Corporate Governance

Untangling the antecedents of code of ethics quality: does corporate governance matter?

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Giovanni Maria Garegnani is Professor of Accounting at the Department of Management, LUM University, Casamassima, Italy. Emilia Piera Merlotti is Lecturer of Accounting at the Department of Accounting, Bocconi University, Milano, Italy. Angeloantonio Russo is Professor of Management at the Department of Management, LUM University, Casamassima, Italy.

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Abstract

Purpose – *This study aims to investigate the antecedents of code of ethics' quality with specific regard to the peculiarities of corporate governance, which include the role of the primary shareholders within the firm, the role and influence of independent directors on the board, the effect of board size on the strategic decision-making process and the influence of the chief executive officer's (CEO) age and gender diversity.*

Design/methodology/approach – *A sample of 248 Italian public companies publishing a code of ethics as of 2011 is used to test the hypotheses through Tobit regression models.*

Findings – *A positive or negative impact is derived from the implementation of a high-quality code of ethics. Codes of ethics are strongly influenced by the ownership structure of the company given the critical role played by primary shareholders with larger stakes in influencing the quality of a code. Moreover, the lower the number of independent directors, the higher the firm's propensity to invest in code of ethics' quality. Similar results were found in relation to board size and CEO age, where smaller boards and younger CEOs are more inclined to implement higher-quality codes of ethics.*

Originality/value – *Results support the argument that when linked to a sustainability strategic orientation focused on a high-quality code of ethics, corporate governance characteristics reveal influences that differ from those found in prior literature.*

Keywords *Corporate responsibility, Corporate governance, Code of ethics*

Paper type *Research paper*

During the past two decades, the repeated corporate scandals and the deep economic crises that have occurred have enhanced interest in the field of corporate ethics and behaviour. Within this context, a reorientation towards a sustainability firm strategy assumed increasing relevance through the implementation of managerial practices and tools. Codes of ethics are one of the most relevant examples of managerial tools in which firms are investing to improve transparency and effectiveness of their relationships with multiple stakeholders. Although these codes of ethics are relevant, additional work is required to highlight the quality of these codes and to identify the factors that affect such quality.

This study aims to investigate the antecedents of code of ethics' quality, specifically regarding the peculiarities of corporate governance. In particular, we analyse which governance characteristics influence the attitude of the firm towards high-quality codes of ethics. To do so, we consider the level of control that the primary shareholder exerts over the strategic orientation of the firm, the degree of independence of the board of directors, the size of the board of directors, the effect of the chief executive officer's (CEO) age and the effect of gender diversity within the board.

A sample of 248 Italian public companies is used to test our hypotheses, and the quality of codes of ethics is measured using a score modelling methodology developed on the basis of academic findings and experience.

The results offer different evidence depending on the specific governance characteristics that firms are called to consider when investing in high-quality codes of ethics. Therefore, significant considerations for researchers and practitioners interested in the antecedents of code of ethics' quality emerged.

This paper proceeds as follows. First, literature on the quality of codes of ethics and related issues of corporate governance characteristics are presented. The methodology and main statistical results are then described. The final section presents our discussion and conclusions, which include an examination of the theoretical and managerial implications of this research.

Theoretical background and hypotheses

The quality of codes of ethics: a lack in the literature

In recent years, firms have progressively increased the attention they pay to stakeholders' interests by adopting actions designed to restore investors' confidence and trust in their businesses. Corporate responsibility (CR), defined as a firm's voluntary attention to its ethical, social and environmental impacts (Carroll, 1999), has become a driver of management strategy and a significant determinant of company performance. A common factor in this reform process is the increasing use of codes of ethics to implement change in corporate cultures (Braswell *et al.*, 2009). Different reasons exist for this trend (Frankel, 1989). First, codes of ethics are key tools for implementing CR in firms seeking to promote honest and ethical conduct. Moreover, a code of ethics makes it possible to establish a climate of trust with stakeholders, activists and the media (Jo and Harjoto, 2012; Kaptein and Wempe, 1998) and to improve a company's reputation and brand image (Carasco and Singh, 2003; Perrini and Vurro, 2010). The existence of a code of ethics, in fact, highlights an enterprise's intention to operate according to standards coherent with a proactive, positive influence in the economic and social arenas (Garegnani *et al.*, 2015; Hill and Rapp, 2014).

Within this context, interest in codes of ethics has also grown in academia (Svensson and Wood, 2007), where contributions have manly focused on two elements: content and effectiveness (Helin and Sandström, 2007). Content-oriented contributions study the composition and structure of codes of ethics (Carasco and Singh, 2003; Gaumnitz and Lere, 2004; Kaptein, 2004; Lugli *et al.*, 2009). Typically, their objectives are to facilitate discussion to enable comparisons and to advance our understanding of such codes. In contrast, output-oriented research has focused on the (disputed) capacity of codes to affect behaviours within organisations (Cleek and Leonard, 1998; Farrell *et al.*, 2002; Kaptein and Schwartz, 2008; Sethi and Emelianova, 2006; Stevens, 2008).

