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CORPORATE GOVERNANCE AND POLITICAL CONNECTIONS IN ANTI-CORRUPTION PRACTICES

Governança corporativa e conexões políticas nas práticas anticorrupção

Gobierno corporativo y conexiones políticas en prácticas anticorrupción

ABSTRACT

The objective of this study is to analyze whether specific corporate governance mechanisms and political connections influence the voluntary disclosure of anti-corruption practices in the companies listed in the Brazilian stock exchange [B]3. The disclosure index was obtained from the relationship between the number of citations of the keywords and the number of pages in the sustainability reports. The analysis was performed using multiple linear regression, considering 740 observations from financial years 2016 and 2017. The results indicate that the size and percentage of external members on the board of directors, Big Four audits, size of the audit committee, and participation of government shareholding positively influence the levels of disclosure of anti-corruption practices. In turn, the presence of politicians on the board of directors leads to an increase in information asymmetry due to a lower level of disclosure, which, by extension, represents less commitment to anti-corruption practices.

KEYWORDS | Corporate governance, political links, disclosure, anti-corruption, audit.

RESUMO

O objetivo do estudo é analisar se mecanismos específicos de governança corporativa e as conexões políticas influenciam a evidenciação voluntária de práticas anticorrupção em empresas listadas na [B]3. O índice de evidenciação foi obtido a partir da relação do número de citações das palavras-chave com o número de páginas dos relatórios de sustentabilidade. A análise foi realizada por meio de regressão linear múltipla e considerou 740 observações dos exercícios de 2016 e 2017. Os resultados indicaram que o tamanho e o percentual de membros externos no Conselho de Administração (CA), auditoria big four, tamanho do comitê de auditoria e a participação acionária do governo influenciaram positivamente os níveis de evidenciação de práticas anticorrupção. Por sua vez, a presença de políticos no CA conduz para aumento da assimetria informacional ao revelar menor nível de divulgação, que, na sua extensão, representa menor compromisso com as práticas anticorrupção.

PALAVRAS-CHAVE | *Governança corporativa, vínculos políticos, divulgação, combate à corrupção, auditoria.*

RESUMEN

El objetivo del estudio es analizar si los mecanismos específicos de gobierno corporativo y las conexiones políticas influyen en la divulgación voluntaria de las prácticas anticorrupción en las empresas que cotizan en la [B]3. El índice de divulgación se obtuvo de la relación entre el número de citas de las palabras clave y el número de páginas de los informes de sostenibilidad. El análisis se realizó mediante regresión lineal múltiple y consideró 740 observaciones de los ejercicios 2016 y 2017. Los resultados indicaron que el tamaño y el porcentaje de miembros externos en el consejo de administración, la auditoría bif four, el tamaño del comité de auditoría y la participación accionaria del gobierno influyeron positivamente en los niveles de divulgación de las prácticas anticorrupción. A su vez, la presencia de políticos en el consejo de administración conduce a un aumento de la asimetría de la información al revelar un menor nivel de divulgación, que, en su extensión, representa un menor compromiso con las prácticas anticorrupción.

PALABRAS CLAVE | *Gobierno corporativo, vínculos políticos, divulgación, anticorrupción, auditoría.*

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INTRODUCTION

In Brazil, the low level of compliance with laws, in addition to poor inspection by the government, encourage companies to engage in unethical practices (Halter, Arruda, & Halter, 2009). Operation Car Wash revealed a scheme involving large companies and the national political sphere, considered by the World Economic Forum as one of the largest corruption scandals in Brazil (Padula & Albuquerque, 2018).

In order to curb those behaviors, the Brazilian government made efforts for the enactment of Law no. 12,846/2013 (Anticorruption Law) and issued Decree no. 8,420/2015, both of which indicated the need for compliance as inductive legislation, based on the Corporate Governance (CG) regulatory framework, with guidance on internal mechanisms for integrity, auditing and incentives to the reporting of misconduct, as well as the application of codes of ethics and conduct by companies (Law No. 12,846, 2013).

CG was given prominence to promote transparency and the regulation of anti-corruption practices in publicly-held companies, in addition to being a central topic of Corporate Social Responsibility (CSR) (Aguilera, Rupp, Williams, & Ganapathi, 2007; Jamali, Safieddine, & Rabbath, 2008; Kaymak & Bektas, 2017).

