Corporate Governance

Business students' perceptions of corporate governance best practices

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Abstract

Purpose – *This paper aims to develop a better understanding of business students' perceptions of the relative importance of corporate governance best practices within the context of major area of study and compare student rankings of corporate governance best practices to those of working professionals.*

Design/methodology/approach – *Using a previously published survey, data were collected from business students at two Midwestern US universities and analyzed using factor analysis.*

Findings – *This research demonstrated that students rank strategic human resource management as the most important corporate governance practice, matching the perceptions of professionals. Accounting majors report significantly greater understanding of corporate governance, the importance of corporate governance to business and the role of understanding corporate governance in their careers as compared to management majors.*

Research limitations/implications – *This study is limited by the inclusion of business students at only two US universities. Further studies should be conducted to better understand the similarities and differences between students and professionals and accounting and management majors in their perceptions of corporate governance best practices.*

Practical implications – *Managers can use these findings to enhance the training recent college graduates receive on corporate governance topics. Business schools can use these findings to evaluate ways to embed corporate governance throughout the curriculum.*

Originality/Value – *This research highlights gaps in current business school curriculum coverage of corporate governance best practices. It compares and contrasts students' and professionals' perceptions of best practices and offers suggestions for managers and educators.*

Keywords *Business education, Corporate governance*

Paper type *Research paper*

Introduction

Corporate governance (CG) is described as the portfolio of processes that guide and control an organization in a manner that permits the enterprise to satisfy its responsibilities as a citizen. These processes are cross-functional in nature, intersecting with all facets of business operations, including accounting, economics, finance, management and strategy (Bisoux, 2004). The need for, or more accurately the purpose of, CG has been a controversial subject since the inception of contemporary corporations. The general topic of CG has continued to garner increasing scrutiny in recent decades. A number of factors have speared this additional examination, including increased privatization of organizations, pension fund reform, the considerable number of corporate takeovers and mergers in the 1980s, a changing composition of world-wide capital markets, corporate malfeasance in the early 2000s and the global economic downturn in 2008 (Adams *et al.*, 2008; Khongmalai *et al.*, 2010; and Shleifer and Vishny, 1997).

A quick review of business media sources yields a list of fundamental concepts that provide a common foundation surrounding the term "corporate governance". This list includes developing a long-term perspective on decision-making, creating shareholder

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value and positive financial results, aligning managerial actions with stakeholder interests, complying with applicable laws and regulations and electing an engaged, active board of directors or equivalent body. It is difficult to argue against any of these goals and therefore equally difficult to contend that CG is not an integral part of capitalism.

Several authors have claimed that business schools' failure to teach fundamental CG concepts is a primary factor in the recent financial scandals (Curtis, 2008; Gempesaw, 2009). A reasonable extension is to assert that such a continued omission will likely result in future scandals of this type (Jacobs, 2009). The current state of education surrounding the topic of CG, as reported by the Association to Advance Collegiate Schools of Business (AACSB) International, reveals that some elements of governance are mentioned in a number of business school curricula; however, few business schools have specifically designed curricula that overtly discuss each element (AACSB International, 2004). "Knowing the principles and practices of sound, responsible CG can [. . .] be an important deterrent to unethical behavior. Moreover, understanding the complex interdependencies between CG and other institutions, such as stock exchanges and regulatory bodies, can be an important factor in managing risk and reputation" (AACSB International, 2004).

This paper examines the current state of business students' understanding of CG best practices. Specifically, we seek to evaluate the extent to which students' perceptions of CG best practices match those of business people and whether students perceive understanding CG as important to their future careers. To achieve these goals, we first offer an expanded description for the term CG and a review of its legislative history in the USA. Second, a review of corporate governance education (CGE) and prior research in this regard is offered. Third, a summary of the project research methodology is presented. Fourth, the results of a survey of business school majors regarding CG are described. Finally, a discussion of this research effort and implications for educators and managers are provided.

Corporate governance description and brief US legislative history

CG refers to the "process affected by a set of legislative, regulatory, legal, market mechanisms, listing standards, best practices, and efforts of all corporate governance participants, including the company's directors, officers, auditors, legal counsel, and financial advisers, which creates a sustainable shareholder value, while protecting the interests of other stakeholders" (Rezaee, 2009, p. 30). Appropriate CG supports accountability, enhances the reliability of financial information and reinforces the effectiveness of the capital market, thereby improving investor confidence (Gompers and Metrick, 2003).

The factors that determine and define CG vary by country and organizational structure, making a broadly accepted, comprehensive definition nearly impossible and the issue more complex (Doidge *et al.*, 2007). As a result, a single, far-reaching definition of CG does not currently exist. While the UK Corporate Governance Code and the South Africa King Report III offer guidance in a "comply or explain" approach, the USA generally mandates certain aspects of CG through legislation. Indeed, CG within the USA has been implemented not as a planned, systematic inquiry, but rather as a response to observed problems in corporations (Murphy and Topyan, 2005).

