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Teaching Business Finance in Bangladesh

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Bloom's Taxonomy has become an important pedagogical tool but its application in teaching business courses in Bangladesh is underwhelming. Experiential learning is thought to be effective in the western world, but not practiced very much in our universities. It is very important to examine which teaching methods are effective and which are not, and fine tuning may be necessary for different concentration. A major challenge in business teaching is getting students involved. In this paper, we will focus on teaching business finance in the universities of Bangladesh. We propose that instead of a mathematical face to the problems, a real life face to the problem be given. We propose to test this in future work.

Keywords: *Bloom's taxonomy, pedagogy, learning objectives.*

Introduction

Frustration abounds in teaching business finance. Teachers are frustrated and so are the students. Teachers want to be effective and students want to be benefitted from a class. A certain degree of complaint on both parties is expected, but we think, the degree of unhappiness point to some failure on the part of the teachers and we will try to address the reasons for this failure and the way to improve this.

We have noticed increasing attention being paid to pedagogy in teaching in business disciplines. Somehow, possible application of Bloom's Taxonomy did not yet get much traction in business teaching in Bangladesh. Experiential learning is thought to be effective in the western world, but not practiced very much in our universities. The only opportunity of experiential learning is through internship which, in most cases, is wasted time in Bangladesh. It is very important to examine what teaching method is effective and what is less effective and fine tuning may be necessary for different concentration. In this paper, we will focus on teaching business finance in Bangladesh Universities.

This paper will be organized as follows. In the next section, the literature on pedagogy in business will be reviewed. This will be followed by a discussion on the typical finance courses, teaching methods, and usual sequence followed for basic business finance class. In the following section, the reason for challenges faced in teaching business finance in Bangladesh will be discussed. Next, the areas and some strategies to make business finance class more effective will be suggested. The paper will have some concluding remarks in the final section.

Liberature Review

A discussion on pedagogy in business studies is relatively a recent phenomenon. There are criticisms on finance and accounting teaching as often approached in universities. Lehman (1988) states,

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> *"Accounting students are trained how to do ……This is tantamount to establishing that the first task of teachers is to serve the economy by turning out skilled robots and uncritical consumers of the high tech age.."*

One of the relatively early paper on pedagogy on business finance was by Norgaard (1981) who took us through the evolution of teaching business finance, in the early phase which he called the organizational phase, the textbook basically dealing with the organization aspect of business finance. In the second phase, the transitional phase, integrative work started to become part of teaching business finance, portfolio selection and capital budgeting became staple. After 1960, the valuation phase, started where managerial aspect and justification of it through valuation became prominent. Financial Management recognizable became more important in strategic management where the integrative nature of business functions became very important.

Armitage (2011) takes issue with this asocial approach and argues that students should be encouraged to discuss what may be right and wrong, the ethical aspects of actions, there needs to be more dialogue. Santos et al. (2007) suggest that the traditional value maximization goal of financial management should be somewhat de-emphasized in favor of a stakeholder approach. Weir (2014) also encourages critical pedagogy in accounting and finance and greater discussions about ethics.

In a different vain, Ardalan (2008) argues that each educational philosophy favors a certain instructional methodology, which in turn determines not only the way the instruction is performed, but also how course goals, objectives and contents are set. Avolio (2015) examines nine different teaching strategies and points out the benefits and drawbacks of each of these strategies. Nawaz and Gomes (2014) suggest incorporating Blooms Taxonomy in business education. Kristen et al. (2010) focused on incorporating presentation skills of business students and explore possibilities and strategies of improving presentation skills.

There are a few other articles on pedagogy in business teaching, but none of them specifically address teaching business finance. This paper will address teaching business finance specifically.

The Possible Courses

Business finance has branched into many sub-areas and we will focus on the foundation course which is typically titled "principles of finance" or "Introduction to business finance." Understanding the basic concepts results in smooth movement to higher levels of knowledge and skill acquisitions. Someone without the basics will find topics on advanced investment theories and financial derivatives unfathomable. However, we wish to focus on corporate financial management and basic valuation schemes of plain vanilla financial instruments.