Transverse to these two fields, a new interest is emerging about the quality of a code of ethics (Garegnani *et al.*, 2015; Svensson *et al.*, 2006). Indeed, despite our ability to prove the effectiveness of a code or to examine its structure and composition to highlight unavoidable elements and best practices, contributions that directly study the quality concept are few (Callaghan *et al.*, 2012; Donker *et al.*, 2008; Erwin, 2011; Garegnani *et al.*, 2015; Kaptein, 2008), thus revealing a relevant gap in the extant literature.

The lack of "knowledge on how codes work, how they are communicated and how they are transformed inside organisations" (Helin and Sandström, 2007, p. 1) is particularly evident with regard to the influence that the characteristics of the business environment have on the quality of codes of ethics. Hence, this paper attempts to enhance the knowledge on the quality of codes of ethics, thereby partially filling the above gap. In detail, we aim to understand which factors do influence the quality of codes of ethics, focusing specifically on the explanatory power of some corporate governance issues (Ibrahim *et al.*, 2003), which were long established within the context of CR and disclosure.

The hypotheses for corporate governance issues

Structural failures in the modern corporation and abuses of corporate power have triggered a collapse in public confidence. Additional efforts are required to reform corporate governance and restore corporate legitimacy (Tudway, 2014). These failures centre on the classic agent/principal problem (Jensen and Meckling, 1976), whereas corporate governance encompasses numerous elements through which firms manage it.

Among the most common elements of corporate governance, such as external regulation, the presence of a board of directors, internal control systems, disclosure procedures and compensation plans, several seem particularly relevant with regard to code of ethics' quality (Bota-Avram, 2013; Davidson and Stevens, 2013; Kolk and J., 2010). Moreover, links between CR strategies and corporate governance factors, such as boards of directors, ownership patterns and executive incentives, may differ depending on the legal system and institutional characteristics in a specific country (Filatotchev and Nakajima, 2014).

Given the above-mentioned gap in the code of ethics' literature and the association between corporate governance characteristics and the implementation of good and effective ethics documents, we formulate our hypotheses by considering this corporate governance to be variable from several points of view. To do so, we focus on primary shareholders, board independence, board size, CEO age and gender diversity.

Primary shareholders. The ownership structure is a governance mechanism that has been extensively used in the literature to understand whether a different organisation of shareholders should affect companies' behaviours, strategic decisions, performance or value (Johnson and Greening, 1999).

First, dominant owners can hold excessive power that allows them to take advantage of their position, serve personal interests and make corporate decisions if detrimental to others (Schulze *et al.*, 2001). From this point of view, a code of ethics should be considered as a formalisation of a rule of behaviour that everyone should respect. Its adoption, to which large owners also contributed, is a clear signal of reassurance to minority owners regarding the fairness of the dominant owners' conduct. Therefore, expecting a code of ethics document that reflects a high-quality standard and which formalises best practices to ensure the collective good for all stakeholders seems reasonable.

Otherwise, if the owners of a corporation are widely dispersed and none of the managers own equity, their focus is short-term-oriented (Oh *et al.*, 2011) and they are not likely to have a strong incentive to spend time monitoring and/or managing the firm. In these cases, the adoption and the implementation of a code of ethics (also of high quality) is probably driven by the will to emulate competitors rather than by real (ethical) needs of the firm or an efficiency purpose. It becomes a formality to signal a commitment to ethics and to manage their stakeholders' impression also without real motivation, as well as to safeguard their external image and, consequently, their market positioning and the associated returns (Russo and Mariani, 2013).

Based on the above concepts, we formulate our first hypothesis as follows:

> *H1*. The primary shareholder's control positively influences the quality of codes of ethics.

Board independence. The notion that the board of directors should predominantly include external directors who are presumed to be independent of management is not new (Chandler, 1975). Fama and Jensen (1983) stated that the presence of independent directors on a board can have positive effects for firms in terms of ensuring the respect of legality and limiting agency problems, such as the risk of collusion with top management. This recommended element of good corporate governance can make a positive contribution to the board's efficacy by ensuring a more active role in overseeing managerial decisions (Ibrahim *et al.*, 2003). As a result, outside directors should be better positioned than executives to protect stakeholder interests. As such, directors have greater independence, a higher sense of moral obligation and superior attitudes with regard to firm integrity and transparency (Giràldez and Hurtado, 2014; Lefort and Urzúa, 2008).

Considering the evidence linking the role of independent directors to shareholder's welfare, board efficiency and, more in general, CR (Jo and Harjoto, 2012), we argue that independent directors should rely on the exploitation of high-quality codes of ethics to guarantee the board's efficacy. Therefore, a second hypothesis rises as follows:

H2. The presence of independent directors on the board positively affects the quality of codes of ethics.

