

## Business students' perceptions on corporate governance

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### Abstract

*This paper aims to investigate the perceptions of future managers towards corporate governance and to explore its scope in the courses of a Romanian business school. Management education is facing severe challenges especially after the soundly scandals which have pointed out the finger to corporate governance mechanisms. In this regard, it is of utter importance for business schools to ensure and provide students with the necessary abilities that would allow them to develop a corporate governance culture in business organizations. This study addresses the degree to which a sample of business students is conveying corporate governance principles. A previously tested research instrument was used to estimate the diffusion of different corporate governance issues, like management, shareholders, customers, and society into the management education. Our findings may help the business schools to rethink their priorities and develop courses on corporate governance that would respond to the ever increasing need for good governance.*

**Keywords:** corporate governance, management education, business schools.

### 1. Introduction

Corporations these days have to face severe challenges due to the soundly scandals that have rocked people's confidence over them. During the last decades we have witnessed some unexpected collapse of major public companies; rather it was the case of Enron in USA, Parmalt in Italy or HIH in Australia, they all unconverted instances of serious fraud and malpractice by senior managers (Porter, 2009). This kind of actions not only that attracted the interest of media over the way in which corporations are governed, but they also managed to move the corporate governance mechanisms under the magnifying glass of many researchers and business academics (Bury and Leblanc, 2007). Moreover, such scandals call for more emphasis to be placed on improving corporate governance education of future business professionals (Georgiou *et al.*, 2012).

When referring to corporate governance one should definitely address the issue of stakeholders. Traditionally, corporate governance was conceptualized by agency theory (Jensen and Meckling, 1976; Williamson, 1975), within which corporate governance's main role was to assure the maximization of profits for shareholders. As time went by, there were other theories that emerged and tend to describe the mechanism behind corporate governance. Among these theories was also the stakeholder theory according to which, the stakeholders of the companies are critical for the survival of the organization (Spitzeck and Hansen, 2010). According to Freeman (1984, p. 46), "a stakeholder in an organization is any group or individual who can affect or is affected by the achievement of the organization's objectives". Some stakeholders are seen as extremely important for the survival of the company, like for example, employees and customers (Lozano, 2005). This paper acknowledges that business students may be considered as

important as other stakeholders of the organization because they represent the future leadership of corporations. The way in which students are trained during their business education will influence a lot their attitude and behavior towards corporate governance system. In this regard, the paper addresses the following research questions within a developing country context:

RQ1: What is the perception of Romanian business students towards corporate governance?

RQ2: Do the Romanian business schools have what it takes in order to prepare the future managers so that they create proper corporate cultures?

Studying corporate governance in a developing country makes sense for several practical reasons (Dallago and Iwasaki, 2007). First, within a transition economy like the one of Romania, researchers would have to refer to the process of globalization, the growing presence of investors and the globalization of markets. All these will create a distinct environment for the study of corporate governance. Second, Romania is no longer a lonely wolf; since its acceptance to the European Union, it has to adjust its markets to the global capitalist market framework of the EU, and together with this the corporate governance system as well.

The paper starts with a thorough analysis of the corporate governance in Romania during which the main characteristics are emphasized and continues with a presentation of the challenges that business schools have to face while introducing corporate governance in their curricula. The article then, develops the research methodology used in the study and next the results are shown. In the end, a summary of the most important conclusions is presented while highlighting the limits of the study and the future areas of research.

## **2. Literature review**

### *2.1 Theoretical background on corporate governance*

There is no single definition of corporate governance. In fact, a search of corporate governance literature will reveal tones of definitions of the term. Some scholars even consider that the definition may vary in different contexts or different countries (Solomon and Solomon, 2004). Moreover, corporate governance is not either a new concept within theoreticians. However, many scholars and practitioners had started to become preoccupied by corporate governance after the high-profile collapse of several large corporations (Ermann and Lundman, 2002).

