

Teaching and Learning with Cases in Finance

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ABSTRACT

This paper summarizes the comments made during a panel discussion on using the case method to teach finance that was held on September 29, 2016 at the Financial Education Association/Academy of Business Education 2016 Conference, Fort Lauderdale, Florida.

GEORGE KESTER

Many students, especially undergraduates, lack the organizational frame of reference needed to understand and appreciate the relevance and context within which the theories, conceptual models, and analytical techniques of finance apply. I believe that one of the greatest benefits of the case method for undergraduates is that cases place finance problems and decisions in their organizational context.

I often use cases to motivate learning and assign and discuss the case before introducing the finance topic. The case brings the topic alive and provides relevance and context. This reversal of the typical sequence of lectures and cases, advocated by Springate (1974), is intended to provide students with a frame of reference within which financial theories and models can be placed.

To illustrate, Continental Carriers, Inc. (291-080) is a Harvard Business School case that involves deciding how a general commodities carrier (trucking company) should finance the \$50 million acquisition of another carrier. The case presents three financing alternatives under consideration: bonds, common stock, and preferred stock. Students must identify the relevant factors to be considered and then evaluate each financing alternative. The case is assigned and discussed prior to presenting capital structure policy and financing decisions. Students first read the case and we discuss the three financing alternatives presented in the case. I then ask them to identify the factors that they think should be considered in making the financing decision. They usually list such factors as earnings per share (EPS), earnings (or cash flow) coverage of fixed payments, management's attitude toward debt, the outlook for the economy, interest rates, ownership control of the company's stock, and so forth. I then ask them how they would go about evaluating the financial alternatives. In other words, how will they know the best financing alternative when they see it? As part of this discussion, I present FRICTO analysis, a framework for evaluating financing alternatives that takes into account flexibility, risk, income, control, timing and other considerations. For the next class, I ask them to apply it to the case as their assignment.¹ Because students use the FRICTO framework to organize their analysis, they learn how to systematically evaluate the variety of factors relevant to making capital structure and financing decisions. If I simply presented FRICTO analysis as a stand-alone topic outside of the context of a case and decision-making situation, it would be perceived as only another academic acronym to memorize.

In summary, I have found that the organizational frame of reference provided by cases significantly helps undergraduate students understand the relevance of the subject matter to real world decision-making and hence enhances their motivation to learn.

TIMOTHY B. MICHAEL

Case teaching as an application of “flipping” in the classroom

If one has been around academia for more than a few years, it is evident that there is a great deal of change anticipated in our field. The need to innovate and recreate our methods periodically is usually framed as crucial to the future of our profession. We are encouraged to develop new ways to engage students and to limit our allegiance to outdated modes of instruction such as the traditional lecture model or “sage on the stage” approach.

Those of us who advocate the use of the case method are no strangers to the challenges of using and encouraging a “different” technique in the classroom. Over the past decade I have come to view case teaching as the original method for “flipping” the classroom. “Flipping” is a technique that has garnered a great deal of attention in recent years. In practice, though, several different versions of “flipping” have emerged depending on which author is addressing the technique:

- Flipping is the “inversion” of the traditional classroom the process so that “events that have traditionally taken place inside the classroom now take place outside the classroom and vice versa” (Lage, et al, 2000, p. 32).
- Flipping, or “peer instruction,” pushes the burden of basic discovery back on the student and require them to come to class ready to discuss the assignment, perhaps using different media materials than have been available in the past to enhance their experience and help them remember the background information or recall the skills needed. (Crouch & Mazur, 2001)
- Flipping reduces or eliminates the traditional lecture and directed discussion time in order to allow for group exercises and problem solving sessions among the students themselves (Berrett, 2012).
- Brame (2013) frames flipping in the language of Bloom’s Taxonomy (Anderson et al, 2001). In her view, flipping the classroom is consistent with pushing the first two levels of the taxonomy to the student: remembering and understanding. There may be opportunity in some classes for addressing the remaining levels of analysis, evaluation and creation, but it is most likely that flipping a classroom will be best suited to encouraging students to personally engage facts and their understanding of basic linkages outside of the classroom and before being expected to participate in discussion and synthesis with other students.

The method has been praised as the latest way to reinvigorate the tired lecture model, but others caution that flipping is mainly successful at reducing course content and changing time-tested evaluation and engagement methods in order to make courses easier for underprepared or unwilling students (Berrett, 2012).