Board size. Another important aspect of boards of directors that has been widely studied in the extant literature is board size given its apparent direct effect on board effectiveness. Extant empirical findings are not univocal, whereas both non-significant (Cheng and Courtenay, 2006) or positive impacts of board size on a firm's behaviour have been suggested (Dalton *et al*., 1999; Giràldez and Hurtado, 2014). On the other hand, some authors argue that as a board's size increases, agency problems (such as director free-riding) increase as well, and the board becomes more symbolic and less a part of the management process (Eisenberg *et al*., 1998; Mak and Kusnadi, 2005). Management's monitoring and decision-making capacity declines, internal conflicts and costs of coordination increase and communication becomes more inefficient. Moreover, consistent with this point of view, Lipton and Lorsch (1992) argue that, given the difficulties in organising and coordinating a large group of directors, board size is negatively related to the board's ability to advise and engage in long-term strategic planning, such as the adoption and constant implementation of a code of ethics should require. Then, a third hypothesis rises as follows:

H3. Board size is negatively correlated with the quality of codes of ethics.

CEO age. Younger CEOs are viewed as innovative and able to respond to quick changes in the business environment. They have the energy to drive the firm and to succeed and plan for the future. In contrast, older CEOs certainly have more experience and competence, but are likely less interested in resolving problems arising from a changed context (Ng and Sears, 2012). Because older directors may not be too concerned with the long-run performance of the organisation (Murad *et al*., 2010), they should be focused on short-term investment strategies and on the traditional goal of business profits, and less involved in new topics that are positively associated with the long-term performance of firms, such as ethical conduct, social responsibility, environmental protection and voluntary disclosure. In brief, with regard to CEOs, we examine CEO age as a characteristic that may influence the implementation of different strategic practices, such as high-quality codes of ethics. Therefore, an additional hypothesis emerges:

H4. Younger CEOs apply more pressure on board of directors to have high-quality codes of ethics.

Gender diversity. Gender diversity is among the most debated dimension of board characteristics, second only to the number of independent directors. Extant literature suggest that diversity increases board independence and activism, thus ensuring better control over managerial discretion and behaviour; diversity may also improve the board's oversight capacity and the quality of its decisions (Carter *et al*., 2003; Perrault, 2015). In this regard, diversity limits the likelihood of a myopic decision-making process that can result in "unhealthy and unethical decisions" (Arfken *et al*., 2004, p. 185). Furthermore, women exhibit intimate knowledge of consumer markets, higher risk aversion in financial decision-making and higher ethical and social values in their functional choices (Burke, 1997). As a consequence, the positive relationship between the proportion of female directors and a company's involvement in CR activities becomes strongly probable (Bernardi and Threadgill, 2010; Frias-Aceituno *et al*., 2013; Larkin *et al*., 2013). Larkin *et al.* (2012) provide evidence that gender diversity can deliver an incremental benefit for corporations that already have a good reputation for ethical behaviour, social responsibility and transparency. In light of the above context, our last hypothesis is as follows:

> *H5*. Gender diversity, expressed in terms of the presence of women on the board, positively influences the quality of codes of ethics.

Methodology

The sample

The sample in which we test our hypotheses is composed of 248 companies listed on the MTA (*Mercato Telematico Azionario*) Italian Stock Exchange as of 1 October 2011. This sample included the companies for which all required information was available, referred to both codes of ethics and financial information. We collected data and information related to the firms' code of ethics from their respective corporate websites. Data and information related to the other variables included in the analyses were collected from proprietary databases on economic and financial performance, such as the AIDA database.

The variables

Dependent variable: quality of codes of ethics. To test the hypotheses, we built a specific measure of the quality of code of ethics that relies on a scoring model. Given the characteristics of our dependent variable (i.e. quality of codes of ethics), scoring was found to be a suitable measure. Recently, scoring models for the quality of codes of ethics have been used in some academic works (Callaghan *et al.*, 2012; Donker *et al.*, 2008; Erwin, 2011; Kaptein, 2008). Based on them, we built our scoring model identifying the classification criteria and items to be used (Garegnani *et al.*, 2015). Specifically, our scoring model encompasses six categories related to the quality of a code of ethics:

1. commitment from the top;
2. style and availability;
3. whistleblowing;
4. relations with stakeholders;
5. compliance procedures; and
6. legal items.

The scores of the individual categories were equally weighted to calculate the overall score for each code of ethics. The scoring model is reported in Appendix 1.

As a robustness check, we compared the results obtained by analysing ten codes of ethics with our scoring model with those proposed in the above literature; results were largely consistent in their identification of high- and poor-quality codes of ethics. Finally, to avoid an endogeneity problem, a time lag between the dependent variable and its predictors was included. More specifically, the quality of a code of ethics was considered at time $t + 1$, whereas all predictors and control variables were fixed at time t.

