### SESSION PLAN

**COURSE:** ABE Level 6 Corporate Finance

**ELEMENT:** Element 1 – The importance of capital structure

## **LEARNING OUTCOME 1**

**1 Critically analyse the factors that influence capital structure decisions and strategy (Weighting 20%)**

1.1 Appraise the alternative role and purpose of corporate finance in order to decide how best to formulate a capital structure for the business

1.2 Critically analyse the roles played by different stakeholders, different types of risk and alternative approaches to business strategy when selecting a capital structure that reflects the strategic objectives and strategic environment of the business

1.3 Critically evaluate the alternative frameworks for the development of a capital structure to ensure that it is based on a sound conceptual and contemporary underpinning

**NUMBER OF SESSIONS:** Three - approximately twelve hours in total (plus self-study)

**SESSION TOPICS:** Session 1: Appraise the role and purpose of corporate finance in order to decide how best to formulate a capital structure for the business

Session 2: Critically analyse the roles played by different stakeholders, different types of risk and alternative approaches to business strategy in order to select a capital structure that reflects the strategic objectives and strategic environment of the business

Session 3: Critically evaluate the alternative frameworks for the development of a capital structure to ensure that it is based on a sound conceptual underpinning

**Note to tutors: this is the recommended session plan for learning outcome 1, element 1 of ABE Level 6 Corporate Finance. You should follow the plan, using the resources (referenced as ‘slides’ here) and activities provided. It is important to enhance all sessions with local examples and case studies, involving the learners ACTIVELY wherever possible.**

### SESSION 1: Appraise the role and purpose of corporate finance in order to decide how best to formulate a capital structure for the business

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| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative Assessment** |
| 3-4 hours | The role and purpose of corporate finance in order to decide how best to formulate a capital structure for the business | Use **filename: 6UCF Presentation E1**  Explain the unit, and what is going to be covered.  Assessment criterion 1.1. | 1-4 | In small groups, learners should identify what they want to learn from the unit. Set out some personal learning objectives.  Ask all students to describe an organisation with which they are familiar. Give them all 5 minutes to do this, and explain that you will be using these organisations as examples throughout the module. | **6UCF E1 LO1 Activity 1** – Assess the objectives of financial management |
| Problems in the measurement of shareholder wealth | Explain the concept of shareholder wealth maximisation.  Explain the concept of a business as an investment agency.  Discuss the paramount importance of shareholders in a capitalist system. Explain the concept of wealth maximisation: in financial management, the primary objective of the business is to maximise the wealth of its shareholders.  Look at the study guide for the activity about the strategic environment in which businesses operate. Identify the factors in the strategic environment that might have an effect on the corporate finance decisions that are made by these businesses. Make it clear that the concept of wealth maximisation can be problematic.    Choose one of the organisations that the students have just described. Introduce the key factors of decision making in financial management: risk and return, legal form and corporate governance. Discuss the need to balance financial management with these factors. | 5-8 | Learners try to identify and explain recent investment and financing decisions made by businesses with which they are familiar.  Ask learners to consider the Diageo plc case and the factors in the strategic environment that might have an effect on the corporate finance decisions that are made by businesses.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group. | **6UCF E1 LO1 Activity 2** – Agency theory and wealth maximisation |
|  | Review of session and learning outcomes | Ask students to read the second section of the study guide prior to the next session. |  | Pre-session preparation. |  |

### SESSION 2: Critically analyse the roles played by different stakeholders, different types of risk and alternative approaches to business strategy in order to select a capital structure that reflects the strategic objectives and strategic environment of the business