Eric Mazur, Area Dean for Applied Physics at Harvard University, has described his move to flipping his classroom as beginning in 1991 (Mazur, 2013). He simply started requiring students to read the textbook before coming to class. He also relates his innovation to the case method (as used at Harvard)

“If you go back to the early 1900s at my own institution of Harvard, in the law school, they started implementing the case study method, which I think is, in a sense, the first implementation of the flipped classroom. Instead of teaching the law to the students, the professors were teaching the practice of the law by having students read cases before class and then discussing the cases in class. So I think, you know, there’s nothing really new; the word “the flipped classroom” was not used. But the case study method is, in a sense, one of the first implementations of the flipped classroom” (Mazur, 2013).

The motivation for this change came from Mazur’s understanding of the learning process itself. Learning involved two steps, one to gather relevant knowledge and the other to assimilate that knowledge by using it or developing internal models of its structure. He decided, then, to reverse the traditional process by which lecture was used for the gathering step and instead have students gather on their own, outside of class. Class time could then be used for integrating that knowledge and discussion of how to use it, accomplishing the second component of student learning. He then could use “teaching-by-questioning rather than teaching-by-telling” in the classroom (Mazur, 2013).

Because the technique requires a shift of responsibility to students, though, it has been known to cause some discomfort among students and faculty alike (Barnett, 2014). As anyone who has applied the Socratic Method in case teaching can attest, placing a new burden on students can prove unpopular at first, and this is a common complaint among new case teachers. Not only does the professor have to be a master of the subject matter on each and every possible question, but she has to decide the best way to evaluate each contribution during discussion and give timely feedback to students.

Teaching innovation and the case method

According to Mazur and others, “flipping” the classroom in its most useful demonstrated form (the case method) is not a new creation. For those of us who intend to stimulate student learning behavior and create experiential opportunities the case method has proven an effective model for more than a century. Recent discussions of flipping might yield tools and resources that would prove helpful for case teaching and case learning, and likewise discussions of the case method and the resources and effort required to use it could enlighten our understanding of the benefits and challenges of the flipped classroom. It is up to those of us who teach using cases to spread the word about our method and its benefits, and to let others know of the powerful teaching “innovation” that is available to them.

MARY FUNK AND ROBERT STRETCHER

In the finance curriculum at Sam Houston State University, cases are used to highlight practices common in the professional management environment.

Business is an applied discipline, and at the undergraduate level, recruiters seek candidates possessing relevant analytical skills, the ability to effectively communicate via a variety of

interfaces, and the ability to work effectively in a team setting. Teaching cases provide the opportunity to build these specific skills while allowing students to address actual business scenarios.

Additionally, cases enable us to teach the prevailing analytical tools in particular industries, including spreadsheets (and associated add-ins), database programs, and integrated management and accounting software, such as Oracle or SAP.

Specific to the finance curriculum, we use cases to address the complexities of actual managerial tasks. Cases are used to highlight financial statement analysis, for diagnosis of symptomatic measures and identification of issues causing them, to reinforce elementary mechanical analyses such as simple capital budgeting exercises, to exhibit complexities of the capital budgeting process, to undergird principles of risk management at various levels in an organization, and to address tasks associated with short term financial management, such as cash budgeting and forecasting external financing needs. Our specialized programs in finance, including commercial bank management and financial institutions management, have utilized cases as examples of repetitive tasks such as loan application assessment, risk management (including hedging activities), compliance with regulatory requirements, and portfolio management.

When successfully applied, students will develop the ability to properly identify issues and develop relevant solution models for those issues. We have found that for businesses, Microsoft Excel is de facto standard for spreadsheet integration into an office software suite. Because of this, we focus on use of Microsoft Excel and Microsoft Access in our analytical exercises. In courses where reporting and presentation is required, Microsoft Office allows for easy integration (copy and paste, link, or embed) of analytical output into PowerPoint presentations or Microsoft Word documents.

An observed outcome from using the case approach has been an increase in student engagement. Requiring students to interactively demonstrate the specific skill set and to interact with other team members creates knowledge and retention of knowledge. If students gain and retain more from an academic program, their chance for success in that profession is augmented.

One positive by-product of case implementation is the re-socialization of students in their interaction with one another, particularly considering the current preoccupation of students with electronic devices and the information grid, and the associated disconnect with interpersonal interaction. Since face-to-face communication and collaboration is still a valuable business skill, our case teaching methods provide the opportunity for students to develop this capability. This helps them initially in the interview process for professional positions, and later in their quest for professional advancement.

ENDNOTES

¹ See Sihler (1971) and Kester and Hoover (2005) for discussions of the FRICTO framework for comparing financing alternatives and making financing decisions.

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