Predictors

Primary shareholder. We computed this variable as the percentage of shares held by the major shareholder relative to the total number of shares in the company. This calculation enables us to measure the degree to which the primary shareholder has control over the firm.

Independent directors. Independent directors are directors on the board who are expected to make the most of their control over the firm's corporate governance given their neutrality. We computed this variable as the number of independent directors on the board. Given the varying sizes of firms and their boards, we used the natural logarithm of the number of independent directors to reduce the variance within the variable.

Board size. As already discussed, in existing literature, board size is one of the most influential variables in terms of the strategic orientation of the firm, although the evidence is inconclusive. We computed board size as the number of directors on the board.

CEO age. We build on relevant governance literature to assume that, as CEOs accumulate tenure and age, their abilities may be affected. Therefore, we compute the variable *CEO age* to analyse the degree to which CEO age influences the strategic orientation of the firm towards sustainability, thereby influencing the quality of codes of ethics. CEO age was measured in years.

Gender diversity. We compute the board's gender diversity to test its effect on the quality of the code of ethics. This variable was computed as the percentage of women out of the total number of directors on the board.

A number of control variables were included in the analysis. They allowed us to control for general firms characteristics, additional governance peculiarities, as well as industry effect.

The analysis

Given the nature of our dependent variable, a Tobit regression model was used. We built several models following a hierarchical procedure. Six different regression models were run – the first with only the control variables, followed by one model for each predictor. For each model, a left- and right-censored model was considered to improve the significance of our results in terms of a robust standard error. We checked for potential multicollinearity in our independent variables to assess the variance inflation factors by running ordinary least square regressions and found that none of the values exceeded the accepted maximum of 10 (Neter *et al.*, 1990).

Moreover, additional regression models are presented in Appendix 2; for these models, the most important attributes among the 40 items of the codes of ethics were used as dependent variable to test whether they are influenced by our predictors.

Results

Table I presents the descriptive statistics and correlations for our variables. The strongest correlations are found between some of the control variables and codes of ethics. More specifically, the quality of codes of ethics is negatively ($r = -0.17$) correlated ($p < 0.05$) with the financial sector and positively correlated with the manufacturing sector ($r = 0.29$) and ROE ($r = 0.24$).

Results of hypotheses tests

In *H1*, we analyse the impact of the ownership structure on code of ethics' quality assuming that it should be higher in firms with concentrated ownership. We find a positive ($r = 0.25$) and strongly significant ($p < 0.05$) relationship between the share of equity held by the primary shareholder and the quality of the code of ethics, indicating that the regression results (Table II) empirically support our hypothesis.

H2 suggests a positive relationship between the number of independent directors within the board of the firm and code's quality. We find evidence of a marginally significant ($p < 0.10$) negative relationship ($r = -0.05$) between the number of independent directors and quality, suggesting that the lower the number of independent directors, the higher the quality of the code of ethics.

In *H3*, we discuss the impact of board size on the quality of codes of ethics. We find that size has a negative ($r = -0.01$) and significant effect ($p < 0.05$) on the quality of code. The results suggest that, generally, a small board is more oriented towards ensuring the quality of the code of ethics, which supports our hypothesis.

H4 refers to the impact of CEO age on code quality. Interestingly, our results provide evidence that younger CEOs have the strongest influence on code of ethics' quality. We

