

## Board-level ethics committees in large European firms

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### Abstract:

After the approval of a code of ethics, the creation of a permanent board-level ethics committee is the next step in the institutionalization of business ethics. This study explores how the board's structure and demographic characteristics explain the decision to form an ethics committee. The analysis is based on the constituents of the Standard and Poor's Europe 350 index. Consistent with our hypotheses, we find that ethics committees are more likely to be found in firms with a lower presence of executive directors and of directors holding MBA degrees. However, we also observe that boards chaired by executive directors seem to favor the creation of an ethics committee. Additionally, as we had anticipated, firms with stronger agency conflicts seem to be more willing to create committees. The analysis conducted with segmented samples reveals that the model has greater explanatory power when applied to firms from common-law and French civil-law countries than when applied to firms from the German-Scandinavian civil-law area. Finally, our results indicate that a firm's country of origin is a more influential factor in explaining the decision to create an ethics committee than the industry to which it belongs or even the magnitude of its agency conflicts.

**Key-words:** Business ethics; ethics committee; social responsibility; corporate governance; board of directors; agency conflicts.

**JEL code:** M14

### Introduction

Almost thirty years ago, Sims (1991, p. 493) wrote: "Ethics in organizations is one of today's hottest topics as evidenced by the plethora of articles in the literature". Interestingly, this statement was made before the Enron, WorldCom and other corporate scandals at the beginning of the century, which led to the enactment of the Sarbanes-Oxley Act (hereinafter, the SOX Act) in the US. The SOX Act legislates ethical behavior for firms and their auditors, requiring the development of codes of ethics for employees accompanied by evidence of training in those codes (Canary and Jennings, 2008; Rockness and Rockness, 2005;). Whereas the actual impact of the SOX Act on the ethical behavior of business executives remains an open question (Stevens, 2004), there can be no doubt that it has encouraged both researchers and practitioners to focus

their attention on business ethics. Therefore, Sims' (1991) statement seems even more relevant today than it was in the early 1990s.

Sims (1991, p. 493) defines the institutionalization of ethics as "(...) getting ethics formally and explicitly into daily business life. That means getting ethics into company policy formation at the board and top management levels and through a formal code, getting ethics into all daily decision making." The author distinguishes three main instruments for the institutionalization of business ethics: the creation of specific committees on the boards of directors (BoD), the approval of codes of ethics, and the implementation of ethics training programs. Scholars have devoted a great deal of attention to the creation by corporations of codes of ethics (Schwartz, 2004), which are considered a necessary but not sufficient condition for guaranteeing ethical behavior (Webley and Werner, 2008) and, to a lesser extent, to the implementation of ethics training programs (Warren et al., 2014). However, even though the principal instrument for the institutionalization of business ethics should be the formation of permanent board-level committees, this topic has been much less investigated.

This study examines the determinants of the creation of *ad hoc* ethics-related committees (ERCs) in BoDs. The main objective is to assess the impact of BoD structure and demographics, first on the decision to form a committee, and second on the type of specific committee created. Regarding the latter point, companies use different names for ERCs (mainly "ethics committee"; "corporate governance committee" and "social responsibility committee"). We base the empirical analysis on the constituents of the Standard and Poor's Europe 350 stock market index (hereinafter S&P350) at the end of 2018, in order to obtain a homogeneous sample composed by the largest European corporations.

The motivation for this study comes first from the growing importance of the institutionalization of business ethics for academics and practitioners alike. The "plethora of articles in the literature" noted by Sims (1991), which has since grown even larger, provide a clear reflection of the interest of this topic in academia. With regard to the real-world relevance of the issue, Sims and Felton (2006) argue that the attention of the media to corporate scandals has led to an increased interest in business ethics courses and classes. Other examples of the practical relevance of the institutionalization of business ethics are the proliferation of codes of ethics and ethics training programs, or the August 2019 declaration of the Business Roundtable association, formed by the chief executive officers (CEOs) of the largest American firms, which redefined the purpose of the corporation in the following terms: "to promote 'an economy that serves all Americans'" (Business Roundtable, 2019). Despite these efforts, as noted by Jamali et al. (2015, p.125): "Formulating and translating corporate social responsibility (CSR) strategy into actual

managerial practices and outcome values remain ongoing challenges for many organizations”; and Medina-Múñoz and Medina-Múñoz (2020) point out the growing demand by the United Nations for a higher engagement of firms regarding the achievement of sustainable development goals. Secondly, despite the strong interest that scholars have shown in the institutionalization of business ethics, to the best of our knowledge no study to date has investigated the drivers of the formation of ERCs. The aim of the present paper is to fill this gap in the literature. This research topic is relevant not only because these committees constitute the natural next step in the institutionalization of business ethics after the approval of a code of ethics, but more importantly, because they confer legitimacy on the firm’s ethical agenda and the signaling effect to the different stakeholders of its commitment to ethical principles (Sims, 1991). In this vein, Stöber et al. (2019) argue that once a firm has a code of ethics, the commitment of the top management to the code is critical for influencing the firm’s ethical culture.

By addressing this gap in the research, we intend to make three main contributions to the literature. First and foremost, we extend a long-standing line of research in business ethics that assesses the role of BoD structure and demographics as the drivers of the decision to approve a code of ethics. This paper goes one step further by investigating how these same determinants may influence the decision to create *ad hoc* ERCs. Moreover, the cross-country and cross-industry nature of our sample of firms allows us to examine the influence of country and industry-specific issues as moderating factors of the decision to create these committees. In this regard, prior related studies (Diaz-Carrion et al., 2019; Frias-Aceituno et al., 2013; García-Sánchez et al., 2015; Rodriguez-Dominguez et al., 2009) have stressed the importance of country-specific characteristics for the institutionalization of business ethics. Secondly, we expect to contribute to the related corporate governance and social responsibility literature by also examining the decision to create specific corporate governance and social responsibility committees. Given that business ethics, corporate governance and social responsibility are not identical concepts (Fischer, 2004), exploring the drivers of the creation of each specific committee is also a challenging issue that is worth addressing here. Finally, we aim to contribute to the management literature by broadening the understanding of the internal organization of the BoD. Specifically, Chen and Wu (2016) have stressed the lack of knowledge about the internal organization of boards through board committees. With these objectives in mind, this study aims to provide an accurate representation of which types of company have decided to form ERCs and, when this has been the case, what kinds of specific committee they have created.

Our results suggest that country-specific issues seem to be more important determinants of the decision to create an ERC than industry-related issues. As regards the relevance of BoD

characteristics, even though the results do not suggest strong effects, we observe some interesting significant relationships that are consistent with our expectations, such as the presence of female directors in the board, or the number of directors with MBA degrees. The results suggesting that ERCs are more likely to be created in companies experiencing stronger agency conflicts are particularly robust.

The paper continues as follows. The next section explores the relationship between the related concepts of business ethics, corporate governance and social responsibility. Then, section 3 reviews the previous literature and develops the hypotheses of the study. Section 4 outlines the design of the research and describes the dataset, and results are presented and discussed in sections 5, 6 and 7. Finally, the last section summarizes the main conclusions, implications, and limitations of the study.

## **2. Business ethics, social responsibility and corporate governance**

The triangle formed by business ethics, social responsibility and corporate governance can be examined from multiple perspectives. Evidently, the nature of the relationships between the three concepts is conditioned by the specific definitions of each one. According to Carroll's pyramid (Carroll, 1991), business ethics is included in the firm's social responsibility, as the third dimension of responsibility. Fischer (2004) argues that this view is consistent with the approach adopted by many business ethics texts based on the relationship between firms and their stakeholders (both within the organization and outside it, including the natural environment and society), and also with the view of some management texts. For example, Samson and Daft (2003, p. 147) note that ethics "deals with internal values that are a part of corporate culture and shapes decisions concerning social responsibility with respect to the external environment". The view that ethics is already included in the concept of social responsibility becomes crucial in Boatright's (2000, p. 340) interpretation that social responsibility involves "(...) the selection of corporate goals and the evaluation of outcomes not solely by the criteria of profitability and organizational well-being but by ethical standards or judgments of social desirability".<sup>1</sup> So what is the relationship of corporate governance with business ethics and social responsibility? Following the stakeholder approach, corporate governance "deals with the rights and responsibilities of an organization's board, its management, shareholders and other stakeholders (OECD, 2004) and requires balancing their interests with the economic goals of the organization as well as the

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<sup>1</sup> See Hammann et al. (2009) for a further discussion of the relationship between social responsibility and ethical behavior.

interests of society” (Bonn and Fisher, 2005, p. 730). Cadbury (2000) specifically refers to the function of corporate governance of aligning the interest of individuals, corporations, and society. According to Bonn and Fisher (2005), the above definition visualizes corporate governance as an overarching concept with implications for the organization’s approach to social responsibility and business ethics. These authors provide an interesting example of this approach when they refer to the Australian Stock Exchange (ASX) Corporate Governance Council’s identification of ten corporate governance principles, among them, the promotion of ethical and responsible decision-making and the recognition of the legitimate interests of stakeholders (ASX, 2003).

