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Corporate Governance in Management Education

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Abstract: Management education is truly at crossroads especially after scandals like Enron, which have put corporate reputation at great stake. The study develops an estimate of the levels of CG in the management education of both countries, generalizing it over the population of developing countries. Through analysis the extent of percolation of CG in the overall management education is analyzed. Issues pertaining not only to management and stockholders are taken up for analysis but the broader role of business in environment, local cultures and society as a whole is examined. The study reveals a gap between the training of business graduates and the requirements of the modern, globalized, complex corporate sector in the area of CG.

Key words: Corporate governance, management education, social responsibility

Introduction

The emerging global business environment has undergone unprecedented changes and raised challenges for existing business models to accommodate these changes. While globalization has been a boon in business operations, it has also made corporations vulnerable to greater risk, abuse and fraud on a global scale. This emerging scenario has given birth to the serious issue of the inadequacies of governance and demands for new reforms, bringing new models of operation and re-evaluation of systems. Scandals in Enron, WorldCom, Tyco, Adelphia and the latest Satyam Computers are adequate evidence of this rising phenomenon, which has raised the importance of concepts like, corporate governance, corporate responsibility, corporate citizenship and social responsibility.

Corporate governance is defined as the formal system of accountability and control for legal, ethical and socially responsible decisions and use of resources in business organizations. It is based on certain institutions like; laws, contracts, norms and regulations that create self-governing system in the organization. A corporation has various stakeholders, internal and external groups whose support is essential for the survival and growth of any corporation (Freeman 1984; Lozano 2000; Mitroff 1983). Business students could also be treated as stakeholders, who collectively constitute the future leadership of corporations and will eventually become members of all stakeholder groups (R.A. Peterson

and G. Albaum, 2005). Therefore, the concept of corporate governance has direct implications for both businesses and business education. This increasing need for corporate governance in business sector has actually trigged out minds of business schools' deans to get academia involved in the practices of this recommended model. "After a year of high-profile corporate scandals and bankruptcies, including big names, professors at business schools have reinvigorated their ethics instruction by turning headlines into lecture fodder and paper topics" (J.K. Wall 2002).

Value development culture and the business schools

Business institutions have to play their role more actively by nurturing the codes of good governance in the minds of business graduates resulting in turning them from pre-conventional and conventional phases to a post-conventional stage in moral development and enabling them to respect the rights of other stakeholders (Kohlberg 1976). Therefore, business schools are one of the best places to encourage this type of value development culture (White 1980). It is in this context that the study aims to investigate the current situation of business graduates in India and Pakistan in terms of their perception towards issues of corporate governance. It assumes that business schools as supplier of business managers can produce well-trained and ethically responsible managers, who can act as change agents and ensure best practices of corporate governance in their organizations. The study proceeds with introduction in the first section followed by literature review in section 2. Section 3 analyses the issues related to corporate governance in India and Pakistan. Section 4 takes up the research issues and methodology being followed. Section 5 consists of an analysis using some statistical tools and interpretation of the results. Section 6 develops conclusions and suggests implications for business schools.

Review on Management Education & Corporate Governance

The issues of corporate governance and role of institutions in the development of corporate governance is widely discussed in the literature. The academicians have paid their attention to the variety of issues regarding corporate governance such as ethics, management practices, owner's role, regulatory mechanism and policies of state centered for good governance. The ethical strength in a society plays a supporting role in practicing the code of good governance.

As Junichi Mizuo (1998) in an empirical research on business ethics and corporate governance in

Japanese corporations, urged for a fresh look at corporate values and attitude of conformance to business ethics on the parts of both organizations and individuals. Corporate governance is also driven from matured mindsets of corporate executives towards corporate social responsibly (CSR). The literature broadly discusses two approaches of CSR as; one related to ethical soundness of the firm and second highlights its ability to rescue from risk and secure good reputation (Melsa Ararat, 2008). The study of Ararat also proclaims that external factors have stronger impact as compared to indigenous aspects to influence the practices of CSR. One of the external factors is Media, which through extensive coverage pressurizes the companies to pursue corporate governance. The report of Kathleen F. Brickey (2008) pointed out this role in Enron case, as started unhurriedly but opened doors of many scandals through comprehensive coverage after that. Among the internal factors, the role of operation managers seems vital in the effective implementation of corporate governance. The survey based study of Soobaroyen T.and Ellahi A. (2008) found that unit managers are positive about impact of corporate governance on their performance, and view it as a source of accountability, credibility and socialization. The effective information system with compliance to corporate governance needs is also pivotal to smooth the information flow to all stakeholders and enhance credibility of provided figures. (Lazarides T. and Drimpetas E, 2008).