Congress responded to the stock market crash of 1929 by implementing Securities Acts of 1933 and 1934. The primary purpose of the Securities Act of 1933 was twofold. First, the Act requires that investors receive relevant information concerning securities offered for sale to the public. Second, it prohibits fraud in the sale of securities. The Securities Act of 1934 created the Securities and Exchange Commission, the regulatory mechanism underlying corporate financial requirements for listed companies, which has broad authority over all aspects of the securities industry.

Congress passed the Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes–Oxley Act) in reaction to several accounting scandals within publicly traded companies, most notably Enron. The Act's name was intended to be a reflection of how the law was going to fix the perceived problem within the auditing and accounting profession and restore public confidence in the markets (Coates, 2007). It passed swiftly and nearly unanimously as word of accounting scandal after accounting scandal spread through the media, causing investor confidence to tumble (Romano, 2005).

AACSB International, the preeminent accrediting agency of business schools, responded to the crisis in corporate management by forming an International Ethics Task Force in late 2002. The Task Force stated that "with prudent corporate governance, any business entity seems less vulnerable to corruption. Bringing governance into the classroom helps to prepare students for the realities of the business world and arms them with powerful insights for operating within business environments" (AACSB International, 2004, p. 14).

The financial crisis that started in 2007 led Congress to again react. It passed the Dodd–Frank Wall Street Reform and Consumer Protection Act of 2010. Congress passed this legislation as a means to "promote the financial stability of the [USA] by improving accountability and transparency in the financial system, to end 'too big to fail,' to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial services practices, and for other purposes" (Public Law 111 – 203). The law made changes in the American financial regulatory environment, impacting nearly every aspect of the nation's financial services industry.

Corporate governance education

CGE is intended to prepare future business leaders to "act with integrity, competency, and professional accountability" (Rezaee *et al.*, 2011, p. 63). Many believe that business schools should incorporate CGE into their curriculum (AACSB International, 2004; Bissonnette, 2008; Curtis, 2008; Gempesaw, 2009). The Treasury Department recommends business schools and accounting programs teach both ethics and CG topics (Department of the Treasury, 2007). While these authorities indicate business schools should allocate resources to CGE, academic research directed at such efforts is scarce. "Business schools interested in knowing how to reach, what to teach and whether to teach corporate governance are hard pressed in finding answers in existing research" (Rezaee *et al.*, 2012).

AACSB International (2005) surveyed nearly 500 accredited business schools around the world. The results indicate that 8 per cent of undergraduate programs required a CG course at the time of the survey. Additionally, 8 per cent of undergraduate programs offered an elective course in CG.

Rezaee *et al.* (2011) examined syllabi collected from business and law schools throughout the world. The results of this study revealed that CG was incorporated into business and law schools in three ways: a major in CG, integration of CG topics into one or more courses and offering a standalone CG course. When offered, CG courses and majors were usually conducted at the graduate level.

Rezaee *et al.* (2012) evaluated the content of accounting syllabi and surveyed both accounting professors and accounting practitioners working in the USA regarding the demand, significance, advantages, exposure and delivery of CG education. The findings indicate that the demand for and interest in CGE is expected to increase in the coming years. Additionally, both accounting professors and accounting practitioners viewed CGE as valuable to business and accounting students, the business community and the accounting profession.

While the media (Jacobs, 2009), academia (AACSB International, 2004) and government (Department of the Treasury, 2007) call for increased coverage of CG in business school education and several authors report that CG coverage in business and law school curricula is uneven, an investigation of what undergraduate business majors understand about CG has not been undertaken. This study attempts to address this gap.

Corporate governance best practices

There is an extensive body of literature on CG best practices. Shleifer and Vishny (1997) provide an oft-cited overview of CG best practices. As Shleifer and Vishny (1997, p. 773) note, “Corporate governance deals with the agency problem: the separation of management and finance. The fundamental question of corporate governance is how to assure financiers that they get a return on their financial investment”. Over time, scholars have settled on a set of factors that play a key role in addressing the question posed by Shleifer and Vishny (1997). Those factors are a firm’s board of directors, financial auditing, risk management and internal control mechanisms.

The board of directors is the governing body of an incorporated firm. The board acts as an agent for shareholders with responsibility for ensuring that the management pursues strategies to maximize shareholder value. Adams *et al.* (2008) provide a detailed description of the roles and responsibilities of boards of directors, along with an extensive literature review. Denis and McConnell (2003), Shivdasani and Zenner (2004) and Carver (2007) – among others – describe best practices related to boards of directors.

Internal audit is frequent or ongoing audit conducted by a firm’s own (as opposed to independent) accountants to monitor operating results, verify financial records, evaluate internal controls, assist with increasing efficiency and effectiveness of operations and detect fraud. Tysiac (2012) discusses auditing best practices in the post-Sarbanes–Oxley era.