### **3. Background and hypothesis development**

According to the discussion conducted in the section above, ethics can be regarded as a dimension of corporate governance. Therefore, firms with sounder governance practices and structures should also show stronger a commitment to ethical issues. We extend the theoretical framework used in prior studies on the relationship between BoD characteristics and the decision to elaborate a code of ethics in order to analyse the creation of ERCs. Next, we discuss which specific characteristics of the BoD are analysed and how they are measured, and develop our hypotheses for validation in the study.

#### *3.1. BoD structure*

The understanding that the structure of the BoD should affect the ethical behavior of the firm has sound theoretical support. For example, according to the agency theory, the BoD is a key instrument for monitoring the opportunism of the top management team (Eisenhardt, 1989; Jensen and Meckling, 1976). Thus, a more independent BoD should be better able to perform this role. On the other hand, the stakeholder theory (Freeman, 1984) criticizes the agency theory’s exclusive focus on shareholders and argues that outside directors serve as representatives and protectors of a broad range of stakeholders.<sup>2</sup> According to Wang and Dewhirst (1992), independent directors intend to enhance not only financial performance but corporate social performance as well. From the point of view of resource dependence theorists (Pfeffer and Salancik, 1978), outside directors may be able to provide more resources to the firm than executive or inside directors and will be more likely to oppose a definition of the firm’s goal based only on financial performance, being more sensitive towards the needs of the society (Ibrahim and Angelidis, 1994). Similarly, Ibrahim et al. (2003) argue that whereas executive directors are,

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<sup>2</sup> Griffin (2017) considers four primary firm-stakeholder relationships: investors, employees, customers, and communities.

basically, shareholder-focused, independent directors are more stakeholder-oriented, and Post et al. (2011) stress that independent directors generally adopt a wider role, focused not just on the financial success of the firm but also on achieving more collective goals. Finally, Chams and Garcia-Blandon (2019) note that due to lower explicit pressure, independent directors tend to have a more long-term perspective than executive directors, and are therefore more likely to develop organizational goals beyond materialistic values.

The available evidence generally supports the former view, as prior studies have shown a robust link between board independence and social responsibility (Johnson and Greening, 1999). More specifically, there is evidence that a more independent BoD positively impacts the level of implementation and scope of the code of ethics (García-Sánchez et al., 2015) and obliges managers to be more socially responsible (García-Sánchez, 2020). In the same vein, prior studies indicate that companies whose CEOs are also members of the BoD (i.e., with a less independent BoD) tend to be more financially oriented and to show less concern towards societal issues (Webb, 2004). For their part, Lanis and Richardson (2011) observe that firms with a higher proportion of outside directors are less likely to be tax aggressive. Finally, the BoD's level of independence has also been found to be an important predictor of the presence of another specific committee on the board with a fundamental monitoring role such as the audit committee (Menon and Williams, 1994). It should be noted, however, that not all previous studies have reported a significant relationship between BoD independence and the social dimension of the firm (see, for example, Chams and Garcia-Blandon, 2019); and Ibrahim et al. (2003) find that whereas outside directors exhibit greater concern than executive directors regarding the discretionary component of corporate responsibility, no differences were observed with respect to the legal and ethical dimensions of corporate social responsibility.

This study uses three different indicators for measuring BoD independence: the percentage of executive directors, the presence of the CEO on the BoD and the board's internal chairmanship.<sup>3</sup> According to the discussion above, the expected impact of the structure of the BoD on the likelihood that the firm creates an ERC is summarized in these three hypotheses:

**Hypothesis #1a (H1a).** The presence of executive directors on the BoD is negatively and significantly associated with the likelihood of creating an ERC.

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<sup>3</sup> Like other authors, Chams and Garcia-Blandon (2019) specifically refer to CEO duality, which means that the CEO is also the chair of the BoD. Therefore, these prior studies do not consider the fact that the CEO may be a director but not the chair. Our approach includes this possibility.

**Hypothesis #1b (H1b).** The appointment of the CEO as a director is negatively and significantly associated with the likelihood of creating an ERC.

**Hypothesis #1c (H1c).** The internal chairmanship of the BoD is negatively and significantly associated with the likelihood of creating an ERC.

### *3.2. BoD demographics*

Both the resource dependence theory and the stakeholder theory provide arguments in favor of a significant influence of BoD demographics on the firm's ethical behavior. This study addresses two dimensions of BoD demographics: gender diversity, and educational background.

According to Fernández-Gago et al. (2018), the stakeholder theory shares strong linkages with the resource dependence theory with regard to the relation between board diversity and social responsibility. Chang et al. (2017) point out that in relation to stakeholder management, directors with diverse backgrounds are regarded as a "useful" resource as they provide a better understanding of multiple stakeholders' interests and demands. Focusing on the gender diversity of the BoD, Ayuso and Argandoña (2007) note that as the resource dependence theory posits that the members of the BoD are expected to bring resources to the firm on the basis of their respective individual backgrounds, female directors will increase the attention towards the social responsibility issue of gender imbalance. Similarly, Chams and Garcia-Blandon (2019) argue that gender diversity in the BoD appears to be an added value of governance, as it provides several advantages (Davidson and Freudenburg, 1996; Galbreath, 2017 and 2018). Specifically, women appear to be more concerned than men about societal matters (Diamantopoulos et al., 2003; Liao et al., 2015; Nadeem et al., 2017). Supporting this view, García-Sánchez et al. (2015) find that the presence of women in the BoD positively impacts the implementation and scope of codes of ethics, whereas Byron and Post's (2016) meta-analysis shows a positive relation between the participation of women in the BoD and corporate social performance. Similarly, Alonso-Almeida et al. (2017) observe that women managers tend to be more effective than men at pursuing company sustainability, and Chams and Garcia-Blandon (2019) report that female directors are positively related with sustainability. More specifically, Lanis et al. (2017) observe a negative relationship between the presence of female directors on the BoD and tax aggressiveness; and the results of Adams and Ferreira (2009) indicate that female directors are more diligent than male directors in terms of their participation on committees charged with transparent reporting, such as auditing and corporate governance committees. Consistent with this view Garcia-Blandon et al. (2019a) observe that female auditors provide higher-quality audit services. However, in

other studies the importance of the gender diversity of the BoD is less evident (Li and Chen, 2018; Pucheta-Martínez et al., 2019; Rodríguez-Ariza et al. 2017).

Accordingly, based on the above discussion, hypothesis 2 proposes:

**Hypothesis #2 (H2).** The presence of female directors on the BoD is positively and significantly associated with the likelihood of creating an ERC.

Regarding the educational background of the members of the BoD, the stakeholder theory propounds that the willingness of the top management team to attend to stakeholders' interests largely depends on the values and moral guidelines of these managers (Huang, 2013). According to Hambrick and Mason (1984), a person's education provides an indicator of their values and cognitive preferences. Previous studies suggest that there exists a direct relationship between the educational background of directors and the concern of the BoD with societal and environmental matters (Elm et al., 2001). Post et al. (2011) justifies this association in terms of the broader concern with, and better understanding of, sustainability issues among executives with stronger educational backgrounds. However, neither Post et al. (2011) nor Chams and Garcia-Blandon (2019) report any significant relationship between the number of directors with advanced educational degrees and either environmental social responsibility (Post et al., 2011) or sustainability (Chams and Garcia-Blandon, 2019). Besides directors' educational level, we also consider their educational specialization. Collins and Moore (1970) argue that MBA candidates are probably less innovative than "self-made" executives, and Hambrick and Mason (1984) point out that executives holding MBA degrees are more likely to be aggressive managers with respect to business operations, and therefore to be less concerned about environmental and societal matters. This view is supported by the findings of Bertrand and Schoar (2003). However, Chams and Garcia-Blandon (2019) report an insignificant relationship between the number of directors with MBA degrees and sustainability, and Garcia-Blandon et al. (2019b) conclude that although CEOs with MBA degrees tend to perform more poorly on sustainability rankings, the results are not statistically significant.

