

Developing Financial Acumen within an Executive MBA Program

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Abstract

This paper is a synthesis of research related to developing the financial business acumen of students within an integrated Executive MBA program. It incorporates the perspectives of various constituents including the employer/sponsor, industry, academic boards, and program managers. The format attempts to answer three questions: (1) What do businesses need? (2) How do learning styles and student profile relate to financial acumen? (3) What and when must we deliver? The answer to the third question includes a framework for delivering the finance content consistent with recommendations and findings.

I. Introduction/Motivation

Executive MBA (EMBA) programs face unique challenges in preparing students to face an ever changing technological, competitive, and global environment. These challenges are due in part to the unique profile, characteristics, and needs of the EMBA student when compared to those in more traditional programs (Alsop 2006; Gitman and Vanderberg, 2003; Jayne 2003; Tyler, 2004). This paper reviews related research and market data, and presents a framework for developing the finance content and delivery of an integrated curriculum, which accommodates the learning styles of executive students, while meeting the need for financial business acumen skills of non-financial managers, today and beyond.

II. What do businesses need?

The AMA/HRI's Leadership Development Survey 2005 polled CEOs from top companies throughout the world (Leading into the Future, 2005). From their survey they were able to compile a list of the top five critical leadership development skills needed. The only traditional business administration subject on the list of "*Critical Leadership Development Needs*" is *Financial Acumen*, which placed third behind *Coaching Skills* and *Cross-Departmental Knowledge*. The expressed need for cross-departmental knowledge by industry also strengthens the case for using an integrated curriculum, including the need for financial acumen skills by non-financial managers. The other two skills on the top five list were, *Negotiation Skills* and *Business Ethics*.

Business Week's list of "The Best B-School of 2006" placed the Chicago's Graduate School of Business, at the top (Lavelle and Lehman, October 23, 2006). The perceived usefulness of their EMBA by industry is captured in one view expressed by a graduate who claimed that, before entering their program, she could only balance her checkbook, but was able to double her income upon graduation by accepting a position as a senior financial analyst at

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Microsoft. Both Chicago and the former number one place holder, for the previous four years, Northwestern University, are known for their academic rigor. The top three MBA Schools on the list, Chicago, Pennsylvania (Wharton) and Northwestern (Kellogg), were also one of the top four in finance subject area in Business Week's "Top Executive MBAs." (October 24, 2005). Businesses and students would seem to want and reward rigor.

Gitman and Vandenberg (2003) conducted a survey of finance practitioners and academics to assess the future of corporate finance. The participants foresaw great future changes in corporate finance, including the need to be more strategic, more global and more demanding in the use of technology. This is consistent with the AMA/HRI's Leadership Development Survey 2005. The top three on their "*Top Ten Drivers of Change that Will Present Challenge to Leaders over the Next Ten Years*" are: increased global competition; focus on the customer; and operating efficiency.

Also consistent with the AMA survey, Gitman and Vandenberg (2003) found that as a result of perceived environmental changes, budget priorities would also change, including resource shifts to information technology, marketing and human resources, financed mainly by budget shifts away from operations. They also noted that both CFOs and academics believed that the CFO will be a full partner with operating management in the job of creating shareholder wealth and driving growth. They also show that the CFO is expected to be more directly related to strategic management, and value driven activities. Given this background, it then becomes very clear why there might be an increased need for non-financial managers to develop financial acumen, and for all officers and managers to develop strategic and communication, value driven skills in finance.

Prencipe (2002) also shows that it is not enough to be the top technologist in a company, but, to be effective, the CTO must be able to crunch numbers and develop complex ROI models. Obtaining funding for technical projects with both sound technical and substantial sound business reasons, have a higher chance of gaining approval. Prencipe cited one important lesson:

"What I have learned most is that you can't go through life blindly trusting that [other executives are] taking care of financial details..." CTO, Motley Fool, p50

One fundamental truth relating to corporate finance is that it is impossible for firms to grow and prosper without new capital investment, which can generate positive cash flows and thereby add value for the stakeholders. (Ross, Westerfield and Jaffe, 2005.) In making the capital investment decision, there are other interrelated decisions that have to be made such as capital budgeting, risk management, capital financing, and cash management. These decisions can be organized into four main concepts, which make up the core curriculum of top MBA programs: *Long-Term Capital Budgeting, Optimal Portfolio Design, Capital Financing Structure, and Short-Term Financial Management* (Ross, Westerfield and Jaffe, 2005).

