Integrating International Financial Certifications with University Degree Programs: Economic Principles and the Brazilian Experience

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International financial certifications provide a means for benchmarking and globalizing the curricula of university programs. Four international certifications bodies provide formal means for universities to affiliate with their programs. This paper discusses why such affiliation may valuable to universities and their students. The paper concludes with a discussion of a Brazilian university's experience with such an affiliation program.

INTRODUCTION

At any contemporary meeting of business schools, much of the discussion, both formal and informal, is devoted to globalization. The Association for the Advancement of Collegiate Schools of Business-International (AACSB-I) organized a blue-ribbon task force on the subject and published its findings in hardback form. Globalization of the faculty, the curriculum, and the student experience are major goals for many, perhaps all, of the world's major university-level schools of management.

One tool for accomplish this globalization of university curricula, and for realizing its promised benefits, is benchmarking curricula to those of internationally recognized credentialing organizations. For curricula in finance (and its intellectual cousin, economics), four (4) such international organizations offer opportunities for benchmarking and formal association: the CAIA Association, CFA institute, GARP, and PREMIA. This paper will discuss several aspects of this potential for benchmarking and affiliation: the expected benefits for the university, the economic rationale for the expected benefits, and the opportunities that the four organizations offer. Although no data to test for the realization of the expected benefits of benchmarking and affiliation exist, the paper will conclude with observations on the success of one such affiliation: the Pontifical Catholic University of Rio de Janeiro's Department of Economics' association with CFA Institute.

ACQUIRING AND SIGNALLYING HUMAN CAPITAL

One of the Twentieth Century's most significant developments in the understanding of labor markets was the recognition that individuals embody different degrees of productive capacity (strength, intelligence, job-specific skills) and that they consciously invest in those attributes with the expectation of reward (Becker, 1993 and earlier). Individuals can acquire human capital in a variety of ways: exercise; good nutrition; on-the-job training and experience; and, the subject of this paper, study. At the highest levels, much human capital is acquired through formal education in university settings. An alternative is the study of professional curricula, which may (as in the cases of law and accountancy) be accomplished in a university context; but which may be done on a "self-study" (i.e., non-university) basis.

For human capital to have value, labor market participants must have a mechanism to display their attributes. Thus, among knowledge workers, holding academic or professional credentials, and having visible association with respected credential grantors, is an effective way to signal to the market that one has made an investment in one's embodied human capital (Spence, 1974).

Although there is little literature on how universities compete to attract students, the observed striving for ratings suggests that universities seek to attract students by making the claim that the credentials that they award provide employers (and parents and potential spouses) with a recognized signal of human capital acquisition. Thus, universities have strong incentives to enhance the "luster" of the credentials they offer, especially for their professional programs. Thus, universities, competing for students, have incentives to invest in credible signals of their programs' values.

In the first decade of the Twenty-first Century, university-level schools of business administration began (in a few cases, continued) the process of globalization of their curricula (AACSB-I, 2011). Where once only the presence of international content was sufficient to satisfy the demands of the market and of accreditors, now a globalized curriculum, faculty, and student experience are widely viewed as necessary to meet establish relevance. One such signal, relevant for curricula and faculties in finance, is the alignment of the curriculum with one or more of several global professional certifications.

Economic theory suggests two reasons why the integration of an international financial certification into a degree program (hereinafter, integration) should generate positive returns. First, integration, to the extent that it increases the volume and market-relevancy of the material taught (and learned) in the university setting, enhances the human capital acquired by students. Students, with improved human capital stock, should reap positive returns in the marketplace. The university engaging in integration should have an enhanced ability to recruit students, and, thus, reap rewards of its own. A growing body of research shows that, by enhancing the human capital available to the financial market (especially in emerging markets), integration improves the functioning of those markets, serving a social, as well as a private, purpose.

One may argue, however, that the opportunity to include topics from certification programs exists and that, if a university could include them costlessly, it should do so, even in the absence of opportunities for integration and recognition. The second reason to expect positive returns from integration, however, is uniquely tied to integration itself. Integration, if accompanied by recognition by the international credentialing body, provides a signal to the labor market (for the student) and to the market for university students (for the institution engaging in integration). The authors expect a positive return for both. The paper will explore the role of integration as a signal in these two markets.

A relevant question is why anyone would believe that the curriculum of a professional certification examination is a benchmark for global relevance, any more than would be a curriculum developed by a competent academic faculty. Best practice among credentialing organizations is to conduct practice analyses, and, among global credentialing organizations, these are international efforts. In a practice analysis, focus groups of professionals and employers are asked to respond to questions as to the identities of, and the importance of, the knowledge, skills, and abilities necessary for success in their professions. CFA Institute, for example, has posted a description of the process they use in their practice analysis (Johnson, et al, no date, pp. 3-5). Thus, the curricula of those professional certification programs that follow best practices convey information about international educational standards.

OPPORTUNITIES FOR CURRICULUM INTEGRATION

If the relevant signal of a globally relevant university curriculum in finance is its alignment with that of a global professional certification, universities are tasked with identifying those global certifications. The authors believe that four criteria define a global certification:

- Examinations offered throughout the world;
- A single, global curriculum;
- A standard examination; and
- Members/certificate holders throughout the world.