Based on the above discussion, the next hypotheses of the study are formulated as follows:

**Hypothesis #3a (H3a).** The number of directors with advanced educational degrees is positively and significantly associated with the likelihood of creating an ERC.

**Hypothesis #3b (H3b).** The number of directors with MBA degrees is negatively and significantly associated with the likelihood of creating an ERC.

#### **4. Research design and sample selection**



#### 4.1. Research design

Because the decision to form an ERC is captured by a dichotomous variable, the research design is based on the multivariate logistic model illustrated below:

$$\text{BoD committee} = f(\text{BoD structure, BoD demographics, Controls, Country FE, Industry FE}) \quad (1)$$

Table 1 provides a summary description of the variables included in the model. We define four specific dependent variables for *BoD committee*: *ERCOM*, *CGCOM*, *SRCOM* and *ETHCOM*, and conduct separate cross-section estimations of the multivariate logistic model for each one. According to the hypotheses developed in the previous section, we expect firms with more independent BoDs, as well as with more female directors and directors with strong educational backgrounds, to be more willing to form ERCs. Conversely, a larger number of directors holding MBA degrees would make the creation of an ERC less likely. Therefore, we predict positive coefficients for *FEMDTOR* and *ADVEDUC*, and negative coefficients for *EXEDTORS*, *CEODTOR*, *EXECHAIR* and *MBA*.

**Insert Table 1 around here**

Next, we justify the choice of the control variables included as independent variables in the model and discuss the expected relationships with the decision to create ERCs. Noreen (1988, p. 359) argues that the agency theory provides the best possible framework to study the close connections between ethics and economics. According to the author, "(...) at the heart of agency theory, (...), is the assumption that people act unreservedly in their own narrowly defined self-interest with, if necessary, guile and deceit". Jensen and Meckling (1976) identify the typical conflicts of interest in the firm (between shareholders and managers, and between shareholders and bondholders) and deal with the implications of opportunistic behavior within the firm. Following this view, the need for ERCs becomes more evident when the company faces stronger agency problems. Therefore, as in prior related studies (e.g., García-Sánchez et al., 2015) the control variables included in the model intend to capture the magnitude of the firm's agency problems. Specifically, larger firms (*FIRMSIZE*) provide more room for opportunistic behavior, and consequently, face potentially higher agency costs. Similarly, as one of the main conflicts of interest within the firm is between shareholders and bondholders, higher agency costs are expected for highly leveraged firms (*LEVERAGE*). Regarding the ownership structure of the company, since Berle and Means (1932) it has been accepted that more disperse equity ownership (*FREEFLOAT*) provides more incentives to shareholders to free ride on each other's

efforts to monitor the firm's management (Gorton and Schmid, 1999). On the other hand, institutional investors (*INSTITOW*), who are becoming increasingly influential in the global financial markets (Wen, 2009), will reduce agency costs as they have strong incentives to oversee and control managers (e.g., Ingley and Van der Walt, 2004). As for insider ownership (*INSIDOWN*), it is usually associated with fewer agency problems (Jensen and Meckling, 1976), and in fact, one of the standard policies implemented by corporations to reduce agency costs consists in converting managers into shareholders. Finally, beyond the framework of the agency theory, large BoDs (*BOARDSIZE*) are more able to integrate directors with different profiles, backgrounds and concerns. According to Chams and Garcia-Blandon (2019), this normally makes them more sympathetic towards stakeholders' concerns and more likely to engage in social and ecological practices. Some prior studies have revealed a positive correlation between the size of the BoD and the social performance of the firm (Frias-Aceituno et al., 2012; Ntim and Soobaroyen, 2013).

Accordingly, we expect positive effects for *FIRMSIZE*, *LEVERAGE*, *FREEFLOAT* and *BOARDSIZE*, and negative effects for *INSIDOWN* and *INSTITOW*.

#### 4.2. Sample Selection

The empirical analysis is based on the constituents of the S&P350 at the end of 2018. This stock market index comprises the largest companies in the European region and is rebalanced on a quarterly basis. We establish which constituents of the index had formed a BoD *ad hoc* committee labelled as "ethics committee", "corporate governance committee" or "social responsibility committee" by the end of 2018. All the necessary information for constructing the variables in the model, including the presence of these committees, is obtained from Capital IQ, a market intelligence platform designed by Standard & Poor's. However, Capital IQ does not provide historical information about the composition of firms' BoDs, or the specific committees of the BoDs, or the year when these committees were formed, but only information for the current year; for this reason, we have decided to base the empirical analysis on the year 2018. Four observations were removed due to missing data for at least one variable, and so the final sample consists of 346 observations. The use of a stock market index as the base for the empirical analysis offers the advantage of increasing the comparability of the companies in the sample, and therefore reduces the potential problems caused by the omission of relevant variables in the model. Table 2 summarizes the distribution of the companies by industry, country, and group of countries based on the legal tradition. As regards the industry composition, the table shows that industry and finance are the best represented sectors, whereas health care, utilities, information technology, energy and real estate are the sectors with the fewest companies. With respect to the country composition, the UK is by a considerable way the most strongly represented country in

the index, with almost a quarter of the total sample. France, Germany and Switzerland follow, each with between 10% and 14% of the sample. Luxembourg, Austria and Portugal are the countries with the lowest representation. Afterwards, we group countries according to LaPorta et al.'s (1998) classification scheme by the legal tradition into: common law (the UK and Ireland), French civil-law (France, Spain, Belgium, Luxembourg, Italy, Netherlands and Portugal), German civil-law (Germany, Switzerland and Austria) and Scandinavian civil-law (Sweden, Denmark, Finland and Norway). Overall, a third of the firms in the sample belong to French civil-law countries, 27% to common-law countries, 23% to German civil-law countries and the remaining 16% to Scandinavian civil-law countries.

### **Insert Table 2 around here**

Table 3 summarizes the information for the variables used in the empirical analysis. Regarding the size and composition of the BoD, the figures indicate an average of 12 directors. Interestingly, although the chair of the BoD is held by an executive director in only 18% of cases, in 61% the CEO is also a member of the BoD. The number of executive directors is relatively small, representing only 12% of total BoD members. As for the BoD demographics, female directors account for almost a third of the total members and, notably, not one company has more female than male directors. Finally, almost 40% of BoD members hold master's degrees or PhDs, whereas 21% hold MBA degrees.

### **Insert Table 3 around here**

## **5. Descriptive statistics and univariate analysis**

This section begins with an overview of the distribution of the companies that have formed ERCs, both geographically and according to industry. We then conduct a univariate statistical analysis to examine the relationship between the likelihood of having an ERC and the independent variables in the model. Table 4 provides detailed information about which types of committees have been created by the largest European corporations. Hence, almost 40% of the firms have at least one committee, labelled as "corporate governance committee" (28% of cases), "social responsibility committee" (14%) or "ethics committee" (7%). Moreover, in about half of the cases, companies have created two of these committees, though none has all three types. As for the country distribution,<sup>4</sup> Panel A shows that the ones with the largest proportion of firms with ERCs are France (71%) and the Netherlands (53%), followed by Switzerland, the UK, Italy and Ireland,

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<sup>4</sup> We focus the discussion on the countries with the largest number of companies. For countries such as Austria or Portugal, with just a few firms in the sample, no conclusions can be drawn.

with percentages below 50%. Conversely, ERCs are relatively uncommon in Denmark (8%), Sweden (8%) and Germany (14%). Focusing on groups of countries, 51% of the companies from the French civil-law region have formed ERCs (inside this region, the percentage ranges between 16% in Spain and 71% in France). The overall percentage is slightly lower in the common-law region (with similar values for Ireland and the UK) and markedly lower in the German civil-law region (with strong differences between Germany and Switzerland). However, the Scandinavian civil-law region is the area with the lowest percentage of firms with ERCs (especially Sweden and Denmark). As for the distribution of the specific types of ERC across regions, Panel B shows that common-law and French civil-law countries follow a relatively homogeneous pattern. Moreover, ethics committees are particularly rare in the German civil-law region, and social responsibility committees are non-existent in the Scandinavian civil-law region. Finally, the distribution of ERCs across industries (depicted in Panel C) reveals that they are more common in the health care and financial sectors than in other industries. These results are not surprising: in the case of the health care sector due to the obvious ethical implications of the activity, and in the financial sector they may represent a straightforward response to the financial crisis of 2008. Moreover, the types of committee formed in both sectors are very similar. Finally, two intriguing findings in Table 4 are the relatively high presence of ERCs in the energy and utility sectors and the reverse situation with respect to information technology companies.