Nakano (1997) found that company policy on business ethics is the most important factor influencing managers to make ethical decision. Walton (1990) reported a survey in USA from over 1000 senior executives, deans of business schools and members of Congress in 1988 which revealed that 99 percent of deans, 95 percent of corporate leaders, and 77 percent of Congress members felt deeply troubled over unethical behavior of majorfigures in U.S. financial and manufacturing organizations. Vogel (1992) pointed out discrimination in the norms of ethical business behaviors across the different industrialized nations and urged for standardizing and globalizing business ethics. The need of ethical commitment in corporate managers is primarily responded by management education. Management institutions have incorporated new disciplines and updated their content to train their graduates on ethical grounds and provide basis for corporate governance practices. Business schools now emphasis on ethical and social issues as an important component of their curricula. Jennifer Merritt (2002) referred to University of Michigan Business School for a case study on the most challenging ethical dilemma, written by every student undertaking the

program of business education. It is a new lesson plan for business schools across the countries, where corporate scandals and a waning MBA job market have touched off a wave of self-reflection and reform. Kumar Kamalesh (1995) in his survey of business graduates found that strong orientation towards social values, social responsibility and good corporate citizenship has become an integral part of future executives. He urged future business leaders not to compromise their values and ethics over competitiveness and profitability feature of a firm.

Joanne B Cuilla (1985) pointed out that business schools have failed to share business ethics with their students, but most students and faculty agree that ethics are important, and business schools need to integrate ethics into their curricula. Sims and Sims (1991) recommended three outcomes out of applied business ethics course: (1) increased ability to recognize ethical issues in the work place; (2) enhanced skills in moral reasoning; and (3) clarification of moral aspirations. R Warren and G. T. Weedale (2002) blamed business schools for negligence in historical and ethical dimensions as: corporate ethics, social responsibility of companies, disclosure, the actions of multinational companies overseas, the dilemmas of whistle-blowing, the impact of lobby groups and health and safety issues. Marietta Del Favero (2003) recommended cognitive approaches as more valuable to understand the social nature of governance. Rozensher, et, al. (1994) showed his statistics that 90% of faculty spend at least some time covering ethical issues. Most spend between one and two class hours covering ethical issues; however, about 1/4 of all respondents said they spend more than 4 hours during the course of the semester on ethical issues. Pfeffer and Fong (2002) found that business education in teaching business ethics is not very effective; having no correlation with career success or has little influence on management practices. Donaldson (2002) reported contradictions in management theories and management education. Susan, Yusuf J Urgas (1998) indicated that female students expressed stronger ethical attitudes than males. The same is also true for older versus younger students.

The corporate governance has recently observed a movement from advanced countries to developing countries. This movement is driven by number of factors such as shift of production facilities in Asian countries, free trade, economic integration and increasing globalization. Consequently, academicians have starting testing the models of corporate governance in developing countries, originated

and developed in the context of advanced countries.

Mahwesh Mumtaz, (2005) have tried to see the application possibilities of Anglo-Saxon model of corporate governance in Pakistan. Mahwesh has risen the fundamental question "whether a Corporate Governance model that works for the US and the UK, also work for a country like Pakistan"? In line with other authors, she raised the points of differences like prevailing ownership structures, state of economic development, governing principles of capital market and cultural issues of both regions; developing and developed countries. Mahwesh has recommended an interactive process of various phases, focusing on development of allied institutions to support the corporate governance implementation.

