MODULE 1:
INTRODUCTION TO FINANCIAL MANAGEMENT

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OUTLINE

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1. Introduction

The purpose of this module is to introduce you to finance, financial management of a business enterprise, and the objective of financial decision-making. You are introduced to the basics of the forms of business enterprise, which provides you with the foundation to understand the agency relationship that exists between the management of a business and owners.

Throughout this module, as in all modules, you are made aware of current events and issues that affect the financial manager. Through current events you will see the principles of financial management demonstrated – both in a good light, but sometimes in a light that is not so complimentary.

Each module in this course is structured in a similar manner:
1. Introduction
2. Learning outcomes
3. Tasks, which include readings, problem sets, and quizzes
4. Overview and discussion

It is recommended that you read the module introduction for each module prior to working on any of the module's tasks.

2. Learning Outcomes

LO1.1 Define the objective of the firm.
LO2.2 Relate the characteristics of the different forms of business to the objective of the firm.
LO1.3 Identify the agency relationships that exist within a business enterprise.
LO1.4 Explain how the efficiency of the market relates to the objective of the firm.
LO1.5 Describe and compare different forms of management compensation.
LO1.6 Describe the recent changes in laws and corporate governance and relate these changes to the agency relationships within a firm.
3. Module 1 tasks

A. Readings
   i) Required reading
      a. Introduction to financial management
      b. Careers in finance
      c. Forms of business
      d. The objective of financial management
   
   ii) Optional reading
       • Summary of Sarbanes-Oxley

B. Problem set
   Problems sets are provided in each module to assist you in learning the material. These problems sets are non-graded tasks. It is recommended that you complete these problem sets prior to attempting the graded online quiz. Solutions to all problem sets are available through links in the problem set.
   
   • Foundations: Questions and problems
   • Module 1 StudyMate Activities

4. Module 1 overview and discussion

A. Introduction
   In this module, we introduce you to the area of finance. There are three primary areas: corporate finance, investments, and financial institution. These areas are connected through finance theory and principles, which are grounded in economic theory and principles. Recent changes in laws, including the Financial Services Modernization Act of 1999, have blurred the distinction among these functional areas somewhat.

B. Careers
   The career opportunities in Finance include those available in corporate finance, Investments, and financial institutions. The skills needed for success in the finance field include an aptitude for math, a solid foundation in finance and economic theory, and an understanding of accounting.

   Take a look at the salary ranges for these different careers and you’ll see that the up-side in financial careers is substantial.

C. Forms of business
   To truly understand financial decision-making, you need to understand the different forms of business enterprise. These different forms differ in terms of the relation between owners and managers, as well as in terms of taxation and financial disclosures.
There are three primary forms of business – the sole proprietorship, the partnership, and the corporation. In addition, there are several hybrids, which include the limited liability company form that has gained in popularity in the last few years.

D. The objective of financial management

Finance is about making the best use of a business's resources. The objective of financial management is to put these resources to the best uses to increase the value of the enterprise.

The challenge is that the larger business enterprises sometimes have a “disconnect” between the owners and managers, creating what we refer to as “agency problems”. You can see the result of these problems in the recent financial scandals that include Enron, Worldcom, Sunbeam, and, unfortunately, many others.

In theory, if a business invests its resources in the best uses, then society is better off. This works in practice – to a point. As long as a business is held accountable for its impact on its stakeholders and the environment, the maximization of owners’ wealth will also result in the maximization of societal benefits.

E. Sarbanes-Oxley

The recent scandals have resulted in distrust in financial accounting reporting and the financial markets. In response to this situation, Congress passed a far-reaching and significant law, commonly referred to as Sarbanes-Oxley or SOX, that is changing the way we do business in the U.S. – especially the financial aspect of business.

This law affects many aspects of a publicly-traded corporation and has altered the responsibilities of accountants, CEOs, CFOs, and financial analysts. The law is so new that the impact of this law, with regard to restoring faith in financial markets and disclosures, is unknown.

F. What’s next?

In this module we laid the foundation for financial decision-making. In the next module, we will focus on one of the most important tools that financial decision-makers have at hand – financial analysis.

You’ll notice that financial analysis requires knowledge of accounting and financial statements. If you’re rusty in accounting, you may want to take advantage of the links suggested in this next module that focus on the review of accounting.