CG mechanisms are essential in detecting and monitoring corporate corruption (Agyei-Mensah, 2017; Frías-Aceituno, Rodríguez-Domínguez, & García-Sánchez, 2014; Malagueño, Albrecht, Ainge, & Stephens, 2010; Na, Kang, & Kim, 2018; Owolabi, 2011; Wu, 2005), and the fight against it is an important attribute of CSR (Branco & Delgado, 2012; Hills, Fiske, & Mahmud, 2009; Hoi & Lin, 2012). Thus, the fight against corruption must be supported by CG mechanisms by means of CSR practices (Malagueño et al., 2010).

According to the Agency Theory, the separation between corporate ownership (owners/shareholders) and control (managers) produces agency conflicts and costs (Jensen & Meckling, 1976). The higher the level of ownership dispersion, the greater the agency conflicts between controllers and other stakeholders (Depoers, 2000). Agency conflicts involve the possibility of expropriation of minority shareholders by controlling shareholders, as well as information asymmetry problems (Jensen & Meckling, 1976), which, by extension, influence voluntary disclosure (Chow & Wong-Boren, 1987).

In environments of high capital dispersion, such as the United States, executives are given much power, and shareholders, little, which creates problems between shareholders and executives (Nassif & Souza, 2013). However, Brazilian companies have high levels of ownership concentration, and the main agency conflict occurs between majority and minority shareholders (Dami, Rogers, & Ribeiro, 2007).

In companies where share control is more dispersed (less concentrated), a greater information disclosure is necessary (Raffournier, 1995) to solve information asymmetry problems (Jensen & Meckling, 1976). In turn, shareholders with a significant portion of shares are part of management and have privileged access to information (Leuz, 2006).

CG has mechanisms that allow reducing agency conflicts between principals and agents or between controlling and minority shareholders (Silveira & Barros, 2008), thus acting to reduce agency costs (Dami et al., 2007).

In addition, firms use CSR as an extension of CG mechanisms in order to voluntarily disclose information that minimizes information asymmetry. However, CG is impacted by the environment's social and political factors, and the Board of Directors (BOD) can change actions on CSR (Jensen & Meckling, 1976).

In turn, political connections are intrinsic to the ownership structure and CG mechanisms, through the participation of individuals with political expertise in companies' BODs; such connections ensure benefits and competitive advantages, such as access to privileged information and financial sources that contribute to reduce informational asymmetry and agency conflicts (Camilo, Marcon, & Bandeira-de-Mello, 2012).

Political connections are allies of CG in strengthening the corporate image's legitimacy before stakeholders, through CSR. The voluntary disclosure of anti-corruption practices seems to represent a consistent way for the company with political connections to build trust with stakeholders (Said, Zainuddin, & Haron, 2009).

CG and political connections exert coercive pressure on companies to disclose information on anti-corruption practices. It is important to jointly study the impact of CG and political connections on CSR, since they are similar in the way they seek to serve stakeholders and address agency conflicts. Previous studies have used the Agency Theory's framework to reveal that, in the field of CG, political connections used as power balance aggravate conflicts of interest between majority and minority shareholders (Ding, Jia, Wilson, & Wu, 2015; Huang & Zhao, 2016; Pan & Tian, 2017).

In view of the above, the following problem emerges: what is the influence of CG mechanisms and political connections on the voluntary disclosure of anti-corruption practices? This study aims to analyze whether specific CG mechanisms and political connections influence the voluntary disclosure of anti-corruption practices in companies listed in the [B][3].

The research environment is justified, since companies operating in emerging markets face an environment that is conducive to corruption (Krishnamurti, Shams, & Velayutham, 2018). During the analyzed period, Brazil was ranked 79th and 96th in the International Transparency's ranking, in 2016 and 2017, respectively, of a total of 180 surveyed countries (Transparência Internacional, 2017), which characterizes a favorable business environment for studies on corruption. Given the country's fragile position in the global transparency context, CG and political connections have the potential to influence companies' engagement in anti-corruption practices and their respective disclosure.