Table I Descriptive statistics and correlations

Variables	*Mean*	*SD*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*
Consumer	0.33	0.47																					
Utility	0.10	0.30	−0.23*																				
Financial	0.23	0.42	−0.38*	−0.18*																			
Manufacturer	0.23	0.42	−0.38*	−0.17*	−0.30*																		
IT	0.11	0.31	−0.24*	−0.11	−0.19*	−0.19*																	
Stock exchanges	2.65	2.76	0.02	0.01	−0.02	0.04	−0.07																
Firm size	19.21	1.98	−0.13*	0.24*	0.12*	−0.03	−0.16*	−0.05															
Floating shares	0.37	0.20	−0.19*	−0.07	0.22*	−0.08	0.15*	−0.07	0.20*														
ROE	−0.18	1.69	−0.01	0.02	−0.10	0.06	0.05	−0.07	0.14*	−0.03													
Degree of internationalisation	49.63	51.17	−0.17*	0.17*	−0.02	0.10	−0.01	−0.02	−0.07	−0.06	−0.11												
Lead independent director	0.38	0.49	0.15*	−0.14*	−0.14*	0.07	0.02	0.02	−0.10	−0.11	−0.06	−0.01											
CEO duality	0.44	0.50	0.04	−0.09	−0.08	0.02	0.11	−0.05	−0.20*	−0.02	0.06	−0.01	0.35*										
CEO gender	0.98	0.14	−0.02	0.05	0.01	0.01	−0.04	−0.09	0.02	0.04	−0.03	0.02	−0.01	0.01									
CEO tenure	7.70	6.66	0.07	−0.15*	−0.08	0.12	−0.03	−0.06	−0.02	−0.10	0.08	−0.11	0.16*	0.27*	0.06								
Board meeting	2.18	0.48	−0.19*	0.06	0.28*	−0.13*	0.02	0.08	0.07	0.29*	−0.02	0.04	−0.14*	−0.11	−0.04	−0.24*							
CEO education	0.81	0.40	−0.07	0.12*	−0.09	0.07	0.01	−0.02	0.20*	0.06	−0.01	0.02	−0.05	−0.04	−0.07	−0.19*	0.04						
Primary shareholder	0.45	0.21	0.19*	0.04	−0.18*	0.06	−0.15*	0.09	−0.06	−0.66*	0.06	0.03	0.13*	0.05	0.00	0.04	−0.23*	−0.12*					
Independent directors	1.26	0.60	−0.11	0.14*	0.14*	−0.03	−0.12	−0.09	0.49*	0.16*	0.11	−0.04	−0.05	−0.25*	−0.08	−0.05	0.07	0.07	−0.13*				
Board size	10.03	3.85	−0.13*	−0.02	0.32*	−0.03	−0.17*	−0.06	0.51*	0.21*	0.06	−0.04	−0.07	−0.22*	−0.06	−0.04	0.08	0.09	−0.24*	0.69*			
CEO age	56.41	9.80	−0.08	0.05	0.09	0.00	−0.05	−0.06	0.18*	0.02	0.08	−0.11	−0.07	0.17*	0.13	0.25*	−0.07	−0.02	−0.04	0.22*	0.14*		
Gender diversity	0.67	0.85	0.13*	−0.11	0.03	−0.07	−0.05	−0.06	−0.09	−0.15*	−0.01	−0.09	−0.03	0.00	−0.22	0.09*	−0.18*	0.06	0.08	0.08	0.18*	−0.08	
Score	1.72	0.27	−0.17*	0.29*	−0.12	0.12	−0.01	−0.02	0.24*	0.03	0.02	−0.10	−0.04	0.01	−0.02	−0.05	0.07	0.11	0.10	0.03	−0.02	−0.02	−0.08

Notes: $^{**}p < 0.01$; $^{*}p < 0.05$; $N = 248$

Table II Results of hypotheses tests

Variables	*Model 1*	*Model 2*	*Model 3*	*Model 4*	*Model 5*	*Model 6*
Constant	1.23***	1.11***	1.19***	1.17***	1.34***	1.25***
Consumer	−0.07	−0.07	−0.06	−0.06	−0.06	−0.06
Utility	0.21***	0.21***	0.22***	0.2***	0.22***	0.21***
Financial	−0.11*	−0.12**	−0.10*	−0.09	−0.11*	−0.11*
Manufacturer	0.06	0.06	0.07	0.07	0.07	0.07
IT	Omitted	Omitted	Omitted	Omitted	Omitted	Omitted
Stock exchanges	−0.01	−0.01	−0.01	−0.01	−0.01	0.01
Firm size	0.03***	0.02**	0.03***	0.03***	0.03***	0.02***
Floating shares	0.01	0.17	0.03	0.03	0.02	0.02
ROE	−0.01	−0.01	−0.01	−0.01	−0.01	−0.01
Degree of internationalisation	−0.01***	−0.01***	−0.01***	−0.01***	−0.01***	−0.01***
Lead independent director	−0.01	−0.01	−0.01	−0.01	−0.02	−0.01
CEO duality	0.03	0.03	0.02	0.02	0.05	0.03
CEO gender	−0.06	−0.07	−0.08	−0.07	−0.03	−0.07
CEO tenure	−0.01	−0.01	−0.01	−0.01	−0.01	−0.01
CEO education	0.01	0.02	−0.01	0.01	0.01	0.01
Board meeting	0.05	0.05	0.05	0.04	0.04	0.04
Primary shareholder		0.25**				
Independent directors			−0.05*			
Board size				−0.01**		
CEO age					−0.01**	
Gender diversity						−0.01
χ^2	49.95	54.58	51.93	52.55	53.21	49.40
$p <$	0.00	0.00	0.00	0.00	0.00	0.00
Log likelihood	−1.92	2.09	1.34	1.45	1.07	−0.13

Notes: ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$

find a negative ($r = -0.01$) and statistically significant ($p < 0.05$) relationship between CEO age and code quality, thus supporting *H4*.

Lastly, we tested for the suggested positive relationship between the presence of women on the board and code of ethics' quality. We find a negative ($r = -0.01$) but not statistically significant relationship between the variables. This result does not support *H5*.

Discussion and conclusions

The aim of this study was to investigate the antecedents of code of ethics' quality. We focused on the effects of certain characteristics of corporate governance on the degree to which companies direct investments towards improving the quality of their codes of ethics.