Risk management refers to the set of policies, procedures and practices involved in identification; analysis; assessment: control; and avoidance, minimization or elimination of unacceptable risks. Internal control includes systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an organization to conduct its business in an orderly and efficient manner; safeguard its assets and resources; deter and detect errors, fraud and theft; ensure accuracy and completeness of its accounting data; produce reliable and timely financial and management information; and ensure adherence to its policies and plans. Denis and McConnell (2003) and Daily *et al.* (2003) examine risk management and control in a CG context.

While these four categories are perhaps the most frequently studied aspects of CG, more recently, strategic human resource management and information technology are included as key elements of effective CG. The importance of strategic human resource management has grown with the shift from the traditional shareholder view of CG to a broader focus on stakeholders, including employees. Martin and Gollan (2012) offer a framework for integrating strategic human resource management with CG. Information technology is also a relative newcomer to the CG literature. As information technology underlies an organization’s systems for auditing and control, executive decision support, human resource management and risk management, it is increasingly viewed as a facilitator of CG and is thus included in CG best practices. Rubino and Vitolla (2014) and Raghupathi (2007) discuss the role of information technology in CG and describe relevant considerations and best practices. While a single universal definition of CG remains elusive, there appears to be a general consensus on best practices. This consensus permits an insightful framework for survey questions while providing a solid foundation for empirical assessment of the responses obtained.

Methodology

The current study is modeled on the work of Khongmalai *et al.* (2010), who developed and empirically evaluated a multi-attribute questionnaire surrounding the topic of CG. The survey was completed by practicing business professionals in Thai state-owned enterprises. While state-owned enterprises were traditionally focused more on providing services than achieving financial results, Khongmalai *et al.* (2010) note that at the time of their study, Thai state-owned enterprises were engaged in a program to enhance efficiency and effectiveness, as well as "formulate strategies and monitor the performance of the state-owned enterprises, and to integrate the corporate governance principles into key management processes to ensure the realization of strategic outcomes". As Khongmalai *et al.* (2010) developed their questionnaire from an extensive review of CG literature and the objectives for subject organizations emphasized efficiency and effectiveness in pursuit of organizational performance, their study represents a carefully researched description of CG best practices. The questionnaire was specifically designed to assess subjects' current understanding of these best practices within the context of six categories: board of directors, risk management, internal control, internal audit, strategic human resource management and information technology.

Research questions

This study has multiple aims. Specifically, these research questions were investigated:

RQ1. Does business students' understanding of the relative importance of CG practices reflect that of the business persons surveyed by Khongmalai *et al.*, (2010)?

Recognizing that there is an experience gap between students and business people, we are interested in whether the two groups share a similar understanding of the relative importance of CG best practices. Put another way, are business students being adequately prepared for the realities of business? Are they able to distinguish which CG best practices are important for good organizational decision-making?

RQ2. Is there a relationship between business students' understanding of the relative importance of CG practices and academic grade level?

As students progress through the business school curriculum, we anticipate that third- and fourth-year students will have a greater understanding of the importance of CG best practices than first- and second-year students, due to the increased exposure to CG topics in upper-level courses. Many lower-level business courses tend to be survey courses that provide a broad overview of a topic, whereas upper-level courses are more likely to delve into the specific and detailed topics that comprise CG (e.g. internal audit, internal control, role and composition of boards of directors, strategic human resource management). Additionally, as students progress through the business school curriculum, we expect that cumulative exposure to CG topics will foster greater understanding and appreciation in more senior students:

RQ3. Given the different levels of emphasis on corporate-governance-related content in accounting and management courses, is there a difference between accounting majors' and management majors' understanding of the relative importance of CG practices?

We anticipate that accounting majors will have a better understanding of the importance of CG practices due to the greater coverage of and emphasis on CG-related topics in accounting courses. This is important because managers are frequently the front-line in CG-related dilemmas. While many of the CG failings of this century are directly related to the accounting function, managers are responsible for guiding and controlling organizations as they conduct business. It is therefore necessary that management majors develop an understanding of CG best practices that is at least comparable to that of accounting majors, so that they are prepared for future organizational leadership roles.

Questionnaire selection

This study used the questionnaire developed by Khongmalai *et al.*, (2010) to ask respondents to rate their level of agreement with statements about CG best practices. Khongmalai *et al.*'s (2010) questionnaire was chosen for its recent publication and extensive validity and reliability testing. The questionnaire, which is included in the Appendix, reflects current understanding of the best practices in CG in six categories: board of directors, risk management, internal control, internal audit, strategic human resource management and information technology. Khongmalai *et al.*'s (2010) study has been frequently cited by other authors since its publication (Campeanu-Sonea and Bordean, 2012; Gavrea *et al.*, 2013; Thomas, 2012; Yaacob and Basiuni, 2013). The scope of citations reflects acceptance of the methods used by Khongmalai *et al.* (2010) and agreement on key elements and best practices for CG.

