**THE OPEN UNIVERSITY OF KENYA,**

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| Programme title | Postgraduate Diploma in Leadership and Accountability |
| Course title | PLA 725: Financial Management for Leaders |
| Learning Module number | 1 of 10 |
| Learning module title | Introduction to Financial Management |
| Module Developer | Dr Jane Chepngeno sang |
| Module duration in hours | 8 hours |
| Instructional Hour Equivalent (Divide duration by 2) | 4 hours |
| Reviewed by | |
| Vision | The innovative university for inclusive prosperity |
| Audience description | Minimum university entrance for this course is learners possessing a bachelor's degree from an institution recognized by Senate or any other qualifications that may be determined by senate recognizing prior learning leading to equivalents of the identified criteria, experience and skills of learners.<br>Applicants are expected to attach relevant documents as proof of their eligibility. |
| Instructions to learners | **Welcome to module 1; Introduction to financial management**!<br>Join our facilitators at Open university of Kenya to bring you inside of financial management overview.<br>The module contains core reading material, references and videos for your use. Read all resource materials provided within the module and undertake all activities as guided to enable mastery of the course. Feedback will reinforce good preparation from both the learner and facilitator. Keep communication active through the case studies and practical applications after a module. The preparation of the module is self-driven to help guide you in studying fundamentals of financial management. |
| Learning module description | Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890, as a separate activity or discipline it is of recent origin.<br>A formal definition of finance would be determining acquisition, allocation, understanding and utilization of financial resources usually in the aim of achieving of some particular goals of objective. Scope of financial management touches economics, mathematics, human resources, accounting, production management and marketing.<br>The main objectives of financial management would be profit maximization and wealth maximization. Traditional and modern approaches of financial management will be discussed. Other key concerns in financial management will be organization of |

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| | finance capital, working capital management, resource mobilization and evaluation of financing options. |
| Module objectives: | This module enables learning about;<br><br>1. Definitions of Financial management in leadership<br>2. Explanation of functions of finance manager/leader<br>3. Analysis of scope of financial management in a corporation<br>4. Evaluation of financing option for effective strategic leadership |
| Module learning outcomes: | By the end of the module you should be able to;<br><br>1. Define financial management in leadership<br>2. Explain function of financial manager/ leader<br>3. Analyze scope of financial management for efficient corporations<br>4. Evaluate financing options for effective strategic leadership. |
| Planned Learning Resources | Video lectures, online textbooks, interactive simulations, online discussion forums, practice questions, quizzes and tests, wikis, webinars, YouTube videos |
| ACTIVITY 1: INTRODUCTION<br>VIDEO 1: Pre-recorded lecture on topic emphasizing<br>LEARNING OUTCOME 1:<br>Factual knowledge. | INTRODUCTION<br>**Definition of Financial**<br>Financial management is that managerial activity which is concerned with the planning and controlling of the firm's financial resources. Though it was a branch of economics till 1890, as a separate activity or discipline it is of recent origin. Still it has no unique body of knowledge of its own and draws heavily on economics for its theoretical concepts even today. Financial management is about analyzing financial situation, making financial decision and setting financial objectives. Formulating financial plan to attain this objective and providing effective system of financial control to ensure plan to progress towards the set of objective.<br>Other meaning of Financial management as per other scholars include; **According to Weston and Brighan**, "Financial Management is an area of financial decision making, harmonizing individual motives and enterprise goals". **According to Howard and Upon**, "Financial Management is the application of the planning and controlling functions to the finance function". **According to Ezra Soloman and Pringle John**, "Financial Management is concerned with the effective use of an economic resource namely capital fund".<br>A formal definition of finance would be determining acquisition, allocation, understanding and utilization of financial resources usually in the aim of achieving of some particular goals of objective.<br>**SCOPE OF FINANCIAL MANAGEMENT** |