Several corporate governance characteristics were investigated in line with recent research on this topic. In particular, five corporate governance characteristics were considered:

1. the role of primary shareholders within the firm;
2. the role and influence of independent directors within the board;
3. the effect of board size on the strategic decision-making process;
4. the influence of CEO age; and
5. the gender diversity.

We found that codes of ethics are strongly influenced by the ownership structure of the company given the critical role played by primary shareholders with larger stakes in influencing the quality of codes of ethics. Moreover, we found that the lower the number of independent directors, the higher the firm's propensity to invest in code of ethics' quality. Similar results were found in relation to board size given that smaller boards were more inclined to implement higher-quality codes of ethics. Younger CEOs were also found to have a higher likelihood of exploiting high-quality codes. Nevertheless, no support was found for the suggestion that the presence of women on the board influences the strategic orientation of the board in terms of code of ethics' quality.

These results provide interesting considerations for the academic debate on the antecedents of code of ethics' quality, particularly in reference to the characteristics of corporate governance. The results also have a number of implications for managers and practitioners interested in comprehending the factors that influence code of ethics' quality.

Governance characteristics and code of ethics' quality

First, we found a significant positive correlation between the quality of the codes of ethics and the presence of a primary shareholder with a large stake in the firm. Certainly, large shareholders are interested in a firm's financial performance. However, large shareholders have longer investment horizons, pay more attention to firm survival than profit maximisation and attempt to avoid damage that may compromise the firm's reputation or affect its share price and have decision determinants that sometimes contrast with typical economic rules. Therefore, assuming that large shareholders are also motivated by, and committed to, the preservation of non-financial affected-related values seems reasonable.

A second result presented in this study reveals a negative relationship between the number of independent directors and code of ethics' quality. Prior research on independent directors identifies positive effects for firms in terms of ensuring respect for legality and limiting agency problems because the risk of collusion between such directors and top management is limited (Fama and Jensen, 1983). Nevertheless, such research has not provided a unique interpretation of how independent directors make positive or negative contributions to the board's capacity to direct the firm's value-creation process. In this study, we argue that independent directors are a governance mechanism that effectively reduces agency problems between ownership and control within the firm. However, as the number of independent directors increases, the complexity of the governance mechanism may change. In this regard, our results provide evidence that the presence of a few independent directors has a more significant impact in terms of defining the strategic orientation of the firm towards the exploitation and development of high-quality codes of ethics.

Third, we found that board size affects strategic decisions related to investing in high-quality codes of ethics. In line with previous literature that focused on the relationship between board size and strategic decision-making, we provide additional insights into the capacity of smaller boards of directors in driving the choice to implement high-quality codes of ethics. The extant literature, as a matter of fact, suggests that larger boards are detrimental to board effectiveness (Jensen, 1993; Lipton and Lorsch, 1992). The main explanation given in these cases is that if board size increases, then agency problems and conflicts on the board increase as well. As a consequence, not surprisingly, smaller boards find it easier to implement strategic decisions aimed at high-quality codes of ethics.

Additionally, we found that CEO age is negatively related to the capacity of a firm to implement a high-quality code of ethics. In practical terms, the younger the CEO, the higher is the quality of that firm's code of ethics. Firms led by younger CEOs appear to be more oriented towards a sustainable strategic view of the corporation. Using previous literature (McKnight *et al.*, 2000), we argue that as a CEO's age increases, his or her intellectual capabilities are enhanced through the knowledge and experience gained from the position and from completing one's education. Nevertheless, a younger CEO pays more attention to active and innovative tasks and has better problem-solving capacity, which should enable the CEO to better respond to quick and irregular changes in business. By transferring the CEO's age-related capabilities into the strategic decision-making process of the firm, our results provide empirical evidence that younger CEOs are more likely to invest their time and effort in defining strong ethical values and principles through which the firm can build and address its strategy.

Although older CEOs have more experience and competences, they probably have lower ability or interest in solving problems. Therefore, we argue that younger CEOs are more likely to exploit new managerial tools, such as high-quality codes of ethics, to manage new and complex relationships with internal and external stakeholders.

Finally, we investigated the gender diversity of the board's composition as a factor that may influence the firm's willingness to develop and exploit high-quality codes of ethics. More specifically, we assumed that a larger number of women on the board of directors results in a stronger and more positive attitude towards investing in a high-quality code of ethics. Some researchers actually suggest that a significant difference exists between males' and females' moral reasoning, implying that men and women conceive ethical decision-making in different ways (Bernardi *et al.*, 2009). In particular, empirical studies show a correlation between higher proportions of female directors and a company's involvement in CR activities (Bernardi and Threadgill, 2010). In contrast, our findings offer no evidence of a direct correlation between the presence of women on the board of directors and the exploitation of high-quality codes of ethics. Therefore, our results offer interesting insights into the use of specific managerial tools for implementing CR activities: although women generally show a stronger orientation towards sustainability, the same attitude is not found with respect to their willingness to implement specific sustainability strategies and tools, such as high-quality codes of ethics.