Data collection

Business students' grasp of key CG concepts, and by extension, their potential for sound managerial decision-making, has been questioned by a variety of business school stakeholders. Therefore, this study surveyed students in two AACSB-accredited business programs in the Midwestern USA to measure their level of understanding of key CG practices. The decision to use students as respondents was deliberate and purposeful, as the goal of this study is to assess the level of CG understanding among business majors. Today's business students are future business decision-makers and leaders, so their understanding of CG best practices is important to society.

Data were collected in 2012. The two universities included in the study had total enrollments of 10,227 and 7,199, with the business school enrollments totaling 1,624 (1,576 undergraduates and 48 graduate students) and 1,347 (1,307 undergraduates and 40 graduate students), respectively. The universities employed 497 and 330 faculty, respectively. Both universities offer an AACSB-accredited Bachelor of Science in Business Administration degree, in which students select a discipline-specific major area of study (accounting, economics, management, etc.). The business school curriculum at both schools includes required courses in accounting, finance, business law, business ethics and administrative strategy and policy. Neither business school offers a stand-alone CG course. Within the required and discipline-specific courses, various CG topics are addressed, including the six best practices studied here; however, the specific content and depth of coverage are determined by each instructor.

The authors used a snowball sampling method whereby the faculty teaching core business courses (those courses required for every business student) were emailed a description of the study and a link to the survey and asked to distribute it to their students. No incentives were offered for participation. One follow-up email was sent to the faculty approximately two weeks after the initial email. This sampling method makes it impossible to know how many students received the link to the survey; however, 233 usable responses were received. A single survey link was used for the study, so all responses were pooled into one data set with no university-specific identifiers.

Demographic data were collected from students on their year in school and primary field of study (major or emphasis area). Table I shows the demographic composition of respondents. The largest percentage of respondents were juniors (43.8 per cent), with approximately equal percentages of students with accounting (27.9 per cent) and management (27.5 per cent) as their primary fields of study.

Data analysis

Data were analyzed using factor analysis. Because this study replicated the methods of Khongmalai *et al.* (2010), principal component analysis with varimax rotation was used to reduce dimensionality and extract factors for CG practices. Khongmalai *et al.* (2010) conducted an exploratory factor analysis and settled on six factors. As ours is a confirmatory factor analysis, we specified that the survey items be grouped into six factors, following the results of Khongmalai *et al.* (2010).

Table I Profiles of participants

Major/Year in school	*Freshman*	*Sophomore*	*Junior*	*Senior*	*Total*
Accounting	4	15	33	13	65
% within Major	6.2	23.1	50.8	20.0	100.0
% within Year	44.4	27.8	32.4	19.1	
Agribusiness	1	2	2	3	8
% within Major	12.5	25.0	25.0	37.5	100.0
% within Year	11.1	3.7	2.0	4.4	
Economics	1	3	3	0	7
% within Major	14.3	42.9	42.9	0.0	100.0
% within Year	11.1	5.6	2.9	0.0	
Finance	0	11	14	4	29
% within Major	0.0	37.9	48.3	13.8	100.0
% within Year	0.0	20.4	13.7	5.9	
Management	1	11	29	23	64
% within Major	1.6	17.2	45.3	35.9	100.0
% within Year	11.1	20.4	28.4	33.8	
Management Information Systems	0	0	3	1	4
% within Major	0.0	0.0	75.0	25.0	100.0
% within Year	0.0	0.0	2.9	1.5	
Marketing	1	6	10	8	25
% within Major	4.0	24.0	40.0	32.0	100.0
% within Year	11.1	11.1	9.8	11.8	
Other	1	6	8	16	31
% within Major	3.2	19.4	25.8	51.6	100.0
% within Year	11.1	11.1	7.8	23.5	
Total	9	54	102	68	
	100.0	100.0	100.0	100.0	

Cronbach's alpha was used to evaluate the reliability and internal consistency of each scale. All factor scales had alpha values above 0.75, which provided sufficient evidence of scale reliability.

Factor analysis

An examination of the Kaiser–Meyer–Olkin (KMO) measure of sampling adequacy suggested that the sample was factorable (KMO = 0.902). The Bartlett's test of sphericity was significant ($p < 0.001$, significant value < 0.000), providing evidence that the population matrix was not an identity matrix. Based on these values, the data were deemed suitable for factor analysis (Hair *et al.*, 1998).

The factor analysis was conducted as a principal component analysis with varimax rotation and the number of factors to be extracted specified as six. The six factors collectively explained 58.34 per cent of the variance. Our analysis yielded these factors that mirror the groupings described by Khongmalai *et al.*, (2010): Factor 1 was named "Strategic Human Resource Management"; Factor 2 "Risk Management"; Factor 3 "Internal Control"; Factor 4 "Board of Directors"; Factor 5 "Information Technology"; and Factor 6 "Internal Audit". We used the same factor names as Khongmalai *et al.* (2010), in part due to our attempt to replicate their study and in part because the items with the highest loadings on the factors dictated the naming structure. We considered factor loadings equal to or greater than 0.35 to be significant based on the sample size and according to the cutoff values described by Hair *et al.* (1998). The items included in each factor, loadings, Cronbach's alpha values, eigenvalues and percentage of variance explained by each factor are shown in Table II.