Although there is a lack of consensus about the definition of the concept, one may easily identify some common patterns in corporate governance. No matter what approach would you take, you have to admit that corporate governance deals with the way in which a corporation is directed and controlled. A more comprehensive definition is given by Dignam and Lowry (2006), according to whom corporate governance can be conceptualized as a set of processes, customs, policies, laws and institutions affecting the way a corporation is directed; its purpose is to influence the behavior of the organization towards its stakeholders. Corporate governance has to assure the integration of three categories of stakeholders: the managers – they run the business; the board of directors – they supervise the managers and the shareholders – they finance the business.

During time, corporate governance has become a favored research topic of many scholars from different fields of activity (Mostovicz et al., 2011). The principal-agent model, resulting from the agency theory is used in economic disciplines, like accounting, microeconomics and finance and even entered non-economic disciplines such as sociology, organizational behavior and political science. Besides agency theory there have been other theories underpinning corporate governance, such as: stakeholder theory, stewardship theory, resource dependency theory, transaction cost theory and political theory (Abdullah and Valentine, 2009; Crişan and Turdean, 2011).

Corporate governance has been referred in the literature also from the point of view of its inclusive issues, among which scholars identified the following: ethics, management practices, owner's role and regulatory

mechanisms. Ethics is viewed as one of the most important issues in corporate governance. A content analysis of more than 100 articles published in four leading journals that focus on business ethics and corporate governance reveals that the main thematic clusters within these journals are ethical judgment analyses, violation of laws and regulations, national moral environments and corporate governance (Robertson and Athanassiou, 2009). The authors acknowledge that what appears in such journals will influence not only the research, but also the teaching and the practice of corporate governance.

## 2.2 Business education and corporate governance

We have already seen that one important issue that corporate governance deals with is the ethical dimension. According to Rossouw (2009) a clear distinction should be made between the “*ethics of corporate governance*” and the “*corporate governance ethics*”. The former terminology describes the connection between ethics and corporate governance by referring to the ethical values and assumptions that underpin a corporate governance regime or code; while the latter terminology refers to the way in which corporations are expected or required to manage their own ethical performance.

In such cases, one could easily assume that there might be a direct and strong relationship between the ability of business students – those who are seen as future managers – to acknowledge cultural values and the ethical performance of corporations. Thus, the business schools will play a major role in educating students in this direction. However, this might not be as simple as one might think. One problem arising when trying to teach ethics to business students reveals when taking a closer look at what this concept means (Carreira et al., 2008). For some investigators the concept of ethics means a set of rules, principles and values that might be mistaken for morality; while others consider ethics as a judging reflection upon morality. Another problem is the view of some educators on the need for ethics education, which includes corporate governance as well (O’Leary, 2009). It is believed that more ethical instruction could have a positive effect on student’s ethical attitudes.

Successful attempts of developing a course in corporate governance date back since the early 2000, when John Holland (2001) from the University of Glasgow designed such a course in order to establish a clearer focus for and higher quality communication within the Special Interest Groups. This course was aimed at the final year of a UK undergraduate program in accounting and finance and emphasized corporate governance and the teaching and research skills of staff in this field.

In a survey of 3000 undergraduate business students from 58 universities and colleges, Albaum and Peterson (2009) address certain ethics-related attitudes and the degree of ethicality these students possess. They found out that the ethical attitude of business students is connected with the likelihood of more corporate scandals arising in the future like the ones of Enron and WorldCom.

There are studies providing evidence on the importance of corporate education on improving business performance (Vafeas, 2009). Still, there are many other scholars who advocate the need of business schools to improve the useful skills of their graduates through improvements in business education (Mintzberg and Gosling, 2002; Pfeffer and Fong, 2002). Khan and Setti (2009) consider that there is a gap between what is taught in business schools and the requirements of complex corporate sector.

In a recent survey (Georgiou et al., 2012) which incorporated interviews of managers, student questionnaires and faculty interviews in Cyprus, the authors draw the attention on the necessity for new modules that have to be introduced within business administration degrees so as to meet the increasing need for corporate education.

### 2.3 Corporate governance in Romania

Romania is a former communist country that undergone the capitalist challenge at the beginning of the 1990s. It is part of the Central and Eastern Europe (CEE), a region where the transition to market democracy significantly influenced the emerging corporate governance practice (Hardi and Buti, 2012).

