

Professional Stage Examination (PSE)

# Business Strategy and Financial Management

Module Outline

# BUSINESS STRATEGY AND FINANCIAL MANAGEMENT

## AIM

To equip students with:

1. A good understanding of the organisation's environment, business strategy and key functional areas
2. A sound knowledge of the principles of financial management
3. The ability to evaluate business finance decisions

## INTRODUCTION

In order to run or manage a business, one has to know the concept of business and its environment, how the business is formed and organised. Hence, it is important to understand the organisation's objective, strategies and various functional areas to see how goods or services are produced and distributed, and how costs and income are accounted for and managed. The syllabus on Business Strategy should enable students to be an effective contributor to the successful management of a business organisation.

The syllabus on Financial Management emphasised on evaluation of sources of finance and their effects on decision making, valuation of business, analysis of capital structures and formulation of financing decisions and strategies.

Students should be able to integrate and apply the principles and knowledge learnt from both parts of the syllabus to practical business problems.

## EXAMINATION FORMAT

A 3-hour written paper consisting of two parts:

- Section A : 2 compulsory questions                      40%  
Section B : Choice of 3 from 4 questions                      60%

## SYLLABUS WEIGHTING

SYLLABUS CONTENT AREA	WEIGHTING
Business Environment Business Planning	20%
Business Strategies	20%
Financial Strategy Sources of Finance Financing Decisions	25%
Management of Working Capital	10%
Investment Appraisal Investment Risk and Return	25%
<b>Total</b>	<b>100%</b>

## SYLLABUS CONTENT

### NO TOPIC

1. Business Environment
  - a) External and internal factors affecting the firm
  - b) Impact of national economic objectives and regulatory framework
  - c) Impact of international trade and globalisation
  - d) The challenges of multinational management
  
2. Business Planning
  - a) Purpose of the organisation
    - i) Stakeholders' expectations
    - ii) Mission, objectives and strategies
  - b) Introduction to strategic management
    - i) Defining corporate and business strategy
    - ii) Rational strategy process
    - iii) Business strategy formulation
  - c) Introduction to strategic analysis and choices
    - i) Assessment of environmental influences on a business using Porter's Five Forces model and PESTEL analysis
    - ii) Market analysis tools such as Boston Matrix and competitor analysis
    - iii) Corporate appraisal process
    - iv) Evaluating strategic choices
    - v) Implementing and monitoring of strategy
  
3. Business Strategies
  - a) Organisational Structures
    - i) Types of organisational structure and characteristics
    - ii) Centralisation vs decentralisation
    - iii) Concept of power, authority, responsibility and delegation
    - iv) Principles of corporate governance
    - v) Business ethics and social responsibility
  - b) Marketing
    - i) Segmentation, targeting & positioning
    - ii) Strategies of market leaders, followers, challengers and nichers (Porter's Generic Competitive Strategies)
    - iii) Development and application of marketing mix strategies (PIMS and Ansoff's Growth vector matrix)
  - c) HR Planning
    - i) Strategic role of human resources
    - ii) Recruitment

**NO      TOPIC**

- Job analysis, job descriptions and job specifications
  - Methods of recruitment
  - iii) Staff training and development
  - iv) Staff appraisal and performance evaluation
  - d) Managing People
    - i) Motivation
      - Importance of job satisfaction
      - Contemporary theories of motivation
    - ii) Leadership & teamwork
    - iii) Management of change
  - e) Organisational culture
    - i) Elements and manifestations of culture
  - f) Information systems / technology issues
    - i) Information systems / technology as a strategic resource
    - ii) Managing IS development
4. Financial Strategy
- a) Financial objectives
    - i) Nature and purpose of strategic financial management
    - ii) Relationship between firm's corporate strategy and financial objectives
    - iii) Conflict of objectives between shareholders, managers and other stakeholders
    - iv) Stakeholders' expectations , objectives and their impact on firm's objectives
  - b) Business risk and its components
    - i) Operational risk, compliance risk and financial risk
  - c) Returns to investors
    - i) Dividends, capital growth and interest
5. Sources of Finance
- a) Equity financing
    - i) New equity issues, rights and bonus issues
    - ii) Methods of valuation of equity issues
    - iii) Effects of dividend policies
  - b) Debt and near-debt financing
    - i) Preferred shares, convertible debt and warrants
    - ii) Various forms of short, medium and long term bank finance including leasing, factoring and import/export financing
  - c) Long term and short term Islamic financing