Analysis of variance

To evaluate whether differences exist between business students' understanding of the relative importance of CG practices and their year in school (*RQ2*), we asked students to rate their level of agreement with three statements using a five-point Likert-type scale with response options anchored at Strongly Disagree and Strongly Agree. The first statement

Table II Rotated component loadings* for 49 survey items

Component	*Item*	*Strategic human resource management 1*	*Risk management 2*	*Internal control 3*	*Board of directors 4*	*Information technology 5*	*Internal audit 6*
Aligning HR strategy with corporate strategy	HR1	0.435	0.623	0.146	0.132		
Formulating HR strategy to improve employee productivity	HR2	0.603	0.385	0.294		0.105	0.125
Formulating HR strategy to improve employee satisfaction	HR3	0.628	0.374	0.211	0.260		
Aligning manpower plan with strategic business plan	HR4	0.311	0.617	0.248	0.265		
Aligning employees' KPIs with departments' and organizations' KPIs	HR5	0.448	0.465	0.218	0.378		
Implementing performance-based pay	HR6	0.446	0.209	−0.196		0.209	0.506
Having career development plans for all levels of employees	HR7	0.234	0.233	0.115	0.306	0.305	0.345
Using modern tools for HR management	HR8	0.527	0.402	0.173	0.276	0.107	0.142
Using tools to assess employee satisfaction	HR9	0.677		0.226	0.221	0.221	0.296
Having expertise in HR management practices	HR10	0.792	0.243	0.251			0.141
Collaborating in managing manpower	HR11	0.547	0.269		0.313		
Collaborating in designing training and development programs	HR12	0.578	0.415	0.257		0.262	0.119
Aligning risk management plan with corporate strategy	Risk1	0.211	0.498	0.217	0.197	0.106	0.209
Identifying key risk indicators at corporate level	Risk2	0.259	0.606	0.283	0.253		0.189
Cascading key risk indicators to relevant departments	Risk3	0.211	0.542	0.399	0.140		
Directing risk management policy	Risk4	0.464	0.282	0.241	0.376		0.201
Following up on risk management results	Risk5	0.283	0.447	0.428	0.200	0.142	0.176
Specifying key executive responsible for risk management	Risk6	0.167	0.605	0.133	0.178	0.225	0.161
Integrating the risk management system throughout the organization	Risk7	0.160	0.440	0.523	0.276	0.157	
Communicating a clear segregation of duties and authorization	Control1		0.509	0.545	0.200	0.221	0.178
Understanding internal control	Control2	0.174	0.189	0.496	0.205		
Developing internal control manuals for all departments	Control3	0.359	0.109	0.545	0.354		
Realizing control activities in all departments	Control4	0.179	0.267	0.699	0.227	0.160	
Emphasizing risk-based control	Control5	0.375	0.146	0.464	0.150	0.314	
Reviewing effectiveness of internal control	Control6	0.251	0.291	0.715		0.124	0.205
Participating in strategic planning	Board1	0.102	0.220	0.103	0.527	0.360	0.188
Ensuring an effective management system	Board2	0.375	0.159		0.432	0.321	−0.125
Having experience in relevant industries	Board3	0.164	0.153	0.308	0.660		
Having experience in financial or economics areas	Board4	0.124	0.102	0.226	0.676		0.160
Being independent in decision-making	Board5		0.169	0.180	−0.093	0.679	
Understanding operating environments	Board6	0.110	0.426	0.375	0.481		0.147
Understanding business processes	Board7	0.139	0.308	0.217	0.664		0.195
Exchanging critical information and comments	Board8	−0.145	0.354		0.438	0.405	
Following up on the progress of board resolutions	Board9	0.151	0.528	0.150	0.371	0.275	0.203
Aligning master plan of IT with corporate strategy	IT1	0.429	0.287	0.175	0.487	0.093	0.170
Allocating investment for IT based on strategic outcomes	IT2	0.334	0.522	0.140	0.189	0.165	0.166
Providing an executive information system	IT3	0.281	0.296		0.450	0.360	
Providing IT support to risk management	IT4	0.393	0.453	0.297		0.404	0.275

(*continued*)