Ibrahim and Ali Adnan, (2005) in their report on Corporate Governance in Pakistan-Analysis of Current Challenges and Synopses for Future Reforms have pointed out other factors, which are negatively impacting the practices of corporate governance in developing countries. Authors reported the inherited problems such as money laundering, white-collar crimes, unfair flow of funds, undermining the implementation of corporate governance in developing countries such as Pakistan. Corporate governance in relation with firm performance is also researched by academicians. The success of western corporations of managing across the countries operations and expanding their networks is backed by strong commitment for business ethics, good governance and corporate social responsibility.

The internal structure of business organizations in developing countries could not support the high profitability and drastic expansion to reach the statues of multinationals. As association is pointed out by Rozina Shaheen and M. Nishat (2005) between audit-related governance factors and firm performance in shape of dividend yield, return on equity, sales growth, and formal policy of auditors' rotation is positively related to operating performance and firm valuation. Expectations of shareholder for rate of return are also associated with corporate governance.

Therefore, in developing countries, the demand for corporate governance would be intensified from shareholders as more access to information will lead to higher expectation for rate of return (Shoeb I. Syed and Faiza Arshad, 2005). Florence Palpacuer (2006) has reported few factors hindering the effectiveness of corporate governance including concerns and interest of developing and developed world, foreign employers and local workers, large and small firms and private and state run public sectors.

Florence indicated that "for the last two decades, the regulation school has been searching for a new form of social contract by which wealth would be redistributed and the dynamics of growth enhanced in a post-fordist economy".

Corporate Governance and its Implementation in India

In India, corporate governance had not been well-understood right up to the early 1990s. The financial institutions, which were mostly government owned and controlled, never monitored the loans or came in the way of any management and virtually never divested their ownership stake in any firm. There were also constraints on monitoring by external capital markets. With the liberalization of the economy, several positive developments occurred on the corporate governance front.

First, The Securities and Exchange Board of India (SEBI) Act of 1992 created a regulatory body with the explicit mandate to improve the functioning of Indian financial markets. Second, the state-run financial institutions were given incentives for better performance and a freer hand to monitor their loans. Competition among the financial institutions increased with the deregulation of interest rates and the gradual elimination of consortium requirements. Private sector mutual funds were allowed to compete with the state monopoly. Third, a takeover code was introduced in late 1994. Fourth, restrictions on the entry of foreign investors were eliminated and regulations on their investments were substantially clarified. All these developments threw the domestic corporations open to external competition. The pressure to compete globally in turn put pressure to follow internationally accepted norms of corporate governance.

Implementation of corporate governance in India has depended upon laying down explicit codes, which enterprises and the organizations are supposed to observe. India has Kumaramangalam Birla code as a result of the committee headed by him at the behest of the SEBI. The CII codes of corporate governance also provide fundamental guidelines. The Indian corporate governance scenario is still found to be deficient for various reasons, some of which are:

(i) SEBI do not have all-pervading powers to police all violations of regulations.
(ii) (ii) Takeovers continued to be difficult given the paucity of timely information and high transactions costs in the equity markets (A detailed account can be found in SEBI, 1994)
(iii) (iii) Competition among financial intermediaries, many of them state-run is limited.
(iv) (iv) Disclosure norms under the Companies Act are not

verystringent. The need for corporate governance has been highlighted because of the scams which are happening at regular intervals. India had the Harshad Mehta, Ketan Parikh, UTI and the most recent Satyam Scam. Of course there are companies, like Infosys, etc. which are following ethical practices. Creating proper public governance and making changes in the various regulations impinging on the working of an enterprise or a body like the capital market, is the need of the hour to establish better corporate governance in the country.

Conclusion

We find certain trends emerging, which have enhanced the importance of corporate governance in business operations all over the world. In most developing countries we find governments exiting markets, leaving business to private parties; more market oriented reforms leading to liberalization and globalization; better awareness about environment; and the information technology boom, all of which have vastly improved productivity and innovation. This emerging scenario in most developing economies has enabled businesses to capture the world market, thereby facilitating the integration of the product, capital and labor markets, and as fallout, also bringing the economy at greater risk, abuse and fraud, sometimes on a global scale. In turn, this has led to an increasing awareness of the inadequacies of governance, and the demand for new reforms, thereof.

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