From the standpoint of corporate reputation, disclosing anti-corruption practices expands CSR and promotes legitimacy before stakeholders (Etxeberria & Odriozola, 2018). From a managerial standpoint, it minimizes agency conflicts (Jensen & Meckling, 1976), and corruption prevention strategies are part of CSR (Hills et al., 2009), thus being included in the agenda of politicians, managers, shareholders and researchers (Hoi & Lin, 2012).

THEORETICAL FRAMEWORK

CSR and Anti-corruption Practices

Rejecting corruption is inherent to companies that have CSR, since corruption is deemed incompatible with sustainable development due to the social, economic and environmental damage it causes (Branco & Delgado, 2012). However, corruption continues to be a neglected social issue among CSR priorities (Hills et al., 2009).

Corruption in the private sector is characterized by abuse of power in achieving a private benefit (Rodriguez, Siegel, Hillman, & Eden, 2006), and it may take the form of gifts, misuse or the negotiation of information for one's personal benefit or the organization's benefit.

Organizations are encouraged to implement strategies to fight corruption, which can be related to the misuse of accounting, business espionage, information manipulation, purchases for personal benefit, bribery and asset theft (Hills et al., 2009).

In their investigation on companies from Malaysia and Indonesia, Joseph et al. (2016) found incipient disclosure of anti-corruption practices in CSR, with codes of conduct and reporting practices being the most reported items. In Brazil, some private-sector companies have become aware of the risks involved in unethical procedures and started to adopt specific CG practices regarding the subject (Halter et al., 2009), encouraged by Law n. 12,846/2013, among other factors.

CG and CSR in Anti-corruption Practices

Under the aegis of CG, companies are encouraged to promote ethics, impartiality, accountability, transparency and responsibility in all their relationships. Therefore, companies must keep their activities in line with society's ethical and legal aspirations (Jamali et al., 2008).

The CSR approach balances the needs of different groups with shareholders' goals by integrating social, environmental and public concerns into CG. The themes related to CG and CSR have been found to converge, since both seek to guarantee businesses' resistance (Aguilera et al., 2007).

CG represents a pillar for RSC's sustainability, and developing countries must increase the monitoring and capacity of regulatory and judicial systems on CG and coercive institutional pressures in adopting CSR (Jamali et al., 2008). CSR is considered an extension of the firm to promote CG's effectiveness, ensuring sustainability through corporate practices that promote responsibility and transparency for shareholders and society (Jo & Harjoto, 2012).

CG positively affects the company's engagement in CSR (Jo & Harjoto, 2012) and plays a catalyst role in breaking corruption's vicious cycle in organizations (Wu, 2005); it is therefore a supervision tool for ensuring management's ethical and consistent behavior (Frías-Aceituno et al., 2014).

Corruption works as a drain in companies' resources and creates a disincentive to CG (Bishara, 2011); it must be fought through controls that inhibit corrupt practices (Castro, Amaral, & Guerreiro, 2019). Especially in emerging markets, less developed CG systems are more susceptible to exploitation by corrupt individuals (Bishara, 2011).

> H1: CG mechanisms increase companies' CSR in disclosing anti-corruption practices.

CG plays a key role in maintaining corporate integrity and managing the risk of corporate fraud and corruption; communication to stakeholders supports accountability and the implementation of robust measures to limit and prevent corruption (Agyei-Mensah, 2017).

It is the BOD's responsibility to establish anti-corruption policies with guidance on CSR activities, as well as mechanisms to prevent unethical behavior (Bierstaker, 2009). In addition, a greater number of members in the BOD facilitates monitoring and controlling illicit practices (Agyei-Mensah, 2017).

The literature indicates that BOD characteristics influence CG effectiveness. In this approach, an independent BOD represents the interests of shareholders, thus preventing the involvement of managers in bribery (Wu, 2005). Managers of companies supervised by a BOD with independent members apply and adopt anti-corruption policies more seriously (Healy & Serafeim, 2015).