Table II

Component	*Item*	*Strategic human resource management 1*	*Risk management 2*	*Internal control 3*	*Board of directors 4*	*Information technology 5*	*Internal audit 6*
Providing IT support to internal control and audit	IT5	0.407	0.229	0.581		0.210	0.196
Providing IT support to HR management	IT6	0.345	0.511	0.242	0.124	0.175	0.236
Collaborating in developing IT applications	IT7	0.640	0.240	0.143	0.362	0.171	0.185
Having collaboration capability of the team of IT	IT8	0.654	0.249	0.309		0.095	0.115
Providing an adequate number of training programs of IT	IT9	0.523		0.434		0.410	0.242
Providing recommendations to improve internal control	Audit1	0.210	0.256	0.521	0.251	0.249	0.169
Aligning the audit program with corporate strategy	Audit2	0.119	0.250		0.228		0.668
Emphasizing risk-based audit	Audit3	0.398		0.208	0.144	0.585	0.261
Having adequate numbers of qualified internal auditors	Audit4	0.128		0.340	0.169	0.164	0.657
Having various skill mixes of auditors	Audit5	0.264		0.288	0.305	0.520	0.143
Having consultation and recommendation capability	Audit6	0.206		0.487	0.149		0.546
Eigenvalues		6.938	6.116	5.404	4.620	2.866	2.643
Percentage of total variance		14.160	12.482	11.029	9.428	5.849	5.393
Number of items		12	7	6	9	9	6
Scale reliability (Cronbach's alpha)		0.886	0.833	0.836	0.799	0.883	0.771

Notes: Extraction method: principal component analysis; rotation method: varimax with Kaiser normalization; rotation converged in 12 iterations; *loadings ≥ 0.100

was "I believe I understand corporate governance concepts"; the second statement was "I believe corporate governance is important to businesses"; and the third statement was "I believe understanding corporate governance concepts will help me in my career". We observed no significant relationships between these three statements and students' year in school (freshman, sophomore, junior or senior).

To test whether accounting majors and management majors perceive the relative importance of CG practices differently (*RQ3*), we again used analysis of variance (ANOVA). We used the same three questions as for *RQ2* and found significant relationships between students' major (dummy-coded as either accounting or management or left blank [missing]) and each of the three questions. The ANOVA results are presented in Table III.

Results

Our analysis showed limited support for *RQ1* in that current business students' understanding of the relative importance of CG best practices shows some similarities to

Table III Relative importance of corporate governance by year in school and by major

Importance of CG principles	*Year in school*						*Major*			
	Freshman	*Sophomore*	*Junior*	*Senior*	F	η^2	*Accounting*	*Management*	F	η^2
I understand corporate governance concepts	3.56 (0.882)	3.11 (0.984)	3.09 (0.960)	3.12 (0.963)	0.834	0.013	3.33 (0.968)	3.03 (0.949)	6.305*	0.023
Corporate governance is important to business	4.00 (0.707)	3.98 (0.765)	4.00 (0.721)	4.09 (0.781	0.844	0.013	4.20 (0.732)	3.96 (0.729)	6.723**	0.025
Understanding corporate governance will help my career	3.67 (1.225)	4.04 (0.699)	4.04 (0.747)	3.99 (0.717)	0.831	0.013	4.20 (0.718)	3.92 (0.735)	4.768**	0.033

Notes: $n = 233$; $*p < 0.05$; $**p < 0.01$

the rankings found by Khongmalai *et al.* (2010). We found no statistically significant support for *RQ2* and thus conclude that for our sample, there is no meaningful relationship between students' year in school and their understanding of the relative importance of CG best practices. *RQ3* asked about differences between accounting majors' and management majors' understanding of the relative importance of CG best practices. Specifically, accounting majors reported statistically significant greater understanding of CG best practices, greater belief that understanding CG concepts will help their careers and greater belief that CG is important to business.

Discussion

Current business students' perceptions of the relative importance of CG practices (*RQ1*) reflect both interesting similarities and differences when compared to those found by Khongmalai *et al.*, (2010). Khongmalai *et al.*'s (2010) survey of Thai managers found that the most important CG practice is strategic human resource management, followed by (in order of importance) information technology, board of directors, risk management, internal audit and internal control. The current study also identified strategic human resource management as the most important CG practice; however, the remaining factors ranked differently. After strategic human resource management, students ranked risk management, internal control, board of directors, information technology and internal audit as important to effective CG.

The emphasis on strategic human resource management is in sharp contrast to many years of academic and practitioner focus on boards of directors as the central element in CG. Traditionally, an organization's board of directors was expected to set the tone for attention given to CG in a top-down, "directorial" manner. The recent findings that place strategic human resource management above boards of directors in effective CG practices may reflect a shift toward employee-focused CG initiatives. Employee satisfaction and productivity are strong components of strategic human resource management in both the current study and in Khongmalai *et al.*'s (2010) research. It intuitively makes sense that happy, productive employees are likely to uphold and abide by the organization's values and goals, as well as reduce employee-related expenses. Interestingly, in the related field of business ethics, human resource management is increasingly viewed as a critical component of a compliance-oriented, values-based corporate culture. As Treviño and Weaver (2003) note, more than half of the calls to corporate ethics hotlines relate to human resource-related issues, including hiring, promotion and performance appraisal. Further, the 2007 National Business Ethics Survey showed a strong relationship between employees' lack of trust in supervisors and top management and the incidence of workplace misconduct (Ethics Resource Center, 2007).