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| | Financial Management means the entire excise of managerial efforts devoted to the management of finance, both its sources and uses of financial resources of an enterprise. Financial management has undergone significant changes over years as regards its scope and coverage. As such the role of finance manager has also undergone fundamental changes over the years. In order to have a better understanding of these changes, it will be appropriate to study both traditional approach and modern approach to the finance function.<br>The main objective of financial management is to arrange sufficient finance for meeting short term and long term needs. A financial manager will have to concentrate on the following areas of finance function.<br>1.Estimating financial requirements: The first task of a financial manager is to estimate short term and long term financial requirements of his business. The amount required for purchasing fixed assets as well as needs for working capital will have to be ascertained.<br>2.Deciding capital structure: Capital structure refers to kind and proportion of different securities for raising funds. After deciding the quantum of funds required it should be decided which type of securities should be raised. A decision about various sources for funds should be linked to the cost of raising funds.<br>3. Selecting a source of finance: An appropriate source of finance is selected after preparing a capital structure which includes share capital, debentures, financial institutions, public deposits etc. If finance is needed for short term periods then banks, public deposits and financial institutions may be the appropriate. On the other hand, if long term finance is required then share capital and debentures may be the useful.<br>4. Selecting a pattern of investment: When funds have been procured then a decision about investment pattern is to be taken. A decision will have to be taken as to which assets are to be purchased? The funds will have to be spent first on fixed assets and then an appropriate portion will be retained for working capital and for other requirements.<br>5. Proper cash management: Cash management is an important task of finance manager. He has to assess various cash needs at different times and then make arrangements for arranging cash. Cash may be required to purchase of raw materials, make payments to creditors, meet wage bills and meet day to day expenses. The idle cash with the business will mean that it is not properly used.<br>6. Implementing financial controls: An efficient system of financial management necessitates the use of various control devices. They are ROI, break even analysis, cost control, ratio analysis, cost and internal audit. ROI is the best control device in order to evaluate the performance of various financial policies.<br>7. Proper use of surpluses: The utilization of profits or surpluses is also an important factor in financial management. A judicious use of surpluses is essential for expansion and diversification |

plans and also in protecting the interests of shareholders. A balance should be struck in using funds for paying dividend and retaining earnings for financing expansion plans

**FUNCTIONS OF FINANCIAL MANAGEMENT**

There are two approaches to identify the functions that must be performed by financial management. One classification system links the functions with the twin goals of liquidity and profitability. The second classification method focuses on what is being a managed asset or funds.

A. **LIQUIDITY FUNCTIONS**: In seeking sufficient liquidity to carry out the firm's activities, the financial manager performs tasks such;

- The day-to-day operations require the firm to be able to pay its bills properly.
- This is largely a matter of matching cash inflows against cash outflows.
- The firm must be able to forecast the sources and timing of inflows from customers and use them to pay creditors and suppliers.

**Raising Fund**: The firm receives financing from a variety of sources. At different times some sources will be more desirable than others. The possible source may not at a given time, have sufficient funds available to meet firm's need. The financial manager must identify the amount of funds available from each source and the periods when they will be needed. Then the manager must take steps to ensure that the funds will actually be available and committed to the firm.

**Managing the Flow of Internal Funds:** A large firm has a number of bank accounts for various operating division. The money that flows among these internal accounts should be carefully monitored. Frequently, a firm has excess cash in one bank account when it has a need for cash elsewhere. By continuously checking on the cash balances in the headquarters and each operating division's accounts, the manager can achieve a high degree of liquidity with minimum external borrowing.

**B. PROFITABILITY FUNCTIONS**: In seeking profits for the firm the financial manager provides specific inputs into the decision making process, based on the financial training and actions. With respects to profitability, the specific functions are,

i) **Cost Control:** Most large corporations have detailed cost accounting systems to monitor expenditure in the operational areas of the firm. Data are fed into a system on a daily basis and computer-processed reports containing important information on activities are displayed on a screen.

ii) **Pricing**: Some of the important decisions made by a firm involve the prices established for products and service. The philosophy and approach to pricing policy are critical elements in