A Review of Teaching Methods in Finance

Teaching methods applied in Bangladesh in business finance classes may be classified into three major types: (1) (Chalk and) talk, (2) Mathematical formula based, and (3) case based. A more detailed discussion of various teaching vehicle has been given by Avolio (2015). Let us take a brief walk on these approaches to teaching business finance.

Chalk and Talk

Some teachers treat these courses basically as some form of philosophy course. This is a carryover from old days of teaching still followed by some instructors. The behavioral aspect becomes prominent as money is needed for life and cannot be avoided, and hence, it is one of those things in life we deal with daily, such as music, food, and socialization, and this will pass too. This may be all right with some people

and students, especially those students who find this boring and would rather be in peace if left alone while the spouse handles it. Use of mathematics is minimal, practice and solution of problems, easy or complex, does not take much class time in this approach. For some people who will be in leadership role and feel that she does not need to know the intricate process in making the decision but the eventual result, he/she has somebody else to ensure the validity of computations, this is an acceptable approach. However, this is totally unacceptable for students in the undergraduate program. The basic principles of finance are essential in the value creating process of a business organization and are a major component in most functional decisions of a business.

Mathematical Formula Based Teaching

The use of this method is probably the most common method in Bangladesh. For principle of finance course, this seems to be an appropriate approach considering the need for the building blocks for advanced level finance courses and integrative capstone courses. This approach allows for a systematic sequential process that gradually builds up the understanding of the principles and reinforcements of what was learned earlier. For students who are comfortable with mathematical formulations, find this approach very logical and easy to grasp. Unfortunately, for many students, mathematics is not very logical, itis something devised by cruel nerds to make the life of students miserable. Then, there are some students who live in between these two extremes. Some of them can see the logic, but they are not very proficient in extending the logic to a situation which is not exact replication of what they learned. Some of them understand why we need an answer under the particular situation and how the answer will be used, but deriving the answer is a torture.

Case Approach

This approach is not very popular in Bangladesh. Advanced cases are clearly not appropriate at the introductory level. In a way, when we ask students to solve problems which are concise, neatly packed with just the right information, such problems are also cases. Some books have little more elaborate problems, often called mini cases, but these are also neatly packaged requiring very little skill in putting things together, especially for capable students. These neatly packaged little problems are quite fine for introductory level courses. The more complex multipage cases require quite extensive exposure to many different aspects of financing and, for many cases, are integrative in nature. In fact, many of these cases could very well be used in business strategy classes. Still, some cases can be utilized toward the end of principles classes. These mini cases could sow the seeds in the minds of young people that solution of a numerical problem does not produce the final answer; other factors must also be considered.

Learning Objectives

In this paper, we will loom into the second approach see how it can be dressed in non-mathematical terms and learning objectives are realized.We have reviewed many syllabi for this course from many undergraduate schools of all different categories and we concluded that the basic learning objectives in an introductory business finance course are:

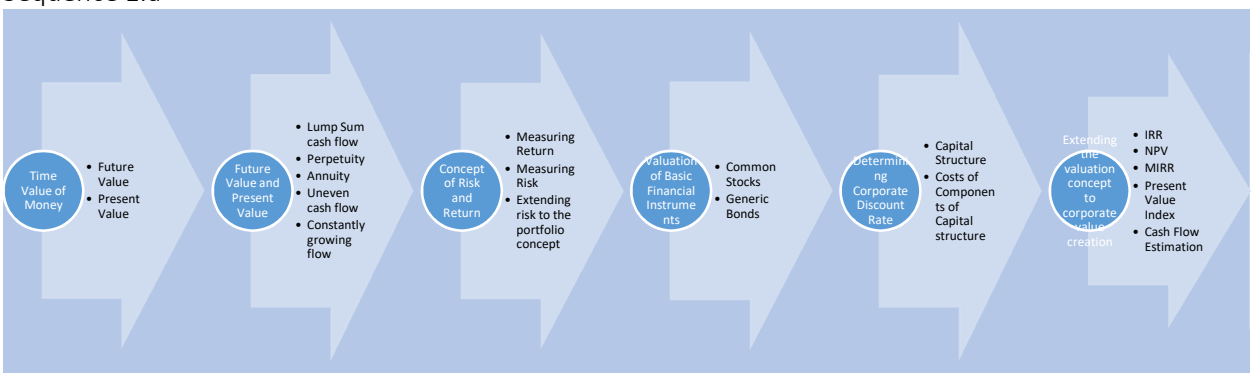
1. Developing an understanding of the time value of money. The breadth and depth of the concept to be covered will be decided by the instructor.
2. Developing an understanding of the discount rate.
3. Risk and Return in Finance
4. Understanding the basic valuation of basic financial instruments.
5. Developing an understanding of the Net Present Value (NPV) and the Internal Rate of Return (IRR) concepts.

Many faculty members discuss analysis of financial statements in the beginning of the course and some faculty members discuss the hybrid financial instruments. Some also discuss in some detail the interest rates and the financial markets.

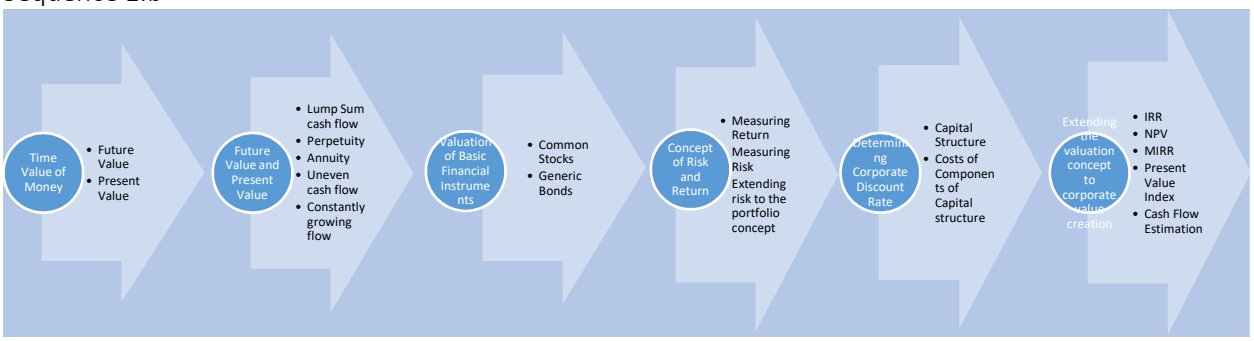
The Sequence

Different professors follow different sequences of accomplishing the learning objectives and textbooks also differ that allow different professors to offer a sequence that matches with the sequence of the textbook. The traditional sequence is one of the following two slightly different sequence plans.