III. How do learning styles and student profile relate to financial acumen?

The Executive MBA Council (2006), which is dedicated to the advancement of executive education worldwide, has approximately 261 programs registered. As part of its operations it

sponsors several research initiatives designed to help schools understand student preferences and benchmark their practices. Based on a 2003 survey, they report average age of applicants at 36 years, the average work experience at 13 years, and an average of eight years of management experience. This contrasts with averages for full-time MBA programs such as at Kellogg, whose students are 28 years on average and have just over 5 years work experience (Northwestern, 2006).

One somewhat unique characteristic of MBA programs is that applicants are not required to have an undergraduate degree in business. For the EMBA, successful applicants may not even have an undergraduate degree, depending on their years of experience and seniority. (Executive MBA Council, 2006; Tyler, 2004) This poses a major challenge for Finance because it has been shown that understanding the subject is highly correlated with satisfying certain pre-requisites such as Accounting and Statistics (Chan and Li, 2003; Gloeckler, 8/8/ 2005; Marcal and Roberts, 2001). This problem is further compounded by having to deliver to a class that has varying professional backgrounds. In one study conducted by Filbeck and Webb (2000) the student body included: company presidents and vice presidents, directors, and division managers as well as attorneys, engineers, physicians, and CPAs in three cohort programs at one university. Sanford University, has attempted to address the issue of varying needs and preparation of the students, by offering differing tracks in its MBA program (Alsop, 2006). That solution may be applicable for a program with a large student base, but not for smaller, or more budget constrained ones.

According to Tyler (2004), some observers find that the academic requirements for EMBA's at some universities are less stringent than those for traditional fulltime MBA programs at other schools or even at the same school. She further notes that neither Stanford nor Harvard offer an EMBA, and that while schools such as University of Pennsylvania's Wharton School, which does offer an EMBA, staunchly protect their standards, not all programs are as rigorous. She quotes Allan Conway, a professor at the Haskayne School of Business at the University of Calgary in Alberta, as saying:

"[Many] EMBA programs are closer to executive development programs than MBA programs,"p105

Tyler provides a summary of the differences identified, between traditional MBA programs and EMBA programs. Consistent with the EMBA Council's summary, they find that the students are older, but they also find that the quality of professors and the ability of the students to use actual work projects allow for a more practical, hands-on experience. They found that the EMBA programs are more expensive on average and, for some, the entry requirement is less stringent. This fact becomes more significant in light of research showing the high positive correlation between performance in finance and academic preparation of students as will be discussed in Section IV.

Filbeck and Webb (2000) find evidence that students in EMBA programs have some distinct preferences that differ from undergraduate business and traditional MBA students, relating to their learning styles with implications for successful teaching strategies. Using the Myers-Briggs Type Indicator (MBTI), they attempt to measure the strength of EMBA students' preferences on four dimensions that indicate 1) where individuals prefer to focus their attention,

2) how they acquire information about their surroundings, 3) how they make decisions, and 4) their orientation to the environment. The MBTI is reported to be “the most widely used personality inventory in history.” According to the Center for Applications of Psychological Type, approximately 2,000,000 people a year take the MBTI. Filbeck and Webb’s sample consisted of 114 adults involved with three cohort groups in an EMBA program.

Table I, shows the sample breakdown by dimensions measured by the MBTI. An overwhelming 84.2% of the sample has a preference for the thinking dimension over the feeling dimension. There is also a strong preference for the judging dimension (69.3%) over the perceiving dimension in the outer world dimension. The sample is more evenly distributed by preferences for focusing attention (Extroversion vs. Introversion) and by preferences for acquiring information (Sensing vs. Intuition).