Implications, limits and clues for future research

This study investigated the antecedents of code of ethics' quality on the basis of the assumption that specific corporate governance characteristics, as discussed above, may affect such quality.

The results presented in this study have several important implications for both researchers and practitioners. Researchers may find it useful to know that the willingness of the firm to invest in high-quality codes of ethics can influence the agency problem evident between ownership and control. In this regard, our results contradict the extant literature that investigates the effects of corporate governance on, for instance, the effectiveness and efficiency of the decision-making process. When linked to a specific strategic orientation, such as a sustainable strategic orientation focused on a high-quality code of ethics, corporate governance characteristics reveal influences that differ from those found in prior literature. For example, consider the effect of independent directors on board effectiveness. Whereas independent directors are typically viewed as those in charge of monitoring and controlling the board's decisions, we found that a lower number of independent directors results in a higher-quality code of ethics.

Practitioners may gain insights into how they could introduce a specific sustainability-oriented strategy to the firm through a high-quality code of ethics. As an example, the strongest result in this study suggests that owners are able to lead the firm's strategic orientation on the path towards sustainability by influencing the quality of codes of ethics. In fact, the primary shareholder has the greatest capacity to influence quality in this respect.

This study suffers from several limitations. First, it focuses on a single country. The use of a broader sample that covers several countries may provide different – and more generalisable – results. However, because the use of a single-nation sample follows a common practice in previous literature, it might not actually influence the significance of our results (Garegnani *et al.*, 2015; Vurro *et al.*, 2014). Second, this study relies on a snapshot of companies at a certain point in time. In this respect, a longitudinal investigation into how companies change and improve their codes of ethics over time might highlight different elements that influence the results. Lastly, more control effects may be analysed in future research, such as the characteristics of the strategic orientation of the firm towards sustainability. Although codes of ethics serve as a specific tool for introducing sustainability, they are not necessarily a representation of the effectiveness of the firm's sustainability orientation.

The model and empirical evidence presented in this study suggest additional avenues for future research. In particular, additional research is required to comprehend exactly which of the numerous corporate governance characteristics influence the strategic orientation of the firm towards high-quality codes of ethics. In this regard, future research might focus on the competences held by individuals on the board. Such perspective would provide additional insights and evidence towards implementation of high-quality codes of ethics.

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Appendix 1

Table AI Scoring model: categories and Items

Categories	*Items*
1. Commitment from the top	1.1. Corporate values defined from the top
	1.2. Recommended behaviours rather than prohibitions
	1.3. Introductory letter from top management
	1.4. Management support for circulation of the document
	1.5. Quoting revisions of the code of ethics
2. Style and availability	2.1. Advantageous use of colours
	2.2. Cover with customised logo
	2.3. Easy availability on the website
	2.4. Existence of tables of contents
	2.5. Presence of examples and FAQs
	2.6. Provisions for dual language (local language and English)
	2.7. Writing style (direct, peremptory, active voice)
3. Whistle-blowing	3.1. Anonymity for whistle-blowers
	3.2. Existence of a reporting policy
	3.3. Non-retaliation policy
	3.4. Presence of a section devoted to reporting
	3.5. Set-up of different reporting mechanisms
4. Relations with stakeholders	4.1. Attention to professional development of staff
	4.2. Specific codes of conduct with respect to customers and business-contractual counterparts
	4.3. Specific codes of conduct with respect to shareholders
	4.4. Specific codes of conduct with respect to suppliers
	4.5. Specific codes of conduct with respect to political organisations and trade unions
	4.6. Specific codes of conduct with respect to authorities
	4.7. Specific codes of conduct with respect to the local community
5. Compliance procedures	5.1. Accountability
	5.2. Anti-bribery policies
	5.3. Conflicts of interest policy
	5.4. Existence of internal control system backing up code of ethics
	5.5. Existence of penalties for infractions of code of ethics
	5.6. Protection of corporate property (both tangible and intellectual), corporate image and confidentiality
	5.7. Provision of advisory service
	5.8. Provision of training schemes
6. Legal items	6.1. Anti-trust issues
	6.2. Data protection and personal information
	6.3. Equality and diversity empowerment
	6.4. Health and safety in the workplace
	6.5. Good citizenship and compliance with the law
	6.6. Price-sensitive information and protection against insider trading and market abuse
	6.7. Protection of the environment
	6.8. Transparency and accuracy of financial information