Romania, like other CEE countries deals with a corporate governance model based on internal control, as a result of the privatization and reorganization process. In this context, the insider based model (i.e. the German corporate governance model) could be redefined as a form of organization of firms resulted from buying up control rights by the managers or the employees of ex-enterprises previously owned by the state during the privatization process (Giurca Vasilescu, 2008). The Romanian corporate governance model follows the paths of the insider based model, but with certain particularities regarding national, economical, social, politic, cultural conditions, where governance forms appeared and developed.

The early traces of corporate governance in Romania date back in 2001 when the Organization for Economic Co-operation and Development (OECD), developed a specific program to improve corporate governance practices in Romania. At the beginning of 2000s, SG Emerging Markets Equity Research published the results of an analysis on the 'Standards of Corporate Research'. According to this study Romania ranked 7<sup>th</sup> in the ten emerging market economies surveyed for their corporate governance practices. The most problematic area at that moment was enforcement; the role of the boards, and poor information for shareholders (OECD, 2001).

In 2007 Bucharest Stock Exchange (BSE) issued the initial version of Corporate Governance Code which stands as set of rules that the companies trading at the BSE will have to comply with, whereas the other companies are not forced to follow these rules unless they want. The listed companies are bounded to observe and to report on a "comply or explain" in a special statement attached to the annual reports. The code is structured into articles, principles and recommendations covering a significant area of corporate governance issues: the share and other financial instruments holders' right, role and duties of the Board, composition of the Board, appointment and remuneration of directors, transparency, financial reporting, internal control and risk management, conflict of interests, treatment of corporation information, corporate social responsibility, and management and control systems. However, these rules apply solely to those companies that are listed on the BSE; all the other companies in Romania do not have to follow any of those requirements set in the Corporate Governance Code.

From an academic point of view, we must say that the Romanian education system had undergone serious changes. More and more business schools understood the importance of having well prepared students that are familiar to the corporate governance concept. Hence, these institutions have included in their curricula subjects that allow students to find out more about the mechanisms of corporate governance. Some authors even proposed a methodology for increasing the effectiveness of corporate governance in Romanian higher education by integrating the perception of employers within curriculum development (Pitic *et al.*, 2012). In the same time, professional organizations, like the Bucharest Stock Exchange offer training courses for those interested in knowing more about this issue.

## 3. Research methodology

### 3.1 Sample design

The sample of this study consists of 55 business graduate students from Babes-Bolyai University that have attended the course entitled Corporate Governance Management. The age of the respondents varies from 22 years old to 35 years old, with an average age of 23.73 years old. The vast majority of the respondents were female students (83.64%). The respondents come from four different master programs that are taught at Faculty of Economics and Business Studies, this being one of the biggest business schools in Romania

(Specific details on the demographics of the sample structure are presented in Table 1 of the Appendix). The respondents were randomly selected from the students in those four master programs as they were much more exposed to corporate governance concepts than were other students that did not study this course. Three of the four master programs have a major in accounting, while the other one has a major in business management and it is taught entirely in English.

### 3.2 Research instrument

In order to address the questions of the study, an adapted instrument previously developed and tested was used (Khan and Sethi, 2009). The data was collected through a five-point Likert type questionnaire that was administered face-to-face to business graduate students. The respondents were asked to indicate their perception about corporate governance practices. The questionnaire used a set of thirty attributes in order to determine the students' perception towards corporate governance. These attributes were classified into five dimensions, namely the following: management issues, shareholders issues, customer issues, social issues, and personal issues. A total of mean scores was computed under each issue to see the relative importance being given to them.