Filbeck and Webb (2000) also conducted a learning style survey consisting of 32 questions using the same sample as the MBTI. They found that two of the top four significant responses are sufficiently important to most EMBA students in the sample and that they were not correlated with any particular MBTI dimension: 1) the desire for very organized presentations and lectures and 2) the desire for instructors to have real world experience. Only these two mean responses, plus 3) the desire for a highly interactive environment and 4) the desire to be provided a schedule of topics well in advance, had mean responses of 1.53 or less. (Survey responses varied from 1 (strongly agree) to 5 (strongly disagree).)

Other unique characteristics of EMBA students documented in the literature include: Sihler (1993) who found that the students are comparatively more demanding and critical, and that they value experiential education more than other students; and Cason (1993) who claim that the higher average age makes the students more likely to challenge and question instructors and to prefer a comparatively more results oriented program. These unique characteristics and learning styles have implications for the “what” and the “when” of financial acumen delivery as discussed in Section IV.

IV. What and when must we deliver?

According to Chan and Shum (2003), the discipline of finance has been perceived as structured and highly precision oriented. This has negative implications relating to creativity and interest in the subject matter. To mitigate these effects they suggest focusing on topics that are more innovative and dynamic, and use innovative methods in teaching that are more appealing to those creative students.

Just as the number one ranked MBA program, Chicago, the process of developing the finance acumen of EMBA students must incorporate the unique profile of the students, yet meet the needs of the other constituents (such as the sponsoring employer, requirements of local industry; and academic accreditation and standards boards) as well prepare graduates who will be able to apply the skills today and in the future.

In addition to the above, the curriculum should address: (1) time-compressed learning; (2) the need for pre-requisites for core finance; and (3) the need to integrate theory and practice.

Tyler (2004) reports that EMBA programs typically last 15 to 24 months with the students commonly meeting all day twice per month. Chan and Li (2003) compared student performance in an MBA investment course under a regular semester and a time-compressed semester. One criticism of time compressed learning is that it does not allow for reflective time. They found that the time-compressed learning process has a negative impact on student performance in an advanced finance course. All results were robust to both parametric and non-parametric statistical methods. They also point to previous research results with similar findings regarding performance in finance, related to grade point average, credit hours completed at the graduate level, and accounting preparation. Additionally, Marcal and Roberts (2001), in their study, found that students who completed pre-requisites in statistics, and those who got higher statistics grades performed better in finance.

These findings indicate that finance learning may require a different process to reflect on material than that of advanced accounting, which has a sequential learning advantage over finance. This has important implications for curriculum development: (1) The integrated EMBA should be designed so as to pace the delivery of finance modules to allow for reflective time; and (2) pre-requisites such as accounting, statistics and other foundation business acumen topics should be completed before offering advanced finance topics.

Bliss et al (2000) looked at the role of finance in an integrated curriculum and recommend a process rather than a content orientation. Their model seeks to employ the analytical paradigm sequence, of: description, analysis, and synthesis. Their recommendation is: start with rigor in critical thinking and analysis, then, follow with the development of a multi-disciplinary view of business problems and situations. They advocate that students learn by applying, therefore the study should include current economic events, business news, cases using real organizations, interactions with operating business as well as their managers, and reflection on self and team dynamics.

Complementary to their recommendations are the findings of Laux and Simkins (2002). Their premise is that it is critical that we remove some of the naïveté about finance at the first opportunity. As a result, students will have a better understanding of the “what, why, and how” of finance as it is covered throughout the course. This is achieved by, setting the stage and communicating a framework, at the very first finance session. This may also apply to the program as a whole.