Additionally, training and development programs are an important part of strategic human resource management. In the USA, an increasing number of employees receive CG training due to legislative initiatives such as the Federal Sentencing Guidelines for Organizations and Sarbanes–Oxley Act. Beyond compliance considerations, the logic behind such training is that awareness of CG issues leads to better decision-making on behalf of the organization.

After strategic human resource management, the remaining factors ranked differently in this study compared to Khongmalai *et al.*'s (2010) study. For example, Khongmalai *et al.*'s (2010) respondents ranked information technology second and risk management fourth as compared to fifth and second, respectively, in this study. We suspect that these differences are at least partly due to the significant experience gap between Khongmalai *et al.*'s (2010) survey respondents and ours. Most of Khongmalai *et al.*'s (2010) respondents (58.4 per cent) reported having more than 20 years of work experience, and over 75 per cent reported having 16 or more years of experience. By contrast, respondents in the current study are undergraduate business students at the dawn of their professional careers. The more seasoned managers surveyed by Khongmalai *et al.*'s (2010) are better positioned to understand the critical role of information technology in facilitating all aspects of effective CG, including executive information systems and support for risk management, human resource management and internal audit and control. Further, business students' emphasis on risk management and internal control likely reflects the curricular emphases of US business schools, especially for students in their third (junior) year (43.8 per cent of respondents) when many students take required finance and accounting courses.

The lack of significant findings for *RQ2* is troubling. For our sample, students' beliefs about their understanding of CG, the importance of CG to business and the role of understanding CG in their careers do not change significantly over the course of their education. This suggests that business school curricula do not adequately develop CG topics from introduction through detailed discussion of the role of CG in organizational strategy and policy. While this is consistent with Rezaee *et al.*'s (2012) findings, it further emphasizes the need for more systematic coverage of CG concepts and practices in business education.

Significant relationships were identified between students' major (accounting or management) and their respective beliefs about their understanding of CG, the importance of CG to business and the role of understanding CG in their careers (*RQ3*). These findings validate the effects of curricular differences between accounting and management degree plans. CG practices, especially risk management, internal audit and internal control, are more deeply integrated into accounting curricula at US business schools due to coverage of the Sarbanes–Oxley and Dodd–Frank Acts and other recent updates to US generally accepted accounting principles. Management curricula, by contrast, cover strategy, human resource management and roles of boards of directors (among other topics) from perspectives including organizational behavior and resource allocation more than CG. This is potentially problematic when management majors ascend to leadership roles in organizations and, without sufficient appreciation and understanding of CG best practices, direct financial and accounting staff to take inappropriate actions. This has happened in more than one firm in recent memory (Enron, Tyco, WorldCom, etc.).

Implications for educators

Lest history repeat itself, business schools are encouraged to more deeply and systematically integrate CGE into core curricula. A few potential areas of exploration with respect to business curriculum changes are suggested by the survey results. Specifically, the findings suggest a need to strengthen the coverage of the role of information technology in CG. In general, business faculty members have several options available to increase CG coverage, with the only real criterion being that the course(s) selected should be required for all undergraduate majors in the various areas of business. This could be accomplished by adding a section on CG to the legal environment of business class and/or placing increased emphasis on CG concepts in principles of accounting. Faculty might consider adding a real-life case study on CG in a principles of accounting or principles of finance course. CG concepts, especially related to the role of boards of directors, should be included in the capstone business policy and strategy class. In sum, the results of this study indicate that all business students would benefit from increased coverage of CG concepts in required business courses.

Implications for managers

As organizations hire recent college graduates and advance them through the ranks, investing in regular CG training is both good preparation and good insurance. Beyond the training that many organizations require, thoughtful mentoring can help up-and-coming employees develop the broad perspective and decision-making skills necessary for responsible leadership. Organizations are encouraged to engage in training and mentoring specific to CG topics earlier rather than later in employees' careers.

Conclusions

This study suffers from the normal portfolio of limitations associated with survey research. Specifically, the survey responses came from two mid-sized Midwestern universities. As such, care must be exercised in generalizing the results. External validity can be enhanced through additional investigations using the same research questions in other university environments. It may also be worthwhile to survey recent graduates who are in the first few years of their business careers to explore their perceptions of CG best practices and what they wish they had learned in school.

In closing, the results of this study validate the need for more, and more-detailed, discussion of CG across the business school curriculum. It is important for business students to learn about CG best practices throughout their required courses, so that they develop the knowledge and skills needed to help them act and make decisions in the best interests of their companies. Further, faculty are encouraged to help students understand the interrelationships between information technology, human resource management, boards of directors, risk management and internal audit and control. Helping students understand these interrelationships will help them view CG as an enterprise-wide practice, rather than an initiative fractured by functional silos. Business school graduates with a holistic view of corporate governance will be poised to think and act as good corporate citizens.