## 4. Results and interpretations

The study was performed on 55 business students that have previously taken the Corporate Governance Management course at the Faculty of Economics and Business Administration. The main reason for choosing this sample was to ensure a higher reliability of the respondents and a better awareness of the corporate governance concept. The question about the sources of information regarding corporate governance revealed some interesting results. Although all the respondents took the course, only 90.90% of them answered that they heard about corporate governance in faculty. Mass-media seems to have quite an impressive role in educating the business students as 29.09% of the respondents declared that they heard about this concept from TV or press. A small percentage of the respondents (14.54%) at some point in their life attended a conference with the main topic on corporate governance. Students do not discuss about different issues of corporate governance with their friends, nor do they communicate matters of corporate governance; less than 10% of the total respondents admitted that they heard about corporate governance from their friends.

Another question was aimed at identifying where did the business students read about corporate governance. The majority of them read about corporate governance from text-books (63.63%) and professors' notes (52.72%); only a small part of them said that they used newspapers and magazines to improve their knowledge on corporate governance. Table 2 summarizes the results of these two questions. Looking at these results it seems that the business schools play a major role in educating the future leaders in terms of corporate governance's issues. However, there is a great need for other elements to sustain the effort of the business schools; for example mass-media may become a serious partner of the business schools and may assure higher exposure to corporate governance concepts for business students. In the same time, there is need for more involvement coming from students. As Table 2 shows, very few of them are willing to find out more about corporate governance; the majority of the business students that answered the survey will simply rely on text-books and their notes taken during classes to fulfill their knowledge on corporate governance.

In order to find out the business students' perceptions towards corporate governance's issues, thirty statements were used; the students were asked to indicate whether they agree or disagree with these statements based on a 5 point-Likert scale. The reliability of the scale was tested through Cronbach's alpha coefficient in SPSS (see the results in Table 3). Cronbach's alpha is the most common used measure of internal reliability; it is most commonly used for multiple Likert questions. Within our study Cronbach's

alpha was 0.951 showing a high level of scale reliability. The thirty statements were divided into six groups, each of those groups representing different issues, like for example: management issues, shareholders issues; personal issues; customer issues; society issues and corporate governance issues. Mean scores in descending hierarchy are used as criteria for analysis and developed in descending manner; the results are shown in Table 4. Further on, all these results are presented and discussed.

(1) *Management issues.* The way in which corporations are managed represents the core element of corporate governance. It is of utter importance to know how the future managers perceive the capacity of corporate governance to influence the management style in order to develop successful learning strategies for them. Among the highest mean scores for management issued were obtained for the ability of corporate governance to assure an equal treatment for the employees (3.87), but also for the assurance of independency of external auditors (3.85). Less emphasis was placed on the capacity of corporate governance to support the creation and adoption of an organizational culture that would sustain a democratic and participative management style based on rewards (3.76).

(2) *Shareholders issues.* The shareholders represent a very important category of stakeholders within an organization. The board of directors not only that supervise management's activities but it also represents the interests of shareholders. Because of this, it is important for the future leaders to understand exactly these relations, to know properly how to handle them and to be able to balance between different types of stakeholders. The students learned well these lessons, as they consider balancing between the interest of shareholders and rights of employees the most important issue (3.90), followed immediately by an ethical issue – the sense that they should not help the shareholders in their unlawful business transactions (3.87). It turns out that the students have well understood that an ethical behavior is much more needed during present times in modern organizations. They are aware of the fact that corporate governance forbids the future managers to play with figures or cheat the shareholders (3.76). Students put less emphasis on the capacity of corporate governance to ensure the resource allocation in the interest of shareholders (3.38). No doubt this is managers' responsibility; but in the same time the resource allocation would have to be made in the interest of all stakeholders of the company. Managers are also the representatives of the employees and they will have to take into consideration their interests as well.

(3) *Personal issues.* Corporate governance is not only about managing and controlling; but it also has to do with the conduct and behavior of those who act as managers. The personal issues in our survey were aimed at identifying the influence corporate governance may have on business students' behavior. The results of the survey are quiet encouraging; business schools through corporate governance courses can help students to become socially and ethically responsible citizens (3.74) and maintain a high level of moral, justice and honesty in business (3.74).

