

Using Self-Assessment Corporate Governance Project to Motivate and Engage Finance Students into Financial Service Industry

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The Asia financial crises in 1997 provided critical lessons for Taiwan to respect the importance of corporate governance. In order to compete in world financial markets, Securities and Futures Commission (SFC) in Taiwan has tried to urge the importance of corporate governance practice for publicly held companies since 1998. Since corporate governance mechanisms assure investors in corporations that they will earn fair returns on their investments, the mechanisms of corporate governance have to exist and to function properly in order to attract outside investors to investment them. The purpose of this study is to educate finance student by using a self-assessment corporate governance questionnaire to review and to evaluate the quality of corporate governance practices in Taiwan's listed banking & insurance companies.

INTRODUCTION

Increasingly, investors around the world have been paying more and more attention to the corporate governance rating since corporate governance became a burdening issue in late 1990s, especially for emerging markets. Yulia Kochetygova, Standard & Poor's in 2002 was driven primarily by a lower assessment of the banks' transparency and information disclosure (The St. Petersburg Times, 2002). Indeed, transparency and disclosure of information are among the most critical principles of great corporate governance as far as both shareholders of a corporation and potential investors are concerned. Meanwhile, the analytical sections of audit reports should be made available to members of the board of directors and even to all shareholders of the corporation because investors would like a clear idea of what information they would expect to find in the annual financial report. (The Moscow Time, 2002).

Badan Penmegang SaHam Minority Bhd, Malaysia's minority shareholder watchdog group, offered corporate governance ratings in Malaysia to serve as a guideline for minority shareholders to gauge public-listed corporations' corporate governance practices and finally enhance their capital market. Unlike the corporate governance rating system that offered by Credit Lyonnaise Securities Asia Emerging Market's corporate governance watch and Standard & Poor's surveys on transparency and disclosure, Badan Penmegang Saham Minoriti Bhd tried

to formulate a method to rate public-listed corporations to meet their own needs (Business Times, 2002). According to Edward Chow Kwong-fai, the former chairman of the Hong Kong Society of Accountants' (HKSA) corporate governance committee, a new corporate rating would be one force to improve their own corporate governance in Hong Kong. Furthermore, David Sun Take-kei, the new chairman of the HKSA's corporate governance committee, urged that there would be competition for providing governance ratings from existing credit companies such as Credit Lyonnaise Securities and Standard & Poor's (*Hong Knog Imail*, 2001).

The Securities and Exchange Commission (SEC) in Thailand adopted a corporate governance rating system in 2001 to rate all listed companies in order to get back foreign investors. General Prasarn Trairatvorakul, SEC secretary, indicated that the corporate governance rating system would focus only on corporate governance, not corporate' earning growths. After all, weak corporate governance recognized as one of the main triggers of the 1997 Asia financial crisis (*Nation*, 2001).

The Asia financial crises in 1997 provided critical lessons for Taiwan to respect the importance of corporate governance. In order to compete in world financial markets, Securities and Futures Commission (SFC) in Taiwan has tried to urge the importance of corporate governance practice for publicly held companies since 1998. Consequently, Securities and Futures Institutes (SFI), Taiwan Stock Exchange (TSE), and Taiwan's computerized over-the-counter market (TAISDAQ) introduced the system of independent directors and independent supervisors to all publicly held companies for promoting implementation of the corporate governance practice (Securities and Futures Institute, 2001). Since corporate governance mechanisms assure investors in corporations that they will earn fair returns on their investments, the mechanisms of corporate governance have to exist and to function properly in order to attract outside investors' to invest them (Shleifer & Vishny, 1997; Emmons & Schmid, 1998).

Generally speaking, Taiwan's banks lack the principle of corporate governance. On one hand, many state-owned banks are managed by those who are selected by political connection rather than professional consideration. On the other hand, many private banks are owned by family business groups which dominate the ownership and management of these banks. Therefore, the rights of minority shareholders are needed to be enhanced by independent directors and independent supervisors to improve corporate governance (Lee, 2002). In other words, the close relationship between corporate governance and corporate finance of banking industry are of crucial importance for investment and economic growth (Berglöf, 1997).

Corporate governance became an investor demand in the 1990s around the world. As far as shareholders are concerned, the new insistence on corporate governance represents the victory of the individual investor over corporate tyranny and executive greed (Farrely, 1993). Good

corporate governance means interacting between shareholders and the market in a timely and transparent manner, monitoring of directors business conduct, establishing guidelines for Board, holding regular Board meetings, and setting remuneration levels of directors and key staffs. In conclusion, great corporate governance is the important element to culture the long-term development of companies. On the other hand, company with poor governance will terribly affect investor confidence and incur the negative operation, especially for those listed companies (Securities and Futures Institute, 2001). The following contributions are the incentives to do this study. First, the results of this study will help the listed banking and insurance companies in Taiwan via the self-assessment corporate governance survey to improve the quality of corporate governance practices in both banking and insurance industries, and eventually enhance Taiwan's capital market. Second, the results of this study will also help the target companies in the following ways:

- Develop awareness, training & education programs for corporate governance practices
- Diagnostic review against benchmark criteria of corporate governance practices
- Design their own corporate governance frameworks
- Implement and change management programs for corporate governance practices
- Annual review/ monitor corporate governance practices

Purpose of the Study

The purpose of this study is to educate finance students by using a self-assessment corporate governance questionnaire to review and to evaluate the quality of corporate governance practices in Taiwan's listed banking & insurance companies.