Empirical evidence has indicated that BOD independence (Kaymak & Bektas, 2017; Khan, Muttakin, & Siddiqui, 2013) and size (Kaymak & Bektas, 2017) positively affect CSR practices. Previous findings also revealed that BOD independence (Agyei-Mensah, 2017; Donnelly & Mulcahy, 2008) and the size (Donnelly & Mulcahy, 2008) positively impact organizations' voluntary disclosure, thus playing a significant role in maintaining corporate integrity and in fighting corruption. Frías-Aceituno et al. (2014) identified that CG reinforces the control of bribery and corruption by combining the different mechanisms in the corporate environment.

> H1a: The presence of external members in the BOD, as well as its size, increase companies' CSR in disclosing anti-corruption practices.

The existence of an audit committee with a higher proportion of independent members reduces agency costs and improves internal control, leading to higher quality of disclosures. In their study on Malaysian companies, Said et al. (2009) indicated that the audit committee is positively related to CSR disclosure. In addition, Khan et al. (2013) confirmed the audit committee's positive effect on CSR practices. The audit committee plays an effective role in how CG operates, as in the evidence provided by Ho and Wong (2001) that the existence of the audit committee is significantly and positively related to the extent of voluntary disclosure.

> H1b: The presence of external members in the audit committee, as well as its size, increase companies' CSR in disclosing anti-corruption practices.

In addition to international efforts and legal requirements at the country level, accounting and auditing standards based on CG principles culminate in the quality and integrity of organizations that mitigate and curb corrupt practices. Accounting is an essential transparency mechanism whose role is to demonstrate the company's operations, reflected by reality in a precise, comparable manner, and, in turn, the role of auditing is to guarantee the accuracy of that information to its users (Owolabi, 2011).

Another relevant aspect about CG is external audit, which constitutes a control device for monitoring and detecting bribery (Na et al., 2018), with the role of ensuring information reliability, thus reducing informational risk (Malagueño et al. , 2010).

With regard to countries, Malagueño et al. (2010) investigated 57 jurisdictions and indicated that improving accounting and auditing quality can help reduce corruption. In the organizational sphere, Na et al. (2018) showed that elements of CG impacted corruption prevention in companies in Brazil, Russia, India and China (BRIC).

In the study of Owolabi (2011), the quality of accounting and auditing was also considered an encouragement to mitigate corruption in 13 African countries. The Big Four global audit firms have been strict with regard to anti-corruption standards, thus intensifying the fight against corruption in companies (Healy & Serafeim, 2015).

> H1c: The Big Four audit firms increase companies' CSR in disclosing anti-corruption practices.

Political Connections and CSR in Anti-corruption Practices

Political connections are worldwide phenomena in which business groups connect with government members in various ways: when the government is a shareholder in private-sector companies; when a business owner is a politician or has been appointed to hold government office; when politicians or former politicians are BOD members or a hold a senior management position in private-sector companies; when companies make donations to politicians' election campaigns (Claessens, Feijen, & Laeyen, 2008).

Political connections are associated with lobbying, particularly regarding the transmission of privileged information to companies (Correia, 2014). Companies strengthen political ties in order to reduce uncertainties, facilitate access to credit, face less regulatory control, obtain tax benefits (Camilo et al., 2012; Huang & Zhao, 2016; Wang, Chen, Chin, & Zheng, 2017) and other state-controlled resources.

Political connections play a key role in economies with weak regulation, high levels of corruption and weak institutions (Polsiri & Jiraporn, 2012). Government shareholding leads to CSR, due to governmental responsibility regarding publicly traded companies' transparency (Nasir & Abdullah, 2004). Thus, creating higher levels of trust between stakeholders becomes paramount for politically connected firms (Martynova & Renneboog, 2009).

Empirical evidence has confirmed that companies where the government is the controlling shareholder are positively related to CSR disclosures (Khan et al., 2013; Said et al., 2009), and companies with political connections through shareholding are interested in maintaining their corporate reputation (Huang & Zhao, 2016).

Findings indicate that the company's social reputation is positively related to disclosure concerning anti-corruption practices (Etxeberria & Odriozola, 2018), and CSR has been a constant political need, leading politically connected companies to increase investments in this field (Huang & Zhao , 2016).

H2a: Government shareholding increases companies' CSR in disclosing anti-corruption practices.