**Insert Table 4 around here**

We conduct *Pearson Chi-square* tests to further explore the statistical significance of geographical and industry differences in the number of companies with ERCs. The results, displayed in Table 5, indicate that regardless of how ERCs are labelled, they are not homogeneously distributed across countries or groups of countries. This result corroborates García-Sánchez et al. (2015)'s findings regarding the international scope and level of implementation of codes of ethics. Another interesting finding is that, whereas Table 4 shows that ERCs are more common in some industries than in others, in Table 5 these differences are statistically insignificant, with the sole exception of the corporate governance committee.

**Insert Table 5 around here**

Table 6 summarizes the univariate analysis of differences of means for the independent variables of the model, distinguishing between companies with and without ERCs. The table displays the results of the *t*-test of differences for the continuous variables and the *Pearson Chi-square* test for the discrete variables. Regarding the variables measuring BoD independence, the presence of executive directors does not seem to influence the existence of ERCs. However, these

committees are more frequent when the CEO is also a member of the BoD, and also when the BoD is chaired by an executive director. While these results do not support hypotheses (H1b) and (H1c), they suggest an interesting interpretation in terms of the firm's public image. Hence, the creation of ERCs may intend to offset the negative image in the quality of governance caused by nominating the CEO as a director or by appointing an executive director as the chair of the BoD. Conversely, for the variables that account for BoD demographics, neither the presence of female directors nor the educational background of the members of the BoD (*ADVEDUC* and *MBA*) seem to be significantly associated with the likelihood that the firm will create an ERC. Finally, with regard to the control variables, Table 6 depicts significant differences for *BOARDSIZE*, *LEVERAGE* and *INSIDOWN*, indicating that ERCs are more frequent in firms with larger BoDs, higher financial leverage, and lower presence of insider shareholders. All these results are consistent with our expectations.

**Insert Table 6 around here**

Table 7 displays Pearson correlation coefficients with levels of significance for the independent variables included in the model. The main goal of the table is to assess the potential multicollinearity problems in the multivariate analysis to be conducted in the next section. In general, the correlations cannot be considered as excessively large (there are only two coefficients over 50%), and so we do not expect serious multicollinearity problems in the dataset. Table 7 also confirms the expected positive association between the three variables accounting for the independence of the BoD (*EXEDTORS*, *CEODTOR* and *EXECHAIR*). Additionally, a larger presence of institutional shareholders is associated with less independent BoDs, as shown by the strong and positive correlation of *INSTITOW* with both *EXEDTORS* and *CEODTOR*.

**Insert Table 7 around here**

## **6. Multivariate analysis**

Table 8 displays the results of the cross-sectional estimations of the multivariate logistic model depicted by (1), which intends to explain the likelihood that a firm has formed an ERC in terms of the BoD's structure and demographics, and a set of control variables. To avoid the negative impact of extreme values, the continuous variables have been winsorized at the 1st and 99th percentiles. Additionally, because the application of the Breusch-Pagan test revealed the presence of heteroscedasticity in the dataset, significance tests are conducted with robust standard errors. We perform four estimations, one for each specific definition of the committee (*ERCOM* in column (1), *CGCOM* in column (2), *SRCOM* in column (3) and *ETHCOM* in column (4)).

All the estimations are significant at the usual statistical levels ( $p\text{-value} < 0.01$ ) with pseudo  $R\text{-squared}$  ranging between 25% in the estimation of the model conducted for *SRCOM* and 36% in the estimation for *CGCOM*. Even though the relatively low correlations observed in Table 7 do not lead us to expect serious multicollinearity in the dataset, we have computed the variance inflation factors (VIFs) to further assess potential multicollinearity problems. The relatively low VIFs (average of 1.54 with a maximum value of 2.42 for the variable *EXEDTORS*) support our initial view that there will be no serious effects of multicollinearity on the estimates of the logistic model.

#### Insert Table 8 around here

With regard to the variables of interest capturing the level of independence of the BoD, Table 8 shows that *EXEDTORS* presents negative and significant coefficients in the estimations of the models with *ERCOM* and *CGCOM* as dependent variables ( $p\text{-value} < 0.1$ ) and insignificant coefficients in the remaining estimations. Hence, executive directors seem to act as a deterrent against the creation of ERCs, providing partial support for the first hypothesis of the study (H1a) of a negative association between the number of executive directors and the likelihood of forming ERCs. Conversely, the appointment of the CEO as a director does not seem to influence the decision to create ERCs. We have hypothesized (H1b) a negative and significant coefficient for *CEODTOR*, yet in Table 8 the variable presents insignificant coefficients in all the estimations except for *ETHCOM* ( $p\text{-value} < 0.10$  and positive sign). Overall, this unexpected result supports García-Sánchez et al. (2015), who observed that CEO duality does not affect the decision to develop a code of ethics. Consistent with the idea that executive directors are less stakeholder-focused (Ibrahim et al., 2003), we hypothesize that ERCs will be less likely when the BoD is chaired by an executive director (H1c). Nevertheless, the results do not support this view, as *EXECHAIR* presents positive and significant coefficients in the estimations for *ERCOM* and *SRCOM* ( $p\text{-value} < 0.05$  in the estimation for *ERCOM* and  $p\text{-value} < 0.10$  in the estimation for *SRCOM*) and insignificant coefficients in the remaining estimations. Summing up, the structure of the BoD does not seem to have a strong impact on the decision to form ERCs. This result is somewhat surprising, given the leading role of the BoD in planning and monitoring the firm's ethical behavior (Bonn and Fisher, 2005; Jones and Pollitt, 1999). The negative and significant coefficient for *EXEDTORS* in column (1) is consistent with the agency theory because a large number of executive directors should make the creation of ERCs less likely, as these committees are expected to reduce opportunism in the top management team (Eisenhardt, 1989; Jensen and Meckling, 1976). In this line, it makes perfect sense that the specific *ad hoc* committee that drives the significance of *EXEDTORS* is the corporate governance committee (results reported in column (2)), as this is the

committee specifically devoted to monitoring the top management team. Additionally, this finding is also consistent with some prior studies which have shown that the presence of inside directors makes the creation of a code of ethics less likely (Rodriguez-Dominguez et al., 2009).

The evidence for the variables capturing BoD demographics shows that female directors do not seem to have a strong impact on the decision to form ERCs. Only in the estimation for *SRCOM* do the results indicate a significant relationship, in the expected direction, providing partial support for hypothesis (H2). Both the stakeholder theory and the resource dependence theory predict a positive impact of gender diversity on business ethics, social responsibility and sustainability issues. Moreover, the results reported by most prior related studies (e.g., Chams and Garcia-Blandon, 2019; García-Sánchez et al., 2015; Landry et al., 2016; Setó-Pamies, 2015) are consistent with both theories. In this regard, the rather weak results reported for *FEMDTOR* in Table 8 are at odds not just with the predictions of both theories, but also with most of the available evidence. Moreover, the fact that our results suggest that female directors seem to be more concerned with social responsibility issues than with corporate governance or business ethics is an interesting issue to explore, with potentially important implications not just for the business ethics, corporate governance and social responsibility literature but for gender studies literature as well.