Research Questions

The following research questions will guide the study:

1. To what extent do listed banking/insurance companies protect the rights of all of its shareholders, including its ability to prevent majority shareholders from diluting the value and interests of minority shareholders?
2. What are the differences of listed banking/insurance companies in protecting the rights of all of its shareholders, including its ability to prevent majority shareholders from diluting the value and interests of minority shareholders based upon the following demographic factors: net assets, and industry?
3. To what extent do listed banking/insurance companies provide independent oversight of management performance?

4. What are the differences of listed banking/insurance companies in providing independent oversight of management performance based upon the following demographic factors: net assets, and industry?
5. To what extent do listed banking/insurance companies hold management accountable to shareholders and other relevant stakeholders?
6. What are the differences of listed banking/insurance companies in holding management accountable to shareholders and other relevant stakeholders based upon the following demographic factors: net assets, and industry?
7. To what extent do listed banking/insurance companies disclose the accuracy and timeliness of their financial position, condition and prospects, and other non-financial information, and also the ability of existing and prospective investors to access this information?
8. What are the differences of listed banking/insurance companies in disclosing the accuracy and timeliness of their financial position, condition and prospects, and other non-financial information, and also the ability of existing and prospective investors to access this information based upon the following demographic factors: net assets, and industry?
9. To what extent do listed banking/insurance companies understand the importance of audit committee?
10. What are the differences of listed banking/insurance companies in understanding the importance of audit committee based upon the following demographic factors: net assets, and industry?

Significance of the Study

In recent years, changing requirements by employers of finance graduates have taken two directions. The first of which is the demand for more professional skills and wider understandings. It is required to motivate students to become more oriented toward self-learning, together with increased emphasis on integration of work-oriented processes. The second reason to call for change in finance education is disciplines. With more corporate governance problems around us, it is urgent to cultivate students' discipline.

Finance education involves life long learning. To keep pace with the changes in business environment, finance educators must stay updated with fast-paced marketplace in order to align as closely as possible the skills taught to students and the demands of an ever-changing business environment. Students want what they learn in school to be relevant to their workplace in the future, and therefore, finance educators need to adjust content and teaching strategies accordingly. They should understand the content of the subject and be able to apply that understanding to real-world problems. Professors who intend to prepare the most qualified workers face a difficult,

but not impossible, task, looking for opportunities to expand their expertise to provide real-life learning for their students.

Finance departments should build a strong relationship with corporate leaders. Corporations should help finance students to practice what they learn in the classrooms. Partnership between academia and practices will have mutual benefit. The researchers will benefit from the study to educate their finance students regarding the real issues of corporate governance and corporate finance as following:

1. Self-assessment corporate governance questionnaire usage will have a far-reaching impact on teaching corporate finance class work.
2. Self-assessment corporate governance questionnaire usage will facilitate students' understanding of theories and practices of corporate finance.
3. Self-assessment corporate governance questionnaire will make students interested in learning more about the subject-matter.

Definition of term

The following term is defined to provide understanding and consistency for this study. Corporate Governance (CG): “the means whereby companies are controlled” (Shapiro, 2002, P.610).