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| | the company's marketing efforts, image and sales level. Determination of the appropriate price should be a joint decision of marketing manager provides information on how differing price will affect demand in the market and firm's competitive position. The financial manager can supply information about changes in costs at varying levels of production and the profit margins needed to carry on the business successfully. In effect, finance provides tools to analyse profit requirements in pricing decisions and contributes to the formation of pricing policies.<br>iii) **Forecasting Profits**: The financial manager is responsible for gathering and analysing the relevant data and making forecasts of profits levels. To estimate profits from future sales, the firm must be aware of current costs likely increases in costs and likely changes in the ability of the firm to sell its products at the planned selling prices.<br>iv) **Measuring Required Return**: Every time a firm invests its capital, it must make a risk return decision. Is the level of return offered by the project adequate for the level of risk there in? The required rate of return that must be expected from a proposal before it can be accepted. It is sometimes called the cost of capital. Determining the firm's required return or cost of capital is a profitability function.<br>v) **Management functions**: In performing many functions leading to liquidity and profitability, the financial manager operates in two distinct roles. One role is manager, decision maker, a participant in the corporate team trying to maximise the value of the firm over the long run. The other role is an expert of financial matters and money markets, an individual with specific knowledge and skills in the area of money management. These roles are recognized in the two categories of functions performed by the financial manager.<br>vi) **Managing Assets**: Assets are the resources by which the firm is able to conduct business. The term assets include buildings, machinery, vehicles, inventory, money and other resources owned or leased by the firm. A firm's assets must be carefully managed and a number of decisions must be made concerning their usage. The function of asset management attests to the decision making role of the financial manager. Finance personnel meet with other officers of the firm and participate in making decisions affecting the current and future utilization of the firm's resources. The decision making role crosses liquidity and profitability lines, converting idle equipment to cash, so as to improve liquidity, reducing costs and improving profitability. II. Managing Funds: Funds may be viewed as the liquid assets of the firm. The term funds include cash held by the firm, money borrowed by the firm, money borrowed by the firm, money gained from purchases of common and preferred stock.<br><br>**GOALS OF FINANCE FUNCTION** |

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<td>Effective procurement and efficient use of finance lead to proper utilization of the finance by the business concern. It is the essential part of the financial manager. Hence, the financial manager must determine the basic objectives of the financial management. Objectives of Financial Management may be broadly divided into two parts such as: 1. Profit maximization 2. Wealth maximization.<br><br>Profit Maximization<br>Main aim of any kind of economic activity is earning profit. Profit is the measuring techniques to understand the business efficiency of the concern. Profit maximization is also the traditional and narrow approach, which aims at, maximizing the profit of the concern. Profit maximization consists of the following important features.<br>1. Profit maximization is also called as cashing per share maximization. It leads to maximize the business operation for profit maximization.<br>2. Ultimate aim of the business concern is earning profit, hence, it considers all the possible ways to increase the profitability of the concern.<br>3. Profit is the parameter of measuring the efficiency of the business concern. So it shows the entire position of the business concern.<br>4. Profit maximization objectives help to reduce the risk of the business<br><br>Wealth Maximization<br>Wealth maximization is one of the modern approaches. The term wealth means shareholder wealth or the wealth of the persons those who are involved in the business concern. Wealth maximization is also known as value maximization or net present worth maximization. This objective is a universally accepted concept in the field of business. Stockholder‟s current wealth in a firm = (Number of shares owned) x(Current Stock Price share)</td>
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<td>ACTIVITY 2: READING<br>READING MATERIAL 1<br>(<br><br>Learners engage in self-directed learning of an article, a book chapter or whatever other material assigned</td>
<td>1. Manas' seh, P. N. (1990). A textbook of Business Finance. McMoore Accounting. Chapter one<br>2. Peiris, M. S., Dewasiri, N. J., & Banda, Y. W. (2020). Book review: IM Pandey (Ed.), Financial Management. Chapter one</td>
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<td>Youtubes videos on introduction of financial managemnt</td>
<td>1. https://youtu.be/sTFEqrVh3BM<br>2. https://youtu.be/jgLt0Jvjh6g<br>3. https://youtu.be/0RHqiYBrzWg<br>4. https://youtu.be/2EkUshccMIg</td>
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| ACTIVITY 3: Comprehension questions: | Questions are based on the lecture and reading material.<br>1 Define finance and financial management<br>2.Explain the functions of a finance manager<br>3.Analse the scope of financial management<br>4. Differentiate Profit maximization from wealth maximization<br>5. State the importance of financial management<br>6. What challenges are faced by financial manager? |
| LEARNING OUTCOME 2: Conceptual knowledge<br><br>ACTIVITY 4: Video to be used. | Learner is required to use factual knowledge acquired to answer question "Why"?<br>The Case Method, (E-Case or written case) role play or any other visual aid to be used. An E-Case of a situation for the learner to solve possible problems using facts acquired.<br>Learners will engage in online discussion either live or on forum to answer 'Why' questions. |
| CASE 1: Describe case here. | **NAKUMATT HOLDINGS, KENYA**<br>Nakumatt Holdings, Kenya's largest retailer, recorded a huge profit drop in the financial year ended February due to high financing costs, a new rating report shows.The report by South African credit rating agency GCR shows the retailer posted profit before tax of Sh305 million this year compared to Sh823 million in 2013.Nakumatt's long-term credit rating was retained at BB with the outlook classified as stable."Profits have been heavily eroded by rising interest charges associated with the large quantum of debt that has been used to fund growth — moreover, net profit before tax has decreased from Sh823 million in 2013 to Sh305 million in 2015," reads part of the document. Nakumatt's total debt more than tripled in the four years to Sh15 billion from Sh4.2 billion in 2011. The debt has been largely used to stock its new stores having increased its branches to 58 across the region with 43 in Kenya, nine in Uganda, four in Tanzania and two in Rwanda."Whilst capex costs have been high, the greater utilisation of debt has come from the working capital funding necessary to purchase stock for new stores," said GCR. Nakumatt's net interest cover was 1.2 times compared to 1.8 times in 2013. The lower the interest cover ratio the more a company is burdened by debt expense with a mark below 1.5 times seen as a red flag in terms of a firm's ability to pay interest on its loans. The retailer's revenues stood at Sh51.6 billion last year riding on its regional diversification. The revenue growth indicates the company has recovered well from the Westgate terror attack where Nakumatt was the anchor tenant. The regional retailer has over the last five years been willing but unsuccessful to sell a minority stake to a strategic investor with the intention of raising capital and benefiting from the technical expertise that such an investor would bring. Its management told the *Business Daily* it hoped to firm up matters with interested investors in the first quarter of next year, a shift from the year-end date they had given the rating agency. "Negotiations are ongoing and hope by first quarter of next year we will know the |