Finally, with regard to the educational background of the BoD, we find that the number of directors with an advanced educational degree (*ADVEDUC*) does not influence the decision to form an ERC. Thus, no support is provided for hypothesis (H3a). In the framework of the stakeholder theory, Huang (2013) argues that the willingness to attend to the interests of the different stakeholders of the firm depends on values and moral guidelines. Because education provides an indicator of these values (Hambrick and Mason, 1984), we anticipated a positive and significant coefficient for *ADVEDUC*. However, the insignificant results observed in Table 8 are consistent with the findings of Post et al. (2011) and Chams and Garcia-Blandon (2019) who also fail to observe any significant relationship between the number of directors with advanced degrees and the firms' concern with sustainability matters. Conversely, we provide some evidence that a larger number of directors holding MBA degrees is negatively associated with the likelihood of forming ERCs. Whereas *MBA* presents negative coefficients in all the estimations, only in the estimation for *ERCOM* does the coefficient become significant at the usual levels ( $p\text{-value} < 0.05$ ). Therefore, this result provides partial support for hypothesis (H3b) of a negative association between directors holding MBA degrees and ERCs. Considered together, the results for *ADVEDUC* and *MBA* seem to suggest that beyond a certain threshold, the area of education

may become a more important determinant than the level, as measured by academic degrees, in explaining the importance of education on a person's values.

Even though in the above discussion neither the structure nor the demographics of the BoD seem to have a strong impact on the decision to form ERCs, the opposite holds for the control variables, most of which account for the magnitude of agency conflicts. As proof of robustness of the research design, all the control variables present significant coefficients in at least one estimation and, with only two exceptions (*FREEFLOAT* and *INSTITOW* in the estimation for *ETHCOM*), the coefficients present the predicted sign. Interestingly, when we compare the results across estimations, the relationship between the variables accounting for agency conflicts and the likelihood that the company formed an ERC is stronger for *CGCOM* than for *SRCOM* or *ETHCOM*. Therefore, although corporate governance, social responsibility and business ethics are interrelated concepts, the results suggest that, as expected, agency conflicts are more closely associated with corporate governance than with social responsibility or business ethics issues. Moreover, these results indicate that the agency theory provides a suitable framework for the investigation of the firm's decision to form an ERC.

Because of the nature of the variables of interest of this study, which aim to capture the structure and demographic characteristics of BoDs, we cannot rule out the presence of endogeneity in the model. This would be the case, for example, if the existence of an ethics committee increased the level of independence of the BoD, for instance by favoring the appointment of a larger number of independent directors. Unfortunately, Capital IQ, the database used to construct the variables in the model, does not provide either the date when the *ad hoc* committees of the BoD were created or any information about its historical composition. These limitations in our database reduce the possibility of exploring further the potential impact of endogeneity on our results.

## **7. Additional analyses**

### *7.1. The legal tradition of the home country*

This analysis explores whether the relationship between the independent variables and the likelihood that the company formed an ERC is conditioned by the legal tradition of the firm's home country. The analysis is important due to the differences between common-law and civil-law jurisdictions with respect to corporate governance structures and practices. Family-owned firms (with lower potential agency conflicts between managers and shareholders) are more prevalent in civil-law than in common-law countries (Faccio and Lang, 2002), and shareholders



tend to be more actively engaged with the progress of the corporation in the common-law jurisdiction. This view is supported by Black and Coffee (1994), who point out that the UK legal environment encourages the intervention of activist shareholders. Moreover, Ivanova (2017) states that the UK has the strongest tradition of active shareholder ownership of all European countries, and Rennebooga and Szilagyi (2013) argue that shareholder participation at annual general meetings is higher in the UK than in the stakeholder-oriented governance regimes of continental Europe. Besides, García-Sánchez et al. (2015) provide evidence that the firm's country of origin is a significant moderating factor of the relationship between the BoD and the scope and implementation of codes of ethics. Therefore, we expect the relationship between the scale of the firm's agency conflicts and the likelihood of its forming an ERC to be more evident in the common-law jurisdiction, where shareholders are more vigilant and committed to the progress of the corporation. Accordingly, we formulate the following hypothesis:

**Hypothesis #4 (H4):** The scale of agency conflicts is a more important driver of the decision to create ERCs in common-law than in civil-law countries.

We conduct three additional estimations of the model, differentiating between firms from common-law, French civil-law and German-Scandinavian civil-law countries. The relatively small size of the sample combined with the low number of firms with *SRCOM* or *ETHCOM* argue against differentiating by type of committee. Therefore, in this analysis the dependent variable is *ERCOM*, and no estimations are conducted for any of the alternative dependent variables. Besides, due to the relatively low number of firms from the Scandinavian and German civil-law regions, and given the similarities between these areas, the two subsamples have been merged into a new German-Scandinavian civil-law sample. Nevertheless, despite these changes, the relatively small size of the segmented samples still limits the analysis, the results of which are displayed in Table 9.<sup>5</sup>

#### Insert Table 9 around here

As in the above estimations, cross-sectional estimations of the logistic model depicted by (1) have been conducted and significance tests performed with robust standard errors. A first interesting finding is that both the global significance and the *Pseudo R-squared* confirm that the explanatory ability of the model is stronger when applied to the French civil-law and common-law regions than to the German-Scandinavian civil-law region. Besides, results for the French civil-law and common-law subsamples are relatively similar in terms of the variables that show significant results. Regarding hypothesis (H4), if we focus on common-law versus German-

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<sup>5</sup> The independent variable *CEODTOR* has been automatically dropped in the estimation with the common-law subsample, because in all the companies from this region the CEO is also a member of the BoD.

Scandinavian civil-law countries, the hypothesis seems to be confirmed (four of the proxies for agency problems present significant coefficients in the common-law subsample, compared with only two in the German-Scandinavian civil-law context). However, the conclusion is different if we compare the common-law and the French civil-law subsamples, which present quite similar results. Therefore, we conclude that the figures in Table 9 do not provide support for H4.

Regarding BoD variables, while the positive and significant coefficient of *EXECHAIR* displayed in Table 8 seems to be driven by the companies from French civil-law countries, the negative and significant coefficient for *EXEDTORS* seems to be explained by firms from the common-law region. With regard to the educational background of directors, while *ADVEDUC* shows insignificant results in the estimations displayed in Table 8, the results shown in Table 9 are significant, in the predicted direction, for the German-Scandinavian subsample ( $p\text{-value} < 0.05$ ) and marginally significant, though in the unexpected direction, for the common-law subsample ( $p\text{-value} < 0.10$ ). These conflicting results likely explain the lack of significant effects observed in Table 8 for *ADVEDUC*. Similarly, the negative and significant coefficient of *MBA* in Table 8 seems to be driven by French civil-law firms.

## 7.2. The relative importance of country, industry and agency conflicts issues

This last analysis intends to shed light on the respective importance of country, industry and agency conflicts issues on the decision to form ERCs. The preliminary statistical analysis summarized in Table 5 suggested that the country of origin would be a more determinant driver than the industry to which the firm belongs. To implement this analysis, we perform three new estimations of the multivariate logistic model depicted by (1) whose results are shown in Table 10. For reasons of simplicity, only the estimations for *ERCOM* are displayed. Column (1) reproduces the first column of Table 8, which includes the variables of interest, the control variables and the country and industry fixed effects. The remaining columns in Table 10 show the estimates of the model after removing: industry fixed effects (column (2)), country fixed effects (column (3)) and the control variables capturing agency conflicts (column (4)). The examination of the levels of global significance and *Pseudo R-squared* values confirms the rather limited impact of industry-specific issues on the decision to form ERCs, as the explanatory power falls from 28% in column (1) to 24% in column (2). Conversely, as Table 5 suggested, country-specific issues are critical to explaining this decision. In this regard, *Pseudo R-squared* falls from 28% in column (1) to 11% in column (3), and the global significance of the estimation from  $p\text{-value} < 0.01$  to  $p\text{-value} < 0.05$ . Interestingly, country-specific issues are even more relevant than the variables capturing the firm's specific agency conflicts. Hence, when the control variables accounting for agency

conflicts are removed, the *Pseudo R-squared* falls from 28% in column (1) to 21% in column (4). Therefore, we conclude that the decision to create an ERC is very much conditioned by the country of origin of the firm.