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| **Approx.**  **Duration** | **Topic** | | **Tutor Activity** | | **Slides** | | **Learner Activity** | | **Formative assessment** | |
| 3-4 hours | Introduction to session and learning outcomes | | Use file: **6UCF Presentation E1**  Assessment criterion 1.2 | | 9 | |  | |  | |
|  | Porter’s Five Forces Model | | Explain the importance of stakeholders and the stakeholder theory of financial management. Discuss the stakeholder identification activity that your learners completed in session 1. Explain that there are a number of techniques that can be used to underpin the identification and analysis of stakeholders.  Introduced Porter’s Five Forces Model. Outline the five factors that are considered to determine the level of competition in an industry.  Choose one of the organisations that students described in the first session and apply the model to that organisation and its stakeholders.  You may want to conclude with a discussion of the use of this model in stakeholder identification and analysis. It could be useful, but perhaps other models might be more relevant and appropriate? | | 10-11 | | You have now applied the model to an organisation so tell students that they are now going to attempt the same.  As a group choose an organisation to study. This could be an organisation that is well known in your country, it could be the organisation where one of the group works or it could be the college where you are studying.  Identify and analyse the stakeholders of the organisation using Porter’s Five Forces Model.  Allow students 30 minutes to do the analysis, and then 20 minutes to present back in groups. | | **6UCF E1 LO1 Activity 3 –** Stakeholder theory of financial management  **6UCF E1 LO1 Activity 4 –** Stakeholder theory and Porter Five Forces Model | |
|  | Mendelow Power-Interest matrix | | Explain Mendelow’s Power-Interest grid. Use this film to assist you: <https://www.youtube.com/watch?v=5n1vf4pcmfw>    Using the results of the previous activity, apply Mendelow’s Power-Interest grid to the organisation and its stakeholders. | | 11 | | As a group apply Mendelow’s Power-Interest grid to the same organisation to which you applied Porter’s Five Forces Model.  Do the models tell you different things? Which of the two models appear to be most useful in stakeholder identification and analysis?  Allow students 40 minutes to apply the model, and then to answer the question. | | **6UCF E1 LO1 Activity 5** – Stakeholder theory and Mendelow’s Power-interest matrix | |
|  | The stakeholder theory of financial management | | Define the concept of stakeholders.  Explain the stakeholder theory of financial management and how shareholder wealth will be maximised if managers seek to create as much value as possible for all stakeholders.  Use this YouTube film to explain this in more detail:  <https://www.youtube.com/watch?v=4lEjv0vE6VY> | | 11 | | Ask learners to identify key stakeholder groups for the organisations that they identified earlier in the session.  Discuss how stakeholders can be important contributors to the success of the business. | | **6UCF E1 LO1 Activity 6 –** The agency problem | |
|  | The international context and capital structure | | Explore how arrangements for capital structure differ around the world. | | 12 | | Ask learners to explore the arrangements for capital structure that apply to the organisations that they identified earlier in the session.  Discuss how stakeholders can be important contributors to the success of the business.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group. | |  | |
|  | | Review of session and learning outcomes | | Ask students to read the third section of the study guide prior to the next session. | |  | | Pre-session preparation. | |  | |

### SESSION 3: Critically evaluate the alternative frameworks for the development of a capital structure to ensure that it is based on a sound conceptual underpinning

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| **Approx.**  **Duration** | **Topic** | **Tutor Activity** | **Slides** | **Learner Activity** | **Formative Assessment** |
| 3-4 hours | Introduction to session and learning outcomes | Use file: **6UCF Presentation E1.**  Assessment criterion 1.3 | 13 |  |  |
| Alternative frameworks for the development of a capital structure | Outline how sources of finance can be grouped into two broad categories. Explain that capital structure can be affected by a number of different factors. | 14-15 | Emphasise the importance capital structure and the characteristics of perfect markets |  |
| Pecking order theory | Introduce pecking order theory and the matching principle of finance. Introduce the concept of perfect markets.  Use this film to explain the perfect markets in more detail:  <http://www.investopedia.com/terms/p/perfectcompetition.aspg> | 16-18 | Learners try to identify and critically discuss the assumptions that underpin perfect markets.  Ask learners to consider some of the markets in which the organisations that they selected earlier in the lesson operate. Ask learners to critically discuss the extent to which these conditions apply in these markets.  Allow them 30 minutes to discuss this in small groups, and then 30 minutes to present back to each other in one large group. | **6UCF E1 LO1 Activity 7 –** Perfect Markets |
| Contemporary issues in the formulation of capital structure | Outline the importance of capital structure, in particular that following the financial crisis of 2008 the use of debt relative to equity financing has been questioned in some businesses. The risks associated with debt financing in times of economic stress have meant that some businesses have had to change their capital structure. | 19 | Ask learners to read the paper by Milana (2010). The paper can be accessed journal using the following link:  <http://documents.tips/documents/rebalancing-the-optimal-financial-structure-the-entrepreneurs-point-of-view.html>  Ask learners to Identify and explain the key factors that might need to be considered in the achievement of an appropriate balance of debt and equity finance in a business. Outline the additional factors that might influence this choice for an entrepreneur. |  |
| Review of session and learning outcomes | Ask students to prepare for the next session by reading the first section of the next chapter in the study guide. |  | Pre-session preparation. |  |

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