Sequence 1.a



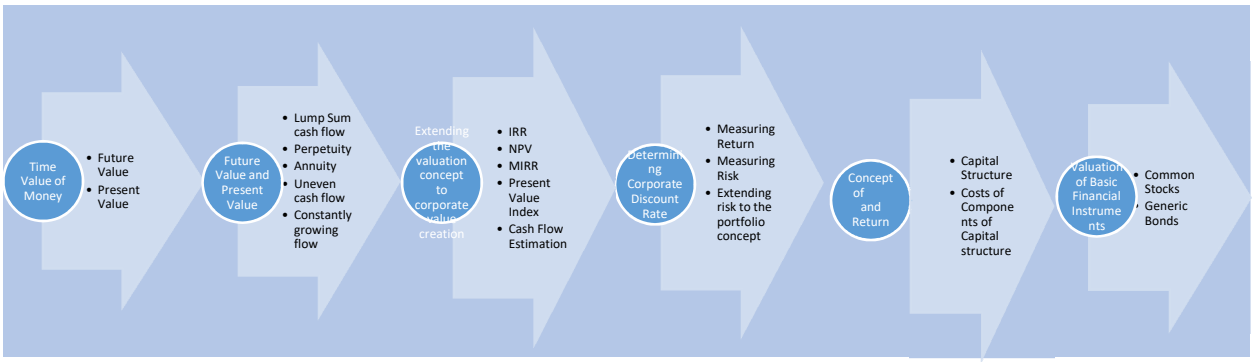
Sequence 1.b



The reader will easily notice that the third and fourth arrow switch places under the two plans. The instructor, whichever of the two plans he/she follows, faces a problem. In the fourth arrow level of sequence 1.a, the instructor has the benefit of developing the concept of required return for valuation of stocks of bonds. The problem is that developing the concept of risk-return relationship, and the concept of portfolio depends on, to a great extent, on the stock and bond markets. In sequence 1.b, the reverse is true. Valuation of stocks and bonds require the investor's required return, but that development of that concept must wait.

The other approach is substantially different. This sequence is somewhat like this:

Sequence 2



The beauty of this approach is that it introduces the concept of value creation in a corporate setting through the NPV concept right away. However, I find it easier to develop the idea of risk and required return first and wait till the corporate discount rate idea is developed for value creation activities. From this point on, we will discuss the pedagogical approach for sequence 1.a.

Getting Students Involved

Framing the Challenge

It is also worth noting that mathematical formulae involve manipulation in a vacuum, but own decision problems bring in the realistic dimensions of decision, such as behavioral aspect of deferring a purchase, possible economic issues, may be even status issues. We suspect that, we as teachers are not doing a good job of phrasing finance problems well enough to excite students, stroke their interest and we need to examine what will work better.

A major challenge in business teaching is getting students involved. In schools, the idea of getting students involved is relatively easy to understand for a teacher, because math is a puzzle and science experiments open exciting new world for students which allow students to see how they fit in the world of science. When it comes to money, our students don't see it yet, because their understanding of money is it flows from parents. However, they have already developed the ideas of fair prices. The trick in making business finance teaching effective is to stroke this sense of fairness. We argue that we need to experiment on presenting the problems in a way that involves the students in a way that they feel it is one of their own problems and must be solved. It is one thing to ask "what is the future value of Tk. 100 if so and so, "versus" your dad gave you Tk 100 for you to spend, and you decide on holding off spending it now, but placing it an account that gives you this rate, how much will you have at this future point." The first one is a mathematical formula while the second one is a personal decision making.

At the undergraduate level, we probably should ask practice and test questions on a simpler form, not requiring several steps to get the answer, but at least an additional step so that the better students can start taking some leaps on their own. Consider these two set ups for a question asking students to solve a simple future value problem:

Format (1) Find the Future Value (FV) of Tk 1000 given a 10 percent rate and 3 years.

Format (2) Go to a bank with Tk 1000 to buy an FDR. The bank will add 10 percent to the beginning balance at the end of the year. How much can you withdraw at the end of year 3?

The first format is a robotic approach that takes an algorithmic structure. Students proficient in math will have no problem transforming that statement into numerous scenarios where the structure will be true. However, most of our students with no or rudimentary introduction to the time value of money concept are unable to bring the statement to real life set of action. The second format allows the student to visualize the steps without having to figure out the steps on their own. The likelihood of a successful computation is better. Unfortunately, format 1 is a general case, while format two is drawing a picture of a very specific set of activities and the instructor risks that the student will be unable to make the necessary leap for generalization.

Localizing the Context

A frequent complaint against teaching business classes is that the theories and environment discussed in class rooms are different in Bangladesh. The complaint is often vehement against cases in business finance courses. I strongly disagree with it and I consider that as an effort to avoid the work needed in

effective case teaching. There are very simple things that can set the context to Bangladesh, especially in teaching business finance. I will point a few areas where it is very easy to set the context of a challenge to Bangladesh.