**Insert Table 10 around here**

### **Conclusions, implications, limitations and directions for further research**

The Sarbanes-Oxley Act accelerated the proliferation of codes of ethics and ethics training programs in large corporations. The subsequent step in the institutionalization of business ethics is the formation of permanent board-level committees for monitoring the ethical behavior of the whole organization. However, unlike codes of ethics, not all corporations (not even the largest ones) have committees of this kind, and this probably explains the lack of research on the issue. The present study contributes to the business ethics literature by filling this gap, providing evidence of how the structure and demographic characteristics of boards of directors and the magnitude of the firm's agency conflicts explain the decision to form an ethics committee.

We find that neither the structure of the board nor its demographics seem to be strong determinants of the decision to create an ethics committee. Regarding the board structure, companies with a large proportion of executive directors on the BoD are less likely to create an ethics-related committee; however, they are more likely to do so when the board is chaired by an executive director. With respect to board demographics, we provide some weak evidence that companies with more female directors are more likely to have created committees of this kind, whereas the reverse is the case for directors with MBA degrees. Additionally, the results are consistent with our expectations that these committees would be more likely to be created by companies with stronger agency conflicts. Furthermore, the explanatory ability of the model is stronger when applied to the French civil-law and common-law subsamples than when applied to the German-Scandinavian civil-law. Finally, the firm's country of origin emerges as a more important determinant of the decision to form a committee than the industry or even the magnitude of the agency conflicts.

These results may have some interesting implications at various levels. First, for the gender studies literature, the finding that the variable measuring the gender diversity of the board is statistically significant only in relation to the creation of social responsibility committees is at odds with the results of most previous studies which have reported gender differences with regard to ethical issues. To what extent the accelerated incorporation of women in top management positions may be weakening this gender effect is an interesting issue that should be explored in

future studies. Moreover, it also suggests that female directors seem to be more closely engaged with social responsibility issues than to corporate governance or business ethics. Secondly, for the management literature, the robust and consistent results reported for the variables that aim to capture agency conflicts suggest that the agency theory provides a suitable framework for the investigation of the decision to form an ethics committee. Finally, at a more practical level, the results also indicate that these committees may have an important function in reducing the magnitude of the firm's agency costs.

The current study has several limitations. First, given the nature of the variables of interest of this study and the limitations of our database, we cannot rule out a possible effect of endogeneity on our results. Therefore, we should not infer causality from the relationships reported between board structure or demographics and the presence of an ethics-related committee. In this regard, further studies based on more comprehensive databases may extend and refine the research conducted in this paper. Second, in the additional analysis conducted to examine the influence of the firm's country of origin on shaping the relationship between the structure and demographic characteristics of the board and the presence of an ethics-related committee, the relatively small size of the segmented samples used in this analysis reduces the robustness of the results.

Just as the proliferation of codes of ethics in recent decades has attracted the interest of scholars and made the issue a hot research topic, we anticipate that something similar will occur with regard to the creation of board-level ethics committees. In our view, the current study can be extended in several meaningful directions. First, the geographical scope of the analysis, limited here to Europe, should be expanded. Second, it would be interesting to investigate the actual implications of creating these committees for both the company and the society. Finally, and more specifically, future studies could investigate further the significant role that these committees seem to play in reducing the magnitude of the firm's agency costs.

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**Table 1. Definition of the variables**

<b>Dependent variables:</b>	
<i>ERCOM</i> (Ethics-Related Committee)	a dummy variable which takes the value of 1 if the firm had a committee on the BoD labelled as “ethics committee”, “corporate governance committee” or “social responsibility committee” at the end of the year 2018, and 0 otherwise.
<i>CGCOM</i> (Corporate Governance Committee)	a dummy variable which takes the value of 1 if the firm had a committee on the BoD labelled as “corporate governance committee” at the end of the year 2018, and 0 otherwise.
<i>SRCOM</i> (Social Responsibility Committee)	a dummy variable which takes the value of 1 if the firm had a committee on the BoD labelled as “social responsibility committee” at the end of the year 2018, and 0 otherwise.
<i>ETHCOM</i> (Ethics Committee)	a dummy variable which takes the value of 1 if the firm had a committee of the BoD labelled as “ethics committee” at the end of the year 2018, and 0 otherwise.
<b>Variables of interest (BoD structure)</b>	
<i>EXEDTORS</i> (Executive Directors)	the percentage of executive directors on the BoD.
<i>CEODTOR</i> (CEO Director)	a dummy variable which takes the value of 1 when the CEO is also a member of the BoD, and 0 otherwise.
<i>EXECHAIR</i> ( <i>Executive Chair</i> )	a dummy variable which takes the value of 1 when the chair of the BoD is an executive director, and 0 otherwise.
<b>Variables of interest (BoD demographics):</b>	
<i>FEMDTOR</i> (Female Directors)	the percentage of female directors on the BoD.
<i>ADVEDUC</i> (Advance Education)	the percentage of directors with master or PhD degrees. <sup>6</sup>
<i>MBA</i> (Master in Business Administration)	the percentage of directors with MBA degrees.
<b>Control variables:</b>	
<i>BOARDSIZE</i> (Board Size)	the total number of members of the BoD.

<sup>6</sup> Because we predict opposite effects for advanced education degrees and MBA degrees, we do not consider MBA degrees in the construction of this variable.

<i>FIRMSIZE</i> (Firm Size)	the logarithm of the market capitalization of the firm in millions of \$.
<i>LEVERAGE</i> (Financial Leverage)	total liabilities divided by total assets.
<i>FREEFLOAT</i> (Free Float)	total shares outstanding excluding shares held by strategic investors such as governments and corporations.
<i>INSIDOWN</i> (Insider Ownership)	percentage of shares owned by insider investors.
<i>INSTITOW</i> (Institutional Ownership)	percentage of shares owned by institutional investors.

Table 2. Industry and country composition of the sample

By industry:	By country:	By group of countries:
Communication services: 23	Austria: 3	Common law: 94
Construction and materials: 38	Belgium: 8	French civil-law: 115
Consumer goods: 69	Denmark: 13	German civil-law: 80
Energy: 12	Finland: 12	Scandinavian civil-law: 57
Finance: 64	France: 49	<b>Total: 346</b>
Health care: 20	Germany: 43	
Industrials: 73	Ireland: 9	
Information technology: 17	Italy: 16	
Real state: 10	Luxembourg: 3	
Utilities: 20	Netherlands: 18	
<b>Total: 346</b>	Norway: 7	
	Portugal: 2	
	Spain: 19	
	Sweden: 25	
	Switzerland: 34	
	United Kingdom: 85	
	<b>Total: 346</b>	

**Table 3. Information for the variables in the model**

VARIABLE	MEAN	ST. DEV.	Q1	MEDIAN	Q3
<i>EXEDTORS</i>	0.12	0.12	0.00	0.10	0.20
<i>CEODTOR</i>	0.61	0.49	0.00	1.00	1.00
<i>EXECHAIR</i>	0.18	0.39	0.00	0.00	0.00
<i>FEMDTOR</i>	0.32	0.11	0.25	0.31	0.40
<i>ADVEDUC</i>	0.38	0.22	0.22	0.36	0.53
<i>MBA</i>	0.21	0.14	0.10	0.19	0.30
<i>BOARDSIZE</i>	11.99	4.21	9.00	11.00	13.00
<i>FIRMSIZE</i>	4.33	0.48	3.93	4.25	4.68
<i>LEVERAGE</i>	0.54	0.25	0.44	0.57	0.71
<i>FREEFLOAT</i>	0.82	0.19	0.70	0.89	0.99
<i>INSIDOWN</i>	0.01	0.03	0.00	0.00	0.02
<i>INSTITOW</i>	0.48	0.22	0.31	0.44	0.62

Variables: *EXEDTORS*: percentage of executive directors; *CEODTOR*: 1 when the CEO is a member of the Board, and 0 otherwise; *EXECHAIR*: 1 when the chair of the Board is an inside director, and 0 otherwise; *FEMDTOR*: percentage of female directors; *ADVEDUC*: percentage of directors with master or PhD degrees; *MBA*: percentage of directors with MBA degrees; *BOARDSIZE*: number of members of the Board; *FIRMSIZE*: market capitalization; *LEVERAGE*: total liabilities divided by total assets; *FREEFLOAT*: total shares outstanding excluding shares held by strategic investors; *INSIDOWN*: percentage of shares owned by insider investors; and *INSTITOW*: percentage of shares owned by institutional investors.