(4) *Customer issues.* According to Lozano (2005), customers and employees are the two most important stakeholder categories of an organization. Indeed, the number of customer and their loyalty for the company may assure the success of the business. The way in which business students perceive the customers and moreover, the role that corporate governance plays in customers' satisfaction will influence a lot their abilities of managing. Looking at the results of the study it is obvious once again that the business school enforced the ethical aspect; the students consider that corporate governance' role is to encourage treating customers with actual and real products (3.67) and disallow cheating the customers (3.60). Achieving the targets is not everything in business (3.14); business students seemed to have exposed to other values during the classes as they do not seek value maximization; rather they opt for profit maximization (3.27).

(5) *Society issues.* The future business leaders will have to involve also in society issues; they will be not responsible solely for managing the companies, but they will also have to support local communities and

protect the environment. In the case of society issues which come under corporate governance abiding by the local laws and regulations got the highest score (3.92), followed by enabling caring for the local values and culture (3.80). There is this perception among business students that corporate governance cannot keep up with the general phenomena of corruption that seemed to have conquered all the local authorities of the state (3.54).

(6) *Corporate governance issues*. In terms of issues related directly to corporate governance, maintaining a good corporate governance in the organization got highest mean score (4.14) followed by developing good corporate governance system (3.98) and explaining how to change the traditional business culture into good corporate governance culture (3.94) and discouraging to become part of unprofessional conduct (3.72).

Table 5 summarizes the average of mean scores for every of the six issues. According to the perception of business students, business schools are putting most emphasis on corporate governance issues (3.90). Second, business schools are preoccupied with teaching issues related to shareholders; in this way the future business leaders may prepare for the time they will act as principal agents. Society issue come third (3.63) and management issues come forth (3.59). Personal issues scored an average of 3.55; while customer issues scored an average of 3.43.

## 5. Concluding remarks

The study was aimed at identifying business students' perception towards corporate governance within a developing country. The survey was addressed to Romanian future business leaders who attended Corporate Governance Management at one of the biggest business schools in Romania. The results presented within this paper can serve all the Romanian business schools to make comparisons for improvements in the process of teaching corporate governance.

Overall, there is a good acknowledge of the corporate governance issues among Romanian students, however the majority of the information they gather on this subject comes from professors and textbooks. There is an acute need for more implication of mass-media and other institutions (like, Bucharest Stock Exchange, Chamber of Commerce and Trade, etc.) in training students and informing them on distinct issues related to corporate governance.

Another focus of the study was the way in which the business school manages to share the right information and to develop the proper skills needed for those who may at some point represent shareholders' interests or employees' interests. The business school managed surprisingly well these challenges; the corporate governance classes enable students to develop the necessary skills for sustaining an organizational culture of sharing and participation.

The business school through the courses it offered was able to provide students with an adequate behavior that supports the ethical and moral demands of future managers. This behavior was unveiled in several occasions, when students were asked their opinion on the influence of corporate governance on customers, personal or society issues.

Another interesting finding of the study pointed out to a situation that tends to generalize within the Romanian society. The respondents were pretty skeptical about the possibility of corporate governance to discourage the culture of kickback and corruption among the local authorities.

This study has several limitations; these are due to the number of respondents and the type of respondents included in the sample. The sample consisted of only graduate students from one business school in Romania. However, these limitations may be overcome in future researches. Other studies may include within their sample besides business students, also professors, head of departments and even people from the management of the business school, like the dean or the vice-dean. In the same time, the survey may be

extended to other business schools in order to have a complete picture of corporate governance within the Romanian universities.

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## Appendix

**Table 1**

**The sample structure (N=55)**

<b>Sample gender</b>	<b>Freq.</b>	<b>%</b>
Male	9	16.36
Female	46	83.64
<b>Respondents' distribution according to master program enrolment</b>	<b>Freq.</b>	<b>%</b>
Accounting Management, Audit and Control (major in Accounting)	16	29.10
Diagnosis and Evaluation (major in Accounting)	5	9.09
Accounting and Audit Expertise (major in Accounting)	15	27.27
International Business Management (major in Business Management)	19	34.54