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Further reading

Dodd-Frank Wall Street Reform and Consumer Protection Act of (2010), 12 USC §5301 *et seq.*

Appendix. Questionnaire items

1. I am a:
   - Freshman
   - Sophomore

- Junior
- Senior

2. My major (emphasis area) is:
   - Accounting
   - Agribusiness
   - Economics
   - Finance
   - Management
   - Management information systems
   - Marketing
   - Business teacher education
   - Other (please specify)
3. Please indicate your level of agreement with the following statements using the scale 1 = Strongly Disagree to 5 = Strongly Agree:
   - I believe I understand corporate governance concepts.
   - I believe corporate governance is important to business.
   - I believe understanding corporate governance concepts will help me in my career.

The next six sections ask questions about corporate governance practices. Please indicate your level of agreement with each question using the scale 1 = Strongly Disagree to 5 = Strongly Agree or "I Don't Know".

4. *Section 1: Board of Directors*: The Board of Directors is defined as the "governing body of an incorporated firm":
   - The Board of Directors should participate in strategic planning.
   - The Board of Directors is responsible for ensuring an effective management system.
   - Members of the Board of Directors should have experience in relevant industries.
   - Members of the Board of Directors should have experience in financial or economics areas.
   - The Board of Directors should be independent in its decision-making.
   - The Board of Directors should understand the organization's operating environment.
   - The Board of Directors should understand the organization's business processes.
   - Members of the Board of Directors should exchange critical information and comments.
   - The Board of Directors should follow-up on the progress of board resolutions.
5. *Section 2: Risk Management*: Risk Management management is defined as "policies, procedures, and practices involved in identification, analysis, assessment, control, and avoidance, minimization, or elimination of unacceptable risks":
   - Organizations should align their risk management plan with corporate strategy.
   - Organizations should identify key risk indicators at the corporate level.
   - Organizations should cascade (pass along) key risk indicators to relevant departments.
   - Organizations should direct their risk management policy.
   - Organizations should follow-up on risk management results.
   - Organizations should specify the key executive responsible for risk management.
   - The risk management system should be integrated throughout the organization.
6. *Section 3: Internal Control*: Internal Control control is defined as "systematic measures (such as reviews, checks and balances, methods and procedures) instituted by an

organization to conduct its business in an orderly and efficient manner, safeguard its assets and resources, deter and detect errors, fraud, and theft, ensure accuracy and completeness of its accounting data, produce reliable and timely financial and management information, and ensure adherence to its policies and plans":

- Organizations should communicate a clearly- specified segregation of duties and authorization.
- I understand internal control.
- Organizations should develop internal control manuals for all departments.
- Control activities should be realized in all departments.
- Organizations should emphasize risk-based control.
- Organizations should review the effectiveness of their internal controls.

7. *Section 4: Internal Audit*: Internal audit is defined as "frequent or ongoing audit conducted by a firm's own (as opposed to independent) accountants to (1) monitor operating results, (2) verify financial records, (3) evaluate internal controls, (4) assist with increasing efficiency and effectiveness of operations and, (5) to detect fraud":
   - Internal auditors should provide recommendations to improve internal control.
   - Organizations should align the audit program with corporate strategy.
   - Organizations should emphasize risk-based audits.
   - Organizations should have adequate numbers of qualified internal auditors.
   - It is important to have various skill mixes of auditors.
   - Auditors should have consultation and recommendation capability.
8. *Section 5: Strategic Human Resource Management*: Human resource management is defined as " the administrative discipline of hiring and developing employees so that they become more valuable to the organization":
   - Organizations should align human resource strategy with corporate strategy.
   - Organizations should formulate a human resource strategy to improve employee productivity.
   - Organizations should formulate a human resource strategy to improve employee satisfaction.
   - Organizations should align their manpower plan with their strategic business plan.
   - Organizations should align employees' key performance indicators with departments' and organizational key performance indicators.
   - Organizations should implement performance-based pay.
   - Organizations should have career development plans for all levels of employees.
   - Organizations should use modern tools for human resource management.
   - Organizations should use tools to assess employee satisfaction.
   - Organizations should have expertise in strategic human resource management practices.
   - Departments should collaborate in managing manpower.
   - Departments should collaborate in designing training and development programs.
9. *Section 6: Information Technology*: Information technology is defined as the "set of tools, processes and methodologies (such as coding/programming, data communications, data conversion, storage and retrieval, systems analysis and design, systems control) and associated equipment employed to collect, process, and present information":
   - Organizations should align their master plan for information technology with corporate strategy.
   - Organizations should allocate investments for information technology based on strategic outcomes.
   - Organizations should provide an executive information system.

- Organizations should provide information technology to support risk management.
- Organizations should provide information technology to support internal control and audit.
- Organizations should provide information technology to support human resource management.
- Departments should collaborate in developing information technology applications.
- Organizations should have collaboration capability on the information technology team.
- Organizations should provide an adequate number of training programs on information technology.

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