Table 4. Percentage of companies with ERCs, by country, group of countries and industry

<b>Panel A: By country</b>	<b>Ethics-related committee</b>	<b>Corporate Governance committee</b>	<b>Social Responsibility committee</b>	<b>Ethics committee</b>
Austria	0.00	0.00	0.00	0.00
Belgium	0.25	0.25	0.00	0.00
Denmark	0.08	0.08	0.00	0.00
Finland	0.25	0.17	0.00	0.08
France	0.71	0.53	0.41	0.20
Germany	0.14	0.05	0.07	0.02
Ireland	0.44	0.44	0.11	0.00
Italy	0.44	0.44	0.00	0.19
Luxembourg	0.33	0.33	0.00	0.00
Netherlands	0.53	0.47	0.11	0.05
Norway	0.29	0.14	0.00	0.14
Portugal	0.50	0.50	0.00	0.00
Spain	0.16	0.05	0.11	0.00
Sweden	0.08	0.08	0.00	0.00
Switzerland	0.47	0.44	0.12	0.00
United Kingdom	0.46	0.28	0.20	0.08
Total	0.38	0.28	0.14	0.07
<b>Panel B: By group of countries</b>				
Common-law	0.46	0.29	0.19	0.07
French civil-law	0.51	0.41	0.21	0.12
German civil-law	0.27	0.21	0.09	0.01
Scandinavian civil-law	0.14	0.11	0.00	0.04
<b>Panel C: By industry</b>				
Communication services	0.39	0.39	0.17	0.00
Construction and materials	0.32	0.24	0.11	0.08
Consumer discrete	0.33	0.19	0.17	0.05
Energy	0.42	0.08	0.17	0.25
Finance	0.49	0.43	0.09	0.05
Health care	0.57	0.48	0.14	0.05
Industrials	0.30	0.22	0.12	0.08
Information technology	0.17	0.17	0.00	0.06
Real state	0.30	0.20	0.20	0.00
Utilities	0.45	0.30	0.15	0.20

Table 5. Geographical and industry differences in the number of companies with ERCs. *Pearson Chi-square* values with levels of significance

Committee	Differences by country	Differences by group of countries	Differences by industry
Ethics-related committee	62.2547***	28.5798***	14.2411
Corporate Governance committee	54.0063***	19.6887***	20.5182**
Social Responsibility committee	48.4419***	17.3211***	13.2190
Ethics committee	28.5328**	9.9716**	15.7645

\*\*  $p < 0.05$ ; \*\*\*  $p < 0.01$

Table 6. Univariate analysis. Differences of means with significance levels

Variables	Companies with ERC	Companies without ERC	<i>p</i> -value*
<i>EXEDTORS</i>	0.1218	0.1223	0.9682
<i>CEODTOR</i>	0.6970	0.5530	0.0080
<i>EXECHAIR</i>	0.2519	0.1395	0.0090
<i>FEMDTOR</i>	0.3240	0.3115	0.2473
<i>ADVEDUC</i>	0.3693	0.3909	0.3702
<i>MBA</i>	0.2010	0.2117	0.4933
<i>BOARDSIZE</i>	12.5758	11.6498	0.0464
<i>FIRMSIZE</i>	4.3523	4.3104	0.4308
<i>LEVERAGE</i>	0.5746	0.5197	0.0448
<i>FREEFLOAT</i>	0.8418	0.8098	0.1200
<i>INSIDOWN</i>	0.0059	0.0121	0.0277
<i>INSTITOW</i>	0.4775	0.4841	0.7858

\* The *t*-test is used for continuous variables and the *Pearson Chi-square* test for discrete variables.

Variables: *EXEDTORS*: percentage of executive directors; *CEODTOR*: 1 when the CEO is a member of the Board, and 0 otherwise; *EXECHAIR*: 1 when the chair of the Board is an inside director, and 0 otherwise; *FEMDTOR*: percentage of female directors; *ADVEDUC*: percentage of directors with master or PhD degrees; *MBA*: percentage of directors with MBA degrees; *BOARDSIZE*: number of members of the Board; *FIRMSIZE*: market capitalization; *LEVERAGE*: total liabilities divided by total assets; *FREEFLOAT*: total shares outstanding excluding shares held by strategic investors; *INSIDOWN*: percentage of shares owned by insider investors; and *INSTITOW*: percentage of shares owned by institutional investors.



Table 7. Pearson correlation coefficients with significance levels for the independent variables

	<i>EXEDTORS</i>	<i>CEODTOR</i>	<i>EXECHAIR</i>	<i>FEMDTOR</i>	<i>ADVEDUC</i>	<i>MBA</i>	<i>BOARDSIZE</i>	<i>FIRMSIZE</i>	<i>LEVERAGE</i>	<i>FREEFLOAT</i>	<i>INSIDOWN</i>	<i>INSTIT.</i>
<i>EXEDTORS</i>	1											
<i>CEODTOR</i>	0.677***	1										
<i>EXECHAIR</i>	0.143**	0.305***	1									
<i>FEMDTOR</i>	-0.0932	0.0873	0.0533	1								
<i>ADVEDUC</i>	-0.377***	-0.413***	-0.172**	-0.0953	1							
<i>MBA</i>	-0.0202	0.0155	-0.0229	-0.0228	0.275***	1						
<i>BOARDSIZE</i>	-0.0541	0.0688	0.182***	0.000229	-0.219***	-0.271***	1					
<i>FIRMSIZE</i>	-0.327***	-0.198***	-0.0204	0.137*	0.243***	0.0721	0.0750	1				
<i>LEVERAGE</i>	0.0369	0.0585	0.00257	0.0415	-0.0515	-0.115*	-0.0446	-0.138*	1			
<i>FREEFLOAT</i>	0.162**	0.120*	-0.113*	-0.0562	-0.0328	0.0769	-0.0660	-0.238***	0.101	1		
<i>INSIDOWN</i>	0.0568	-0.0505	0.0592	-0.161**	0.0701	-0.0159	-0.0690	-0.0573	-0.0113	-0.139**	1	
<i>INSTITOW</i>	0.485***	0.350***	-0.146**	-0.0343	-0.223***	0.0900	-0.206***	-0.295***	0.102	0.612***	-0.105	1

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Variables: *EXEDTORS*: percentage of executive directors; *CEODTOR*: 1 when the CEO is a member of the Board, and 0 otherwise; *EXECHAIR*: 1 when the chair of the Board is an inside director, and 0 otherwise; *FEMDTOR*: percentage of female directors; *ADVEDUC*: percentage of directors with master or PhD degrees; *MBA*: percentage of directors with MBA degrees; *BOARDSIZE*: number of members of the Board; *FIRMSIZE*: market capitalization; *LEVERAGE*: total liabilities divided by total assets; *FREEFLOAT*: total shares outstanding excluding shares held by strategic investors; *INSIDOWN*: percentage of shares owned by insider investors; and *INSTITOW*: percentage of shares owned by institutional investors.

Table 8 Results of the multivariate logistic estimations. Dependent variable: *ERCOM* (ethics-related committee) in column (1); *CGCOM* (corporate governance committee) in column (2); *SRCOM* (social responsibility committee) in column (3); and *ETHCOM* (ethics committee) in column (4)