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| | direction they will take," said Nakumatt head of strategy and operations Thiagarajan Ramamurthy in a phone interview. Introduction of a strategic investor was identified as a factor that would be considered positively in the next rating process. "The deal would see substantial capital injected into the business, which would markedly ease funding pressure and facilitate the further planned rollout of new branches" noted the rating agency, GCR. Mr Ramamurthy said retail business enjoys slim margins and operates with largely fixed costs resulting to financial performance getting affected by interest rate changes. Regional diversification helps the retailer deal with such challenges, he added.<br>**Expanding its reach**<br>Nakumatt has also been expanding its reach in the country, seeking to tap new cash flows in counties and the improving economic climate. Devolution has raised the standard of living in counties, helping to grow disposable incomes by providing a market to the especially populous agricultural counties. In October, Nakumatt bought three stores in Kakamega, Bungoma and Busia from Yako Supermarket. In the same month it acquired a building in Uganda which previously hosted South African Shoprite Supermarkets which closed in June citing poor location.<br>Nakumatt hopes to ride on a wide regional branch presence to stay ahead of fierce competitors Tuskys, Naivas and to some extent Uchumi.<br>Uchumi is the only listed retailer making it difficult to know the performance of the sector as the others are not obligated to publish financial accounts. Nakumatt and Tuskys have expressed intention to list at the Nairobi Securities Exchange. |
| ACTIVITY 5: READING MATERIAL<br><br>Material to reinforce the Learning Outcome 2<br><br>Learner writes blog. Others respond | 1. Terrien, M., Scelles, N., Morrow, S., Maltese, L., & Durand, C. (2017). The win/profit maximization debate: strategic adaptation as the answer?. *Sport, Business and Management: An International Journal*, *7*(2), 121-140.<br>2. Khan, Z. A., & Hussanie, I. (2018). Shareholders wealth maximization: Objective of financial management revisited. *International Journal of Enhanced Research in Management & Computer Applications*, *7*(3), 739-741. |
| ACTIVITY 6: ONLINE DISCUSSION<br><br>Activities based on reading Material 5. | Learner to critic the two journals to earn 5 marks per journal |