The political connection is also established through the presence of politicians in the BOD of private-sector companies, and it involves compensation for both the company and the individual: a) companies strengthen ties with a view to obtaining easier access to resources, less regulatory control, and tax benefits; and b) politicians have private interests (Camilo et al., 2012; Chaney, Faccio, & Parsley, 2011; Guedhami, Pittman, & Saffar, 2014).

The presence of politicians in the BOD is more common in environments with high levels of corruption (Boubakri, Cosset, & Saffar, 2008) and, in the course of the relationship between companies and government, the politician easily manages to carry out illicit transactions, considering his position, in order to obtain private benefits (Abramo, 2005). In this type of political tie, there is collusion between managers and politicians, resulting in fraudulent practices with the common purpose of achieving private benefits (Pan & Tian, 2017).

A close relationship between government and companies facilitates bribery. Although the literature has not yet proven that political connections represent acts of corruption, there are strong indications based on the related benefits (Guo, 2018). Corruption is considered an important channel for corporations to establish political connections, due to the privileges involved (Liu, Luo, & Tian, 2016).

H2b: Politicians as BOD members decrease companies' CSR in disclosing anti-corruption practices.

METHODOLOGY

The investigated sample consisted of 372 companies listed in the [B][3] in 2016 and 368 in 2017; of those, 83 and 99 released a sustainability report, respectively. For the companies in the sample that did not release sustainability reports, the disclosure level attributed was equal to zero.

We chose to use sustainability reports to measure the level of disclosure of anti-corruption practices because the Global Reporting Initiative's (GRI) guidelines have a specific item for the reporting of anti-corruption practices.

The length of reports on anti-corruption practices is an indication of the company's efforts to deal with bribery and corruption (Transparency International, 2009). The disclosure of anti-corruption practices helps raise public awareness and coerces companies into adopting ethical principles (Hess, 2009).

To measure disclosure of anti-corruption practices, we searched for and quantified the keywords presented in Exhibit 1.

Exhibit 1. Keywords

Description
Anticorrupção; *código de conduta*; *código de ética*; *combate à corrupção*; *compliance*; *corrupção*; *extorsão*; *Lava Jato*; *Lavagem de Dinheiro*; *Lei n. 12.846*; *propina*; *suborno(s)*; *transparência* [Anti-corruption; code of conduct; code of ethics; fight against corruption; compliance; corruption; extorsion; Operation Car Wash; money laundering; Law 12,846; bribery; transparency].

To confirm that the keywords reflect the companies' anti-corruption practices, we analyzed the corruption prevention practices found in the sustainability reports next to the predefined keywords (Exhibit 1). Table 2 provides an example.

Exhibit 2. Anti-corruption practices found in the sustainability reports next to the search with keywords

Keyword	Description found
Anti-corruption	*Anti-corruption is part of the vendor contracting process since the bidding phase, when we present the Vendor Code of Conduct, which has topics based on the principles of the United Nations Global Compact, to the contract's signing, with Socioenvironmental Responsibility clauses (Banco Santander S.A., 2017).*
	In 2017, the Board of Directors voted the revision of the Code of Ethical Conduct. In addition, policies were revised and mandatory e-learning processes carried out with all employees in order to disseminate the anti-corruption and money laundering prevention culture (Cielo S.A., 2017).

Based on the words in Exhibit 1, 2,560 observations were obtained for 2016 and 3,621 for 2017 in the investigated reports. We used WordStat 8 to search for and quantify the keywords, and FineCount to determine the number of pages in the sustainability reports, according to the metric shown in Exhibit 3.

Exhibit 3. **Measuring of Disclosure of Anti-corruption Practices**

Description	Metric	Source	Authors
Disclosure of Anti-corruption Practices (DAP)	Ratio between keywords and number of report pages	Sustainability reports	Gamerschlag, Möller e Verbeeten (2011)

In order to examine the effect of CG mechanisms on companies' voluntary disclosure, we selected the variables presented in Exhibit 4.

