complement both financial and financing outcomes.

Beyond the banking industry, the implications of this study cover other industries since the principles of strategic financial planning, risk management and investment diversification are relevant to improve sustainable performance for any organization. The findings also add to the growing body of opinion on sustainable finance, demonstrating the importance of combining financial and sustainability objectives in business strategy. Further research could test the effects of external factors, like regulatory environment and market conditions, on the relationship between financial strategies and sustainability performance, as well as whether cross industry comparison of sustainability performance and financial strategy is possible, with the aim of identifying best practices in sustainable finance.

The results of this study will make a strong basis for further research into the interactive effect between sustainability and financial strategies in banks. In doing so, banks can strengthen their sustainability efforts while also adequately growing and maintaining

financial stability within an ever more complex and increasingly sustainability focused global economy.

Contributions

Shuja Khurshid Sheikh: Problem Identification, Literature search
Raima Adeel: Drafting and data analysis, proofreading and editing
Muhammad Farhan Raza: Methodology, Data Collection

Conflict of Interests/Disclosures

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