The framework for building Financial Acumen

The suggested framework for the optimal sequential coverage of finance in an integrated curriculum is summarized in Table II. It is designed to be flexible enough to be applicable to a variety of EMBA delivery formats including a traditional curriculum model, and incorporates the winning model of Chicago’s EMBA program (Chicago, 2006). Four phases are identified:

Phase one entails coverage of foundation materials including the pre-requisites needed for core finance topics. Consistent with Laux and Simlins (2002), the first exposure to finance is to be an overview that defines the scale and scope of the discipline and presents a framework of how finance relates to value creation, and the decisions that are involved. The most successful

learning environment appears to be one that limits digressions and uses friendly competition as a motivator. (Filbeck and Webb, 2000)

Phase two entails a presentation of core finance topics from an investments perspective. Financial theory and empirical techniques are now introduced, covering topics such as portfolio allocation, capital market models, and performance valuation. Other business core topics can be introduced simultaneously such as marketing management and decision-making models. Given the difficulty of the subject matter and the learning styles of the students, delivery is to be enhanced by relating exercises to real life situations. Their learning styles suggest that they prefer very organized presentations and lectures and also an interactive environment, an apparent conflict that is resolved by using an eclectic approach: presentation of the lecture followed by case study or team discussion of applications, the reverse of the process recommended for accounting, marketing and management topics (Filbeck and Webb, 2000).

Phase three entails presentation of corporate finance topics such as capital budgeting, and relating the impact of financial structures on the value of underlying real assets. The delivery method is expected to mirror phase two but the topics are to be delivered from a more integrated perspective where linkages are made with material across the entire course, and at all times allowing time for reflection between modules (Chan and Li, 2003).

Phase four entails presenting finance as part of an integrated part of managerial decision making. The 84.2% of individuals with a thinking preference prefer critical feedback on how to improve rather than praise for what they have done correctly. An instructor can create a classroom that primarily appeals to thinkers, while still reaching out to the small feeling sub-sample. This is accomplished by providing students with the opportunity for some substantial interaction in each class period (which is a pedagogy that is preferred by the sample as a whole) that focuses on determining the impacts of particular policies on the various organizations of participants, or that involve participants relating their own personal experiences (Filbeck and Webb, 2000).

V. Conclusion

There is overwhelming evidence that financial acumen is highly desired by industry and by students who seek an EMBA. The unique profile of EMBA students and the increasingly global, technological and competitive business environment requires the use of a forward thinking curriculum. One strategy is to use the technology and competitive environment that has generated significant data on successful business models, student learning styles, and accessibility to real time solutions, to enhance the curriculum of EMBA programs. The goal is to produce graduates that are better able to meet and address challenges of the future. A framework is presented for delivering the finance content in such an environment, one that meets the need for financial acumen.

VII. Tables

Table 1. Sample MBTI Breakdown by Dimensions

Preference For:	Breakdown by Myers-Briggs Type Indicator	
Focusing Attention	Extroversion (E) n = 64 (56.1%)	Introversion (I) n = 50 (43.9%)
Acquiring Information	Sensing (S) n = 63 (55.3%)	Intuition (N) n = 51 (44.7%)
Making Decisions	Thinking (T) n = 96 (84.2%)	Feeling (F) n = 18 (15.8%)
Orientation to the Outer World	Judging (J) n = 79 (69.3%)	Perceiving (P) n = 35 (30.7%)

Source: Filbeck and Webb, "Executive MBA Education: Using Learning Styles for Successful Teaching Strategies," *Financial Practice and Education*, Spring-Summer 2000

Table II. Framework for Building Financial Acumen within an Executive MBA Program

Phase 1	Phase 2	Phase 3	Phase 4
Prerequisites to Core Finance	*Core Finance/ Investments	*Corporate Finance	*Integration
Financial Accounting Microeconomics Principles of Management Macroeconomics Statistics Operations Management Managerial Accounting *Overview of Finance	Financial theory and empirical techniques currently used in the quantitative analysis of financial asset prices and their applications to investment decisions in global markets. -Portfolio allocation, -Capital market models - Performance valuation - Other Business Core e.g. Marketing Decision models	Capital Budgeting Financial structures and their impact on the value of the underlying real assets	Integration of finance in managerial decision-making.

* Finance related activities

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