Exhibit 4. **Corporate Governance Independent Variables**

Description	Metric	Authors
BOD size (BODS)	Total number of BOD members.	Wu (2005); Donnelly e Mulcahy (2008); Bierstaker (2009); Khan et al. (2013); Frías-Aceituno et al. (2014); Agyei-Mensah (2017); Kaymak e Bektas (2017); Na et al. (2018).
Percentage of external board members (EBM)	Proportion between the number of independent board members in relation to total number of members.	
Level of Corporate Governance (CG)	Dummy variable equal to 1 for Novo Mercado and/or corporate governance level 2.	
Audited by one of the Big Four (AUD)	Dummy variable, 1 for big four-audited companies and 0 otherwise.	Ho e Wong (2001); Said et al. (2009); Malaguenõ et al. (2010); Owolabi (2011); Khan et al. (2013); Healy e Serafeim (2015); Na et al. (2018).
Audit Committee size (AUDS)	Total of members in the audit committee.	
Audit Committee independence (AUDI)	Proportion between the number of independent committee members in relation to total number of members.	

For the political connections between companies and government, we used the independent variables shown in Exhibit 5.

Exhibit 5. **Independent Variables for Political Connection**

Description	Metric	Authors
Political connections through board members with political expertise (POLC)	Proportion of board members with political expertise.	Camilo et al. (2012); Huang e Zhao (2016); Wang et al. (2017).
Political connections through government shareholding (GOVSH)	Dummy variable, 1 for companies with direct or indirect government shareholding, and 0 otherwise.	Nasir e Abdullah (2004); Khan et al. (2013); Huang e Zhao (2016); Said et al. (2009).

Organizational characteristics also affect companies' informational level and were used as control variables (Exhibit 6).

Exhibit 6. **Control Variables for Company Characteristics**

Description	Metric	Authors
Size (SIZE)	Natural logarithm of the average book value of total assets.	Frías-Aceituno et al. (2014); Agyei-Mensah (2017).
Ownership Concentration (OC)	Percentage of common shares held by the largest shareholder..	Agyei-Mensah (2017); Na et al. (2018).
Industry (IND)	Dummy variable, 1 for companies in construction, oil, gas and biofuel industries, and 0 otherwise.	Frías-Aceituno et al. (2014); Na et al. (2018).
ISE Portfolio (ISE)	Dummy variable, 1 for companies in the ISE portfolio, and 0 otherwise.	Ricardo, Barcellos e Bortolon (2017).

To analyze the influence of certain CG mechanisms and political connections on the disclosure of anti-corruption practices, we used multiple linear regression and, in addition, a model with year fixed effects and robust standard error (Exhibit 7). Sensitivity tests were also conducted only for the companies that released sustainability reports in the studied period.

Exhibit 7. **Econometric Models**

$$DAP_{it}=\beta_0+\beta_1 BODS_{it}+\beta_2 EBM_{it}+\beta_3 SIZE_{it}+\beta_4 OC_{it}+\beta_5 IND_{it}+\beta_6 ISE_{it}+\varepsilon \quad (1)$$

$$DAP_{it}=\beta_0+\beta_1 AUD_{it}+\beta_2 AUDS_{it}+\beta_3 AUDI_{it}+\beta_4 SIZE_{it}+\beta_5 OC_{it}+\beta_6 IND_{it}+\beta_7 ISE_{it}+\varepsilon \quad (2)$$

$$DAP_{it}=\beta_0+\beta_1 CG_{it}+\beta_2 POLC_{it}+\beta_2 GOVSH_{it}+\beta_3 SIZE_{it}+\beta_4 OC_{it}+\beta_5 IND_{it}+\beta_6 ISE_{it}+\varepsilon \quad (3)$$

$$DAP_{it}= \beta_0+\beta_1 BODS_{it}+\beta_2 EBM_{it}+ \beta_3 AUD_{it}+\beta_4 AUDS_{it}+\beta_5 AUDI_{it}+ \beta_6 CG_{it}+\beta_7 POLC_{it}+\beta_8 GOVSH_{it}+ \beta_9 SIZE_{it} + \beta_{10} OC_{it} + \beta_{11} IND_{it} + \beta_{12} ISE_{it} + \varepsilon \quad (4)$$

RESULTS

Among the keywords used, "*Combate à corrupção*" [Fight against corruption] and "Compliance" stand out; those keywords had a significant increase from 2016 to 2017 (Table 1), a result that is similar to the level of disclosure of anti-corruption practices.