**Table 2**  
**Sources of information (N=55)**

<b>From where did the students heard about corporate governance?</b>	<b>Freq.</b>	<b>%</b>
Faculty	50	90.90
Friends	5	9.09
Mass-media	16	29.09
Conference	8	14.54
<b>Where did the students read about corporate governance?</b>	<b>Freq.</b>	<b>%</b>
Books	35	63.63
Professors' note	29	52.72
Newspapers	13	23.63
Magazines	9	16.36

**Table 3**  
**Scale reliability**

<b>No of cases</b>	<b>No of items</b>	<b>Cronbach's alpha</b>
55	30	0.951

**Table 4**  
**Mean scores of corporate governance' issues (in descending order)**

<b>Management issues</b>	<b>Mean</b>	<b>Std. deviation</b>
Ensuring the justice/equality and non discriminatory treatment among the employees of my firm.	3.8727	0.86184
Ensuring the independency of internal and external auditors to strengthen the check and balance in the firm.	3.8545	0.97026
Developing the compliance oriented culture of accountability for all level of employees in the firm.	3.8000	0.95063
Helping to adopt participative and democratic management style in business and other areas of life.	3.7636	0.96155
Teaching to support the power and reward sharing culture in the organization.	3.4000	1.06458
Discouraging to participate in the micro politics of firm's higher management.	2.8545	1.02593
<b>Shareholders issues</b>	<b>Mean</b>	<b>Std. deviation</b>
Maintaining the balance between the interest of shareholders/owners and rights of employees of the company.	3.9091	0.90825
Forbidding helping the owner in his unethical/unlawful business transactions.	3.8727	1.12307
Ensuring the open system and maximum access to the information	3.8182	0.98302

for shareholders.		
Forbidding me to manipulate or play with the figures to cheat the shareholders/owners.	3.7636	1.05345
Prioritizing the shareholders/owners interest in making the business decision.	3.4727	1.05153
Ensuring the resources allocation in the interest of shareholders/owners.	3.3818	0.99053
<b>Personal issues</b>	<b>Mean</b>	<b>Std. deviation</b>
Maintaining the high level of moral, justice, and honesty in business and other affairs of life.	3.7455	1.04027
Helping become a socially and ethically responsible citizen.	3.7455	0.96644
Ensuring the 100% transparency and fairness in my business transactions.	3.4182	1.14973
Not overruling the firm's policies to gain personal benefit/self interest.	3.3091	1.23037
<b>Customer issues</b>	<b>Mean</b>	<b>Std. deviation</b>
Encouraging treating the customer with actual and real product features.	3.6727	0.90379
Strictly disallowing to cheat the customer with impossible promises or unrealistic expectations.	3.6000	1.06458
Discouraging to increase the sale volume through unfair promotional means.	3.4727	1.11976
Supporting working for value maximization instead of profit maximization.	3.2727	1.06205
Envisioning that achieving the target is not each and every thing in business success.	3.1455	1.11252
<b>Society issues</b>	<b>Mean</b>	<b>Std. deviation</b>
Abiding by the local laws and regulations in business transaction.	3.9273	0.92004
Enabling caring for the local values and culture while making businesses decision.	3.8000	1.0256
Fighting for the environmental issues while making the business decision in the firm.	3.5636	1.03214
Strongly discouraging the culture of kickback and corruption among the local authorities of the state.	3.5455	1.21439
Not supporting the business policies, this can damage the local traditions and customs for commercial purpose.	3.3273	1.03735
<b>Corporate governance issues</b>	<b>Mean</b>	<b>Std. deviation</b>

Maintaining the good corporate governance system in the organization.	4.1455	0.89065
Developing a good corporate governance system in the organization.	3.9818	0.99053
Explaining how to change the traditional business culture into good corporate governance culture.	3.9455	0.95099
Discouraging to become a part of malpractice/unprofessional conduct to gain short term benefits.	3.7273	1.11313

**Table 5**  
Average of mean scores for every issue (in descending order)

Issues	Average score
Corporate governance issues	3.95
Shareholder issues	3.70
Society issues	3.63
Management issues	3.59
Personal issues	3.55
Customer issues	3.43