- | <b>NO</b> | <b>TOPIC</b>   |
|-----------|--|
|           | <ul style="list-style-type: none"> <li>d) Governmental sources of finance including funding available for small and medium size organisations</li> <li>e) Concept of efficient market hypothesis</li> <li>f) Internal sources of finance and firm's dividend policy</li> </ul>   |
| 6.        | <b>Financing decisions</b> <ul style="list-style-type: none"> <li>a) Cost of capital <ul style="list-style-type: none"> <li>i) Cost of equity issues, preference shares and long term debt</li> <li>ii) Weighted average cost of capital</li> <li>iii) Marginal cost of capital</li> </ul> </li> <li>b) Capital structure and practical considerations <ul style="list-style-type: none"> <li>i) Financial gearing and its impact on the value of firms</li> <li>ii) Modigliani and Miller propositions on capital structure and valuation of firms</li> <li>iii) Limits to debt in capital structure, the bankruptcy and agency concerns</li> </ul> </li> </ul>   |
| 7.        | <b>Management of Working Capital</b> <ul style="list-style-type: none"> <li>a) Nature, elements and importance of working capital</li> <li>b) Identification of firm's working capital needs and suitable funding strategies</li> <li>c) Management of cash including preparation and use of cash flow forecast</li> <li>d) Management of inventories <ul style="list-style-type: none"> <li>i) Techniques of inventory management</li> <li>ii) Economic order quantity</li> </ul> </li> <li>e) Management of debtors <ul style="list-style-type: none"> <li>i) Assessment of customers' credit-worthiness</li> <li>ii) Terms of credit and cash discounts</li> <li>iii) Debt collection techniques</li> <li>iv) Factoring and invoice discounting</li> </ul> </li> <li>f) Management of creditors <ul style="list-style-type: none"> <li>i) Availability of credit</li> <li>ii) Methods of paying suppliers</li> <li>iii) Dangers of trading on credit</li> </ul> </li> </ul> |
| 8.        | <b>Investment Appraisal</b> <ul style="list-style-type: none"> <li>a) Nature of investment decisions and capital budgeting process</li> <li>b) Capital budgeting under certainty and uncertainty</li> <li>c) Invest appraisal techniques <ul style="list-style-type: none"> <li>i) Payback period</li> <li>ii) Accounting rate of return</li> </ul> </li> </ul>  |

**NO      TOPIC**

- iii) Net present value
  - iv) Internal rate of return
  - d) Effects of taxation and inflation
  - e) Specific investment decisions (lease or buy; asset replacement, capital rationing)
  - f) Sensitivity analyses
  - g) Return on investment
9.      Investment Risk and Return
- a) Risk assessment methods
  - b) Risk-return management
    - i) Portfolio theory
    - ii) Security market line
    - iii) Capital market line
    - iv) Capital asset pricing model & its applications
    - v) Arbitrage pricing theory
  - c) Determination of unsystematic risk attached to projects and risk adjusted discount rate

**RECOMMENDED BASIC TEXTS**

<b>AUTHOR</b>	<b>TITLE</b>	<b>PUBLISHER</b>
MICPA	Business Strategy and Financial Management Study Manual	MICPA
Johnson, Scholes & Whittington	Exploring Corporate Strategy	Prentice Hall, 12 <sup>th</sup> Ed.
Mullins LJ	Management and Organisational Behaviour	Pitman, 11 <sup>th</sup> Ed.
Ebert, R.J. & Griffin, R.W	Business Essentials (International Edition)	Prentice Hall, 12 <sup>th</sup> Ed.
Richard Pike & Bill Neale	Corporate Finance and Investment	Prentice Hall, 9 <sup>th</sup> Ed.
Richard Brealey & Stewart Myres & Franklin Allen	Principles of Corporate Finance	McGraw Hill, 13 <sup>th</sup> Ed.

## RECOMMENDED REFERENCE TEXTS

<b>AUTHOR</b>	<b>TITLE</b>	<b>PUBLISHER</b>
Gitman, L and Zutter, C	Principles of Managerial Finance	Pearson Education, 14 <sup>th</sup> Ed.
Gitman, L.J. and McDaniel, C	The Future of Business	USA: South-Western College Publishing, 6 <sup>th</sup> Ed.
Ross, S, Randolph, W, Jaffe, J, Jordan, B	Corporate Finance	McGraw-Hill, 12 <sup>th</sup> Ed.