Appendix 2

Table AII Relationships between Items in the Score and Predictors

Variables	*Model 1a*	*Model 1b*	*Model 2a*	*Model 2b*	*Model 3a*	*Model 3b*	*Model 4a*	*Model 4b*	*Model 5a*	*Model 5b*
Constant	3.62	−2.74**	−4.08***	0.66	−0.05	1.08	−3.85**	−0.36	−6.3***	−4.52***
Consumer	−0.26	−0.4	−0.08	−0.63	0.4	−0.09	−0.38	−0.3	0.14	−0.18
Utility	−0.4	0.69	−0.01	−1.38*	0.39	0.4	−0.34	0.11	0.4	0.41
Financial	−0.55	−0.53	−0.43	−0.73	0.46	−0.25	−0.93**	−0.22	−0.56	−0.15
Manufacturer	0.38	−0.15	−0.24	−0.46	0.82***	0.08	−0.41	0.05	0***	0.28
IT										
Stock exchanges	0.04	−0.02	0.02	0.06	−0.04	−0.02	−0.06	−0.02	0.03	0.05
Firm size	0.12	0.09*	0.26***	0.02	0.04	0.03	0.25***	0.06	0.19**	0.19***
Floating shares	−4.56**	1.37*	0.19	−1.49	0.02	0.4	−0.21	0.05	−0.12	1.05**
ROE	0.01	0.3	0.05	−0.27	0.1	0.04	0.02	0	−0.01	0.02
Degree of internationalisation	−0.01*	0	0	0	0	0	0	0**	0	0
Lead independent director	0.66	−0.05	0.16	0.04	0.03	0.15	0.08	−0.19	0.34	0.09
CEO duality	−0.08	0.28	−0.38*	−0.44	0.03	−0.23	0.12	0.32	−0.34	−0.23
CEO gender	0***	−0.19	−0.05	0***	−0.2	−0.35	0***	0.25	−0.44	0.15
CEO tenure	0.02	−0.01	−0.01	0.02	−0.03*	−0.02	−0.03	−0.03*	0.04*	0.01
CEO education	0.17	−0.09	−0.63***	0.57	−0.06	−0.3	−0.03	−0.22	0.13	−0.48**
Board meeting	−0.08	0	0.19	0.29	−0.09	−0.13	0.16	0.24	0.48	0.02
Primary shareholder	−4.91***	1.7***								
Independent directors			−0.5***	0.63*						
Board size					−0.08***	−0.05*				
CEO age							−0.03**	−0.02**		
Gender diversity									0.29*	0.3***
χ^2	23.06	35.67	36.90	13.70	17.98	14.98	26.03	19.70	20.69	37.29
$p <$	0.08	0.00	0.00	0.05	0.05	0.05	0.03	0.05	0.05	0.00
Log likelihood	−38.44	−136.51	−145.35	−40.38	−147.41	−156.31	−72.43	−150.42	−55.80	−138.71

Notes: ***$p < 0.01$; **$p < 0.05$; *$p < 0.10$; Model 1a. Item: "Good citizenship and compliance with the law"; Category: "Legal items"; Model 1b. Item: "Specific codes of conduct in respect of the local community"; Category: "Relations with stakeholders"; Model 2a. Item: "Cover with customised logo"; Category: "Style and availability"; Model 2b. Item: "Conflicts of interest policy"; Category: "Compliance procedures"; Model 3a. Item: "Management support for circulation of the document"; Category: "Commitment from the top"; Model 3b. Item: "Non-retaliation policy"; Category: "Whistle-blowing"; Model 4a. Item: "Set-up of different reporting mechanisms"; Category: "Whistle-blowing"; Model 4b. Item: "Provision of training schemes"; Category: "Compliance procedures"; Model 5a. Item: "Introductory letter from top management"; Category: "Commitment from the top"; Model 5b. Item: "Advantageous use of colours"; Category: "Style and availability"

About the authors

Giovanni Maria Garegnani is Professor of Accounting at LUM University in Casamassima (BA), Italy. He is Editor-in-Chief of the Rivista dei Dottori Commercialisti. His research interests include financial accounting, corporate sustainability, mergers and acquisitions. His academic works are published in national and international refereed journals.

Emilia Piera Merlotti is Lecturer at the Accounting Department at Università Bocconi in Milano, Italy, where she is also Coordinator of the MSc in Accounting and Law and of the Master in Accounting, Auditing & Control. She completed her PhD in Business Administration from the Università degli Studi in Pavia. Her research interests include voluntary vs mandatory disclosure, corporate governance and accounting ethics. Her academic works are published in national and international refereed journals.

Angeloantonio Russo is Professor of Management at LUM University in Casamassima (BA), Italy, where he is also Director of the PhD program in The Economics and Management of Natural Resources. He completed his PhD in Business Administration and Management from Bocconi University in Milan. His research interests include corporate sustainability, CSR in SMEs, environmental management, mergers and acquisitions and strategic alliances. His academic works are published in national and international refereed journals, including the *Business Ethics: A European Review*, *Corporate Governance: the International Journal of Business in Society*, *European Management Journal*, *European Management Review* and *Journal of Business Ethics*. Angeloantonio Russo is the corresponding author and can be contacted at: russo@lum.it