VARIABLES	Pred. sign	(1) <i>ERCOM</i>	(2) <i>CGCOM</i>	(3) <i>SRCOM</i>	(4) <i>ETHCOM</i>
<i>EXEDTORS</i>	-	-3.656* (2.208)	-5.052* (2.633)	3.206 (2.545)	-2.102 (3.679)
<i>CEODTOR</i>	-	0.394 (0.534)	0.103 (0.659)	-0.0864 (0.668)	1.041* (0.612)
<i>EXECHAIR</i>	-	0.942** (0.454)	0.167 (0.565)	0.841* (0.467)	-0.822 (0.652)
<i>FEMDTOR</i>	+	-2.304 (1.810)	-2.869 (2.337)	3.911* (2.321)	-4.984 (3.704)
<i>ADVEDUC</i>	+	-0.568 (0.798)	0.0397 (0.849)	-0.404 (1.084)	-0.379 (1.594)
<i>MBA</i>	-	-2.826** (1.359)	-2.070 (1.403)	-0.502 (1.347)	-2.731 (2.200)
<i>BOARDSIZE</i>	+	-0.00336 (0.0648)	-0.100 (0.0622)	0.125* (0.0723)	0.135** (0.0657)
<i>FIRMSIZE</i>	+	1.381*** (0.458)	2.551*** (0.492)	-0.256 (0.513)	0.598 (0.558)
<i>LEVERAGE</i>	+	0.0150** (0.00657)	0.0149** (0.00731)	0.0113 (0.00853)	0.00920 (0.0126)
<i>FREEFLOAT</i>	+	0.0382*** (0.0117)	0.0454*** (0.0124)	0.0211 (0.0154)	-0.0471** (0.0214)
<i>INSIDOWN</i>	-	-0.0985 (0.0846)	-0.00123 (0.0852)	-0.514*** (0.148)	-0.298 (0.208)
<i>INSTITOW</i>	-	-0.0303*** (0.0112)	-0.0522*** (0.0129)	0.00734 (0.0129)	0.0580*** (0.0213)
<i>Constant</i>		-5.125** (2.216)	-8.572*** (2.517)	-7.768** (3.314)	-6.259 (4.293)
<i>Observations</i>		346	346	346	346
<i>Country FE</i>		YES	YES	YES	YES
<i>Industry FE</i>		YES	YES	YES	YES
<i>Pseudo R2</i>		0.2832	0.3565	0.2465	0.2858
<i>Wald chi2</i>		80.19***	119.05***	51.68***	66.37***

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Variables: *EXEDTORS*: percentage of executive directors; *CEODTOR*: 1 when the CEO is a member of the Board, and 0 otherwise; *EXECHAIR*: 1 when the chair of the Board is an inside director, and 0 otherwise; *FEMDTOR*: percentage of female directors; *ADVEDUC*: percentage of directors with master or PhD degrees; *MBA*: percentage of directors with MBA degrees; *BOARDSIZE*: number of members of the Board; *FIRMSIZE*: market capitalization; *LEVERAGE*: total liabilities divided by total assets; *FREEFLOAT*: total shares outstanding excluding shares held by strategic investors; *INSIDOWN*: percentage of shares owned by insider investors; and *INSTITOW*: percentage of shares owned by institutional investors.

Table 9. Results of the multivariate logistic estimations performed with subsamples of companies based on the legal tradition of the home country. Common-law in column (1), French civil-law in column (2) and German-Scandinavian civil-law in column (3). Dependent variable: *ERCOM* (ethics-related committee)

VARIABLES	(1) Common-law	(2) French civil-law	(3) German-Scand. civil-law
<i>EXEDTORS</i>	-24.43*** (6.262)	-0.840 (3.411)	0.923 (5.864)
<i>CEODTOR</i>		1.101 (1.283)	-0.927 (0.877)
<i>EXECHAIR</i>	0.265 (1.019)	2.062** (0.911)	-0.0595 (1.092)
<i>FEMDTOR</i>	-2.110 (3.917)	-5.408 (4.735)	-0.774 (2.880)
<i>ADVEDUC</i>	-3.480* (1.965)	-0.637 (1.980)	2.974** (1.404)
<i>MBA</i>	-5.600* (3.115)	-11.33*** (3.106)	3.006 (1.877)
<i>BOARDSIZE</i>	0.157 (0.158)	0.0152 (0.111)	0.00910 (0.0570)
<i>FIRMSIZE</i>	1.014 (0.920)	2.981** (1.236)	0.254 (0.591)
<i>LEVERAGE</i>	0.0280* (0.0169)	0.0416*** (0.0153)	-0.00506 (0.0104)
<i>FREEFLOAT</i>	0.157** (0.0740)	0.0939*** (0.0283)	0.0360* (0.0191)
<i>INSIDOWN</i>	-0.936** (0.458)	0.00314 (0.176)	-0.0423 (0.0951)
<i>INSTITOW</i>	-0.116*** (0.0436)	-0.110*** (0.0382)	-0.0774*** (0.0249)
<i>Constant</i>	-3.884 (6.524)	-13.81** (5.503)	-3.931 (2.985)
<i>Observations</i>	91	115	137
<i>Country FE</i>	YES	YES	YES
<i>Industry FE</i>	YES	YES	YES
<i>Pseudo R2</i>	0.4366	0.4538	0.2346
<i>Wald chi2</i>	37.62***	53.68***	27.99*

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Variables: *EXEDTORS*: percentage of executive directors; *CEODTOR*: 1 when the CEO is a member of the Board, and 0 otherwise; *EXECHAIR*: 1 when the chair of the Board is an inside director, and 0 otherwise; *FEMDTOR*: percentage of female directors; *ADVEDUC*: percentage of directors with master or PhD degrees; *MBA*: percentage of directors with MBA degrees; *BOARDSIZE*: number of members of the Board; *FIRMSIZE*: market capitalization; *LEVERAGE*: total liabilities divided by total assets; *FREEFLOAT*: total shares outstanding excluding shares held by strategic investors; *INSIDOWN*: percentage of shares owned by insider investors; and *INSTITOW*: percentage of shares owned by institutional investors.

Table 10. The relative importance of country of origin, industry, and agency conflicts on the decision to create ERCs. Dependent variable *ERCOM* (ethics-related committee) in all the estimations

VARIABLES	(1) <i>ERCOM</i>	(2) <i>ERCOM</i>	(3) <i>ERCOM</i>	(4) <i>ERCOM</i>
<i>EXEDTORS</i>	-3.656* (2.208)	-3.438* (1.978)	-2.435 (1.902)	-5.428*** (1.999)
<i>CEODTOR</i>	0.394 (0.534)	0.406 (0.525)	0.896** (0.405)	0.671 (0.501)
<i>EXECHAIR</i>	0.942** (0.454)	0.463 (0.401)	0.841** (0.350)	0.696* (0.416)
<i>FEMDTOR</i>	-2.304 (1.810)	-2.011 (1.742)	0.432 (1.288)	-0.840 (1.595)
<i>ADVEDUC</i>	-0.568 (0.798)	-0.226 (0.735)	-0.0560 (0.640)	0.109 (0.788)
<i>MBA</i>	-2.826** (1.359)	-2.060* (1.134)	-0.735 (0.964)	-2.168* (1.262)
<i>BOARDSIZE</i>	-0.00336 (0.0648)	0.0309 (0.0577)	-0.00279 (0.0364)	0.0258 (0.0440)
<i>FIRMSIZE</i>	1.381*** (0.458)	1.268*** (0.416)	0.238 (0.262)	
<i>LEVERAGE</i>	0.0150** (0.00657)	0.0107* (0.00579)	0.0142** (0.00558)	
<i>FREEFLOAT</i>	0.0382*** (0.0117)	0.0322*** (0.0109)	0.0199** (0.00905)	
<i>INSIDOWN</i>	-0.0985 (0.0846)	-0.114 (0.0822)	-0.0791 (0.0602)	
<i>INSTITOW</i>	-0.0303*** (0.0112)	-0.0248** (0.0105)	-0.00807 (0.00837)	
<i>Constant</i>	-5.125** (2.216)	-6.004*** (1.973)	-3.326** (1.673)	1.548 (1.102)
<i>Observations</i>	346	346	346	346
<i>Country FE</i>	YES	YES	NO	YES
<i>Industry FE</i>	YES	NO	YES	YES
<i>Pseudo R2</i>	0.2832	0.2430	0.1085	0.2124
<i>Wald chi2</i>	80.19***	66.09***	35.71**	65.95***

\*  $p < 0.10$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Variables: *EXEDTORS*: percentage of executive directors; *CEODTOR*: 1 when the CEO is a member of the Board, and 0 otherwise; *EXECHAIR*: 1 when the chair of the Board is an inside director, and 0 otherwise; *FEMDTOR*: percentage of female directors; *ADVEDUC*: percentage of directors with master or PhD degrees; *MBA*: percentage of directors with MBA degrees; *BOARDSIZE*: number of members of the Board; *FIRMSIZE*: market capitalization; *LEVERAGE*: total liabilities divided by total assets; *FREEFLOAT*: total shares outstanding excluding shares held by strategic investors; *INSIDOWN*: percentage of shares owned by insider investors; and *INSTITOW*: percentage of shares owned by institutional investors.