Cost of Capital

A very relevant question, for example, is asking what the cost of capital is for a typical corporation. I will argue that a vast majority of finance professors do not have a good answer for that, and part of it, is that they were not asked to determine the cost of capital for any Bangladeshi company. I doubt that if it is more than theoretical and asocial discussion in a typical finance class. Students rarely come out from the class recognizing how important the concept is for management and for the future of the company.

Another relevant question is: what is the required return for equity capital in Bangladesh. There is a fairly vibrant stock market in Bangladesh, but I wonder how many of our finance faculty members actually bothered to figure this out. This is an essential element in determining the cost of capital for a corporation and we can teach it in the context of Bangladesh, but we don't do it. In the same vein, beta is an important element of determining cost of capital. We can discuss how a student can obtain it or derive it by him(her)self. We can get them to examine the effectiveness of beta measures, which is an important research topic, but I do not see any work on it. I see work on market efficiency which I find as total waste of time at this point. But while everybody comes out with an understanding that beta measures risk, we have not concerned ourselves with "how good beta is in measuring risk."

Capital Budgeting

Capital Budgeting cases are very easy to contextualize. The basic capital budgeting cases are basically the same anywhere in the world. If you just put in a little effort, you will be able write a case in capital budgeting. Every year, there are numerous capital investment decisions in the country. A common and large pool of such investment projects are there with BSIC and Bangladesh Shilpa Bank. If these two authorities cooperate with the educational institutions, we should have a pool of thousands of capital budgeting cases made for Bangladesh.

Portfolio and Investment

The Bangladesh stock markets provide a very nice opportunity to acquaint students with capital market and get their hands in portfolio formation and management. There are about 39 mutual funds in Bangladesh and it should interest students to examine the composition, management and pe4formance of these mutual funds.

Industry, sector, and individual stock analysis can be and should be an essential component of security and portfolio analysis course. It is alright with asocial theoretical discussion in the course, but the student's performance will be much improved with some real life exercise in this area.

Company Valuation and IPOs

There is a fairly rich library of IPOs in Bangladesh which will allow students to delve into the real activities surrounding company valuation. Group work questioning the determination of value of a company going through an IPO will be a rich experience for the students. The discussion of IPO related expenses is a good eye opener for students and can easily be related to floatation expenses making the idea of flotation expenses not just a theoretical phenomenon.

Right Shares and Stock Dividends

The craze for right shares in Bangladesh makes it an interesting topic for students and helps students to dig a little more deeply into what moves stock price in the market. Stock dividend is another topic that brings in financing issue and policies in quite clear managerial context. The implications for financial management can be clearly demonstrated with financial projection with stock dividends and cash dividends.

Capital Structure

We academicians need to confront the issue of capital structure in Bangladesh. The companies in Bangladesh typically show a low and varying level of debt in their capital structure. Long-term debt and equity is supposed to provide for the permanent assets of the company, but if you look closely, you will find an overwhelming majority of companies are relying on short term debt to finance permanent assets. We need to discuss this at least to advanced students.

Conclusion

We are too quick to blame students for looking disinterested in business classes. Much of the blame is on us; we have failed to make the classes interesting and incorporate experience and phenomena that are relevant for our students. A little bit of blame may be attributable to our teachers who had a way of teaching that is overly theoretical. They rarely used actual data from a real company in Bangladesh. But the attention span of students today is very short and fleeting, and we need to get them involved by asking them to get deep into real life challenges of managers. The instructors need to become more creative in getting the students involved.

In this paper, certain areas of business have been identified which could play a significant part in enriching business finance classes with real life and bread and butter issues facing managers in Bangladesh. Some of these areas are ripe ground for research activities and assignments for students. This way the contents of classes will become more contextual and likely to pique the interest of students and getting them involved. This will also prepare future managers for facing issues that will challenge them in real life, for thinking critically, and for becoming productive in class participation and discussions.

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