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| Use chats, discussion forum, question/answer, message my teacher to engage others.<br><br>Show how participation will be assessed. | |
| LEARNING OUTCOME 3:<br>PRACTICAL SKILLS<br>VIDEO 3:<br>. | Show video which displays practical use of knowledge acquired.<br><br>1. .https://youtu.be/T9zj9KZa2TA<br>Amazon web<br>2. https://youtu.be/fvalnHPx-I8<br>Global finance leader |
| ACTIVITY 7: Learner practice sessions | Learner practices the learnt skills. Learner to be given task to demonstrate mastery of the skill.<br><br>https://youtu.be/n8nTeLbUVpE<br>By Duncan Brodue… Critic the success story |
| ASSESSMENT OF PRACTICAL SKILL: | Learner records practiced skill and uploads video on E-Portfolio<br>OR<br>Learner engages in original creative /design activity to demonstrate practical application of knowledge.<br>Assessment of tasks described. |
| LEARNING OUTCOME 4:<br>KEY/TRANSFERABLE SKILLS | Provide reading material which emphasizes reinforcement of topic learnt. How to communicate or share acquired knowledge<br><br>https://youtu.be/lqZkO8E2roc<br>Amazon Financial management story |
| ACTIVITY 8 | Learner to engage in communication, collaboration, problem solving, research, leadership activities. Examples, preparation of a poster to communicate new knowledge acquired, written essay, debate, audio recording …etc. |
| QUIZZ: | **1.What is the primary goal of financial management?**<br>A) To minimize the risk<br>B) To maximize the owner's wealth<br>C) To maximize the return<br>D) To raise profit<br><br>2. **The finance manager is accountable for.**<br>A) Earning capital assets of the company<br>B) Effective management of a fund<br>C) Arrangement of financial resources<br>D) Proper utilization of funds<br><br>3. **The concept of Financial management is**<br>A) Profit maximization |

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| | B) All features of obtaining and using financial resources for company operations<br>C) Organization of funds<br>D) Effective Management of every company<br><br>4.The objective of wealth maximization takes into consideration:<br>A. Risk related to uncertainty of returns<br>B. Timing of expected returns<br>C. Amount of returns expected<br>D. All of the above |
| TAKE HOME MESSAGE | Learner to state the take home message from their learning experience. |
| Reference list | 1. Brigham, E. F., & Houston, J. F. (2021). *Fundamentals of financial management: Concise*. Cengage Learning.<br>2. FranHuang, W. (2019). Financial Management Throughout End-to-End Business Processes. In: Built on Value. Palgrave Macmillan, Singapore. https://doi.org/10.1007/978-981-13-7507<br>3. Brigham, Eugene F. and Michael C. Ehrhardt 2017. *Financial Management: Theory and Practice,* 16th Edition Boston: Cengage<br>4. Brigham, E. F., & Daves, P. R. (2018). *Intermediate financial management*. Cengage Learning.<br>5. Myende, P. E., Samuel, M. A., & Pillay, A. (2018). Novice rural principals' successful leadership practices in financial management: Multiple accountabilities. *South African Journal of Education*, *38*(2), 1-1<br>6. Alkaraan, F. (2018). Public financial management reform: an ongoing journey towards good governance. *Journal of Financial Reporting and Accounting*, *16*(4), 585-609.<br>7. Bragg, S. M. (2010). *The new CFO financial leadership manual*. John Wiley & Sons.<br>8. Shapiro, A. C., & Hanoua, P. (2019). *Multinational financial management*. John Wiley & Sons.<br>9. Putri, K. D. C., Sari, M. M. R., Ramantha, I. W., & Budiasih, I. G. A. N. (2019). Effect of self-efficacy, competence and compensation in performance of financial manager on motivation as moderation. *International research journal of management, IT and social sciences*, *6*(3), 83-93.<br>10. Migliorelli, M. (2021). What do we mean by sustainable finance? Assessing existing frameworks and policy risks. *Sustainability*, *13*(2), 975. |