Using those four criteria, the authors can identify five global certifications. The CAIA Association confers the Chartered Alternative Investment Analyst (CAIA) designation. CFA Institute confers the Chartered Financial Analyst (CFA®) designation and the Certificate in Investment Performance Measurement (CIPM). The Global Association of Risk Professionals (GARP) confers the Financial Risk Manager (FRM) designation. The Professional Risk Managers International Association (PREMIA) confers the Professional Risk Manager (PRM) designation. Each of these groups makes the curriculum topics on which its examinations are based available to universities (or other interested parties). For reasons explained above, universities have incentives to incorporate those curriculum topics into their programs, and to signal to employers and potential students that they have done so. Further, each of these groups has at least one program of university affiliation, through which a university can have objective verification of its having incorporated the global, professional certification.

ONE CASE: CFA PROGRAM PARTNERSHIP

On October 31, 2005, the Management Committee (now known as the Leadership Team) of CFA Institute approved a statement of benefits and requirements for the CFA Program Partners Initiative. On April 6, 2006, the same group, on recommendation of the Director, University Relations, approved the first CFA Program Partner, the Said Business School of the University of Oxford. A principal requirement for any university to become a CFA Program Partner is that it offer at least one degree program that encompasses at least 70 percent of the topics covered in the CFA Candidate Body of Knowledge™, including Ethics and Professional Practice. If the program in questions is at the undergraduate level, it must encompass at least 70 percent of the topics covered in the Level I CFA Curriculum.

At this writing, there are 147 CFA Program Partners, representing 39 countries.

THE BRAZILIAN EXPERIENCE

On October 26, 2010, the Pontificia Universidade Catolica de Rio de Janeiro (hereinafter, PUC-Rio) entered into a CFA Program Partnership, based on the curriculum coverage of its Bachelor of Arts degree program in Economics. It was only the second Brazilian university to enter into such a relationship with CFA Institute (Insper, a private not-for-profit institution in São Paulo, had previously become a CFA Program Partner).

Although the due diligence review for undergraduate-level CFA Program Partners assures that the degree program in question covers at least 70 percent of the topics in the CFA Candidate Body of Knowledge™ that are covered in the Level I CFA examination, including Ethics and Professional Standards, from the outset, the partnership between PUC-Rio and CFA Institute was unlike many of the other CFA Program Partnerships.

First, the program in question was (and remains) an offering of the Department of Economics, not of IAG Business School, the distinguished graduate business school of PUC-Rio. Second, although, as a pontifical institution, PUC-Rio has extensive course offerings in ethics, the CFA Institute *Standards of Practice Handbook,* covering the CFA Code of Ethics and Standards of Practice, is not part of the usual curriculum. For the partnership to take effect, some modification to the major in economics would have to take place.

Adapting the program to incorporate the CFA Institute *Standards of Practice Handbook* was not difficult. Having as part of its curriculum a large set of courses that are meant to prepare its students for their professional lives (be these professional lives in academia, private enterprises or government agencies), it was only natural for the Economic Department to have the CFA Institute *Standards of Practice Handbook* covered in one of the mandatory courses in the students' forth (and final) year. This decision has been praised by students and some of the potential employers that are closer to the Department. On the one hand, the students are very happy to be exposed, at a moment they are about to start their careers, to professional standards of practice that are bound to be very relevant for their future professional life and are not the subject of all other ethics classes they go through at PUC. On the other hand, the employers can be sure that they are recruiting students that have already been already exposed to standards that they (are supposed to) abide to: yet another of dimension of the students' training – namely ethical standards in the analysts' profession – can be, at least partially, delegated to the University.

More importantly, and related to the point that the partner offers an Economics degree (and not a Finance degree as most of the CFA partners), the partnership has sparked changes in the relative importance given to Finance within the program. Indeed, as a result of the CFA certification, the Economics Department at PUC-Rio, several changes have been discussed. The first one refers to an idea of adding extra courses in Equity and Bond Analysis. After the implementation of such additions, a natural step is to use the CFA Research Challenge as a (formal) mechanism to turn the theoretical material learned in those classes into useful practice for the students within the program. The second, which is a natural implication of the decision to expand the set of financial analysis classes to be offered to the students, is the plan to develop a minor/specialization in Finance.

Interestingly, the first conversations within the Department about the idea of having a minor in Finance have brought up the possibility of other minors/specializations to be offered. Put differently, at least indirectly, the CFA certification is likely to induce the creation of minors in Finance and in *othe*r areas. Our interpretation is that the process of applying to the certificate and getting it may have led the Economics department at PUC-Rio to re-think its program, even in dimensions that are not directly related to its "Finance" branch.

This latter point testifies the "human capital accumulation" aspect of the CFA certification process for the Economics Department at PUC-Rio. The demands imposed by the certificating institution helped it in the process of (i) moving towards a larger emphasis in Finance and (ii) starting its process to re-design its whole program. It is believed that the overall impact of this broader process is likely to yield widespread benefits for current and future students.

The other aspect of certification, namely its role as an input in the University's task to provide a credible signal about its students' quality, has been extremely useful for PUC-Rio and its students. The CFA certification has been successfully used in the process of recruiting students and as a way to reassure employers about the quality of candidates from PUC.

CONCLUDING REMARKS

This paper has discussed the role of certification as a fundamental input for Universities 'output in an integrated and global economy. Special emphasis has been placed on (i) how certification enhances the human capital accumulation possibilities for students and (ii) its role in helping Universities to provide a credible signal about their students' abilities. The case of the Economics Department of PUC-Rio was used as an example of the practical benefits brought up by international certification.

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