Table 1. **Observations by keyword**

	Anti-corruption		Code of conduct		[ode of ethics		Fight against corruption		*Compliance*		Corruption		Extorsion	
Year	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Obs.	262	379	184	267	331	329	17	279	420	712	601	730	20	10
	Money laundering		**Operation Car Wash**		**Law n. 12.846/2013**		**Bribery**		**Bribery**		**Transparence**		**Total**	
Year	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Obs.	52	90	12	16	09	36	12	19	29	29	611	725	**2560**	3621

The descriptive statistics for the explanatory and control variables are shown in Table 2.

Table 2. **Descriptive Statistics and Frequency Analysis**

Variables	2016 N=372				2017 N=368			
	Mean	SD	Min.	Max.	Mean	SD	Min.	Max.
Disclosure of anticorruption practices	0.08	0.18	0.00	0.88	0.10	0.20	0.00	0.91
BOD size	6.07	2.63	3.00	15.00	6.10	2.79	3.00	17.00
Percentage of external board members	0.18	0.23	0.00	0.86	0.19	0.23	0.00	0.88
Audit committee size	0.72	1.44	0.00	6.00	0.902	1.53	0.00	6.00
Audit committee independence	0.01	0.07	0.00	0.50	0.01	0.07	0.00	0.60
Board members with political expertise	0.11	0.18	0.00	0.88	0.11	0.18	0.00	0.88
Company size	24,232,826.17	131,299,362.49			22,688,990.77	130,376,312.98		
Ownership concentration	47.83	33.52	0.00	100.00	46.33	34.44	0.00	100.00

Variables	2016				2017			
	YES	%	NO	%	YES	%	NO	%
Corporate governance level	169	45.43	203	54.57	167	45.38	201	54.62
Big Four audit firm	275	73.90	97	26.10	255	69.3	113	30.7
Government shareholding	37	9.90	335	90.10	39	10.6	329	89.4
Industry	33	8.90	339	91.10	32	8.7	336	91.3
ISE Portfolio	32	8.60	340	91.40	30	8.2	338	91.8

To analyze the influence of explanatory variables on the level of disclosure of anti-corruption practices, we used multiple linear regression models that considered variables CG, audit and political connections, separately (Table 3).

Table 3. **Influence of corporate governance and political connections on the disclosure of anti-corruption practices**

Dependent Variable: Disclosure of Anti-corruption Practices (DAP)						
Independent variables	Linear regression with year fixed effects and robust standard error					
	Model a	Model b	Model a	Model b	Model a	Model b
BOD size	**0.007****	0.0003				
Percentage of external board members	0.068**	0.0848				
Big Four audit firm			**0.022****	0.047		
Audit committee size			0.012**	0.022**		
Audit committee independence			0.060	-0.101		
Corporate governance level					0.036**	-0.014
Board members with political expertise					-0.012	**-0.173****
Government shareholding					0.101**	0.125**
Company size	**0.041****	**0.049****	**0.042****	0.029	**0.041****	**0.046****
Ownership concentration	0.001**	0.001*	0.001**	0.001	**0.001****	0.001
Industry	**-0.045****	0.108	-0.028	0.165	**-0.042****	0.153
ISE Portfolio	0.205**	0.063*	0.216**	0.073**	0.201**	0.072**
(Constant)	**-0.256****	-0.052	**-0.237****	0.039	**-0.225****	0.010
Observations	740	181	740	181	740	181
Adjusted R^2	0.2918	0.1036	0.2897	0.1373	0.2989	0.1455
Prob > F.	0.000**	0.004**	0.000**	0.001**	0.000**	0.000**
Breusch-pagan	0.000	0.8952	0.000	0.6727	0.000	0.6292
Hausman	0.032**	0.045**	0.021**	0.033**	0.004**	0.008**
Durbin Watson	1.875	1.903	1.859	1.802	1.941	1.994
VIF	<1.638	<1.418	<1.443	<1.353	<1.620	<1.599

a: test with the total number of observations; b: sensitivity test excluding companies that did not publish sustainability report.
** Significant at 5%; * Significant at 10%.

It is worth stressing that the regressions classified in model "a" include all companies in the