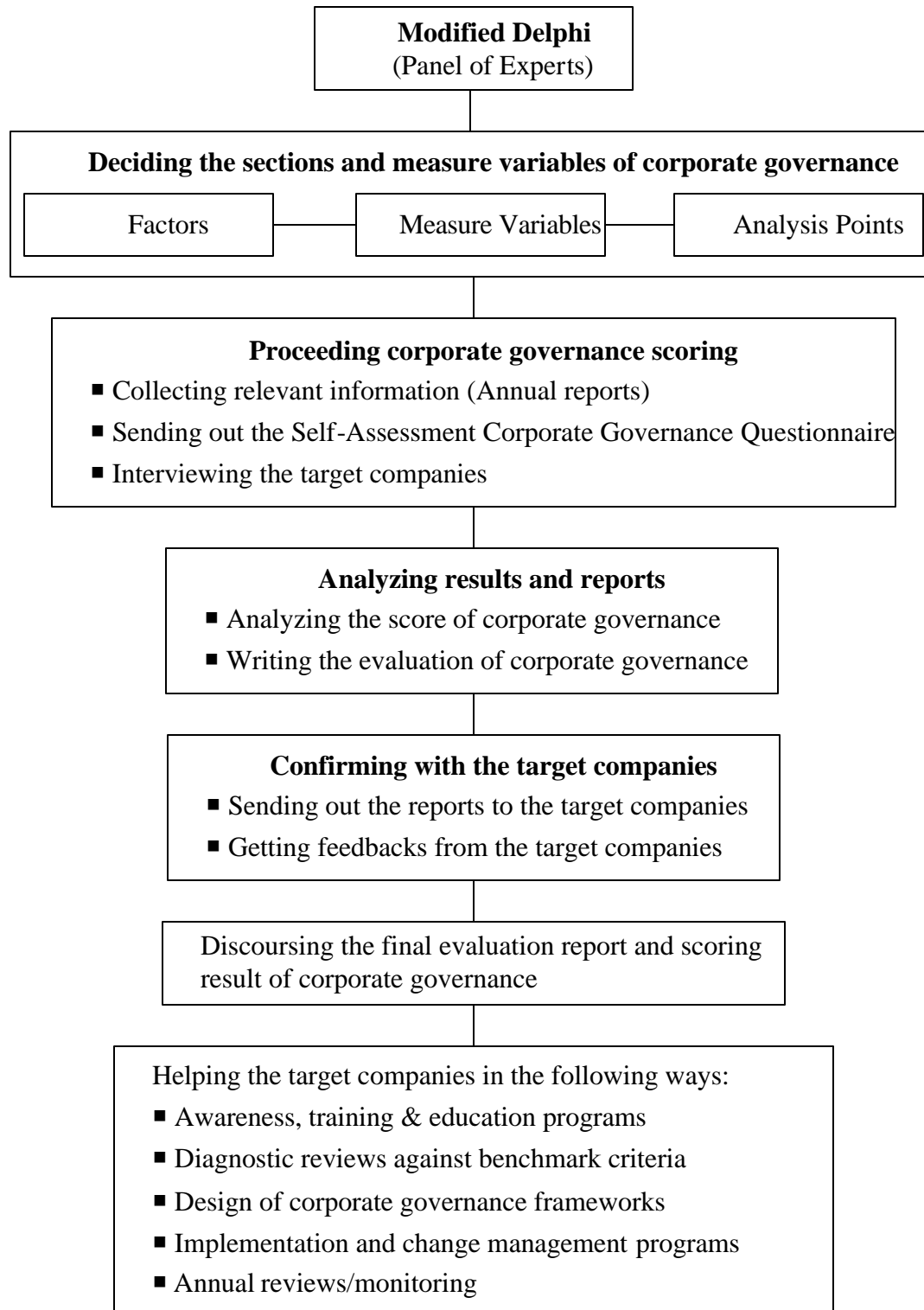
Limitations of the study

The study is limited by the following factors:

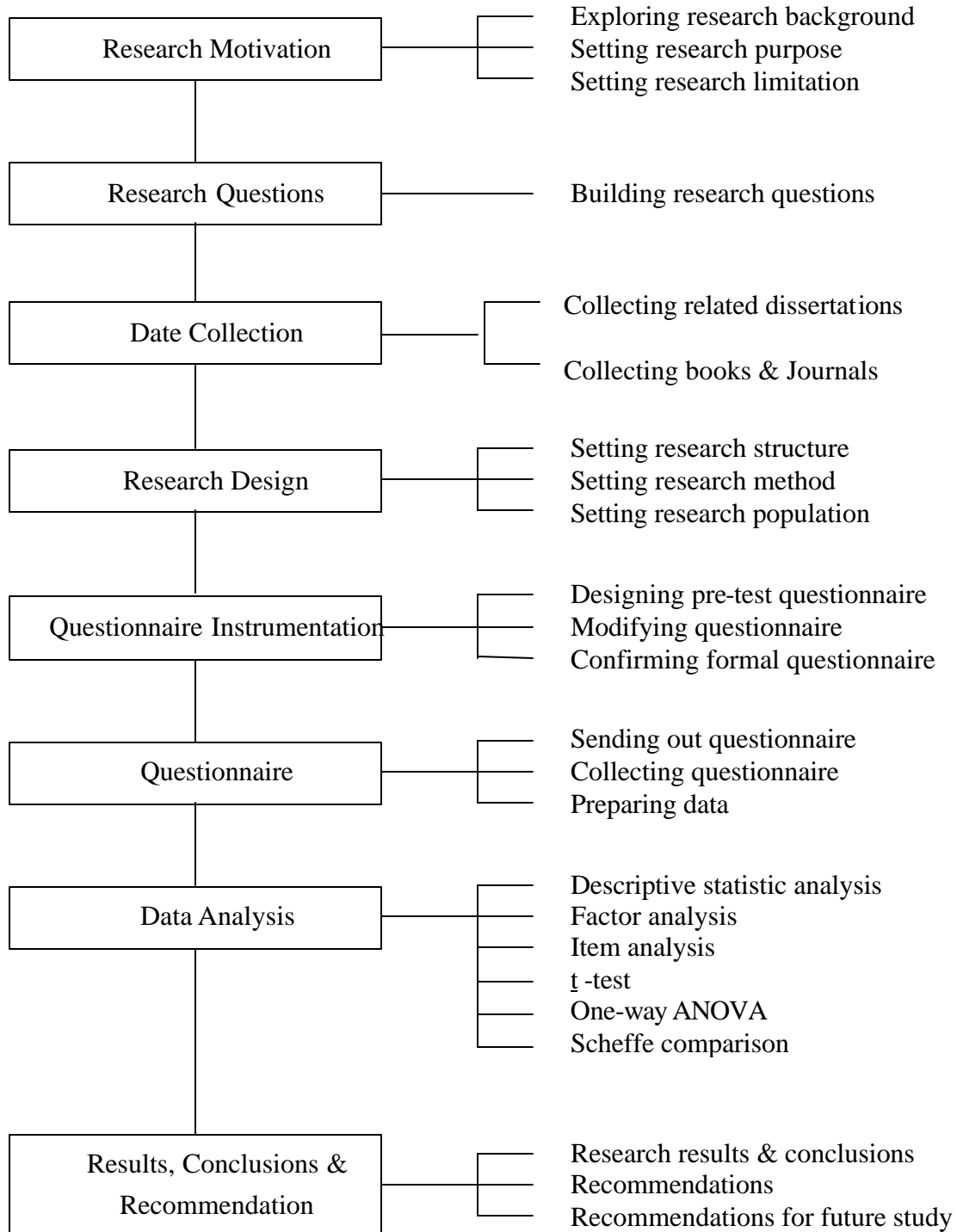
1. An examination of listed financial companies' CEOs in Taiwan may not be representative of the entire listed financial companies' CEOs in Taiwan.
2. As with any self-assessment system, the quality of the evaluation depends greatly on the knowledge, experience and objectivity of the CEO for completing the survey.

RESEARCH STRUCTURE

In this study, the survey questionnaire is designed to be quantitative rather than qualitative in nature and is developed to provide an understanding of how the researchers use self-assessment corporate governance questionnaire to review and to evaluate the quality of corporate governance practices. The research structure is as followed:



Research Procedures



Research Population and Sample

The population in this study will be the entire listed banking/insurance companies' CEOs in Taiwan. There are 48 listed banking/insurance companies within Taiwan Stock Exchange in year 2002. A list of these 48 listed banking/insurance companies within Taiwan Stock Exchange was obtained from Taiwan Stock Exchange Corporation. These 48 listed banking /insurance companies would be grouped into two industries: banking and insurance. The CEO of each company would be contacted by telephone and requested to participate in this study. In order to better the CEOs for the interview, a cover letter and the interview questionnaire will be mailed to each one in advance of the interview. The interview will take place at the office for each of the CEOs and each interview will last half an hour.

Research Instrument

A questionnaire instrument was designed to review and to evaluate the quality of corporate governance practices held by listed banking/insurance companies CEOs in Taiwan regarding their self-assessment corporate governance survey.

Questionnaire Design

The questionnaire instrument was made up of two parts. Part I requested general information and used a checklist response format. This part included net assets, and industry. Part II was comprised of 5 sections that requested to indicate a level of their quality of corporate governance practices.

Validity Test

A critique of the questionnaire instruments will be arranged with the members of the Taipei Society of Investment Professionals as panel experts to test the scope and utility of the research instrument. These members, who have the CFA charter holders, will be served as resource for content validity. Following the critique, modifications of the research instrument will be made as necessary.

Reality Test

Questionnaire pre-test will be used to get reliability coefficient for reliability test.

Meanwhile, Cronbach's test will be used to get interterm consistency for reliability test.

Data Analysis

1. Descriptive statistic analysis: Research question one, three, five, seven, and nine will be answered by computing the mean and standard deviation for responses to questionnaire item in part II.
2. One-way ANOVAs & t test analysis: Research question two, four, six, eight, and ten will be answered by computing a series of one-way analyses of variance (ANOVAs). For each ANOVA, listed banking/ insurance companies' general information will serve as independent variables and means for each questionnaire item in part II will serve as dependent variables.
3. Research question two, four, six, eight, and ten will also be determined by computing a t test. Differences based on listed banking/insurance companies' industry category will be determined by computing a t test for independent means for the response means to each item in part II. All t tests, ANOVAs, and post-hoc tests will use .05 level of significance, and all statistical analyses will be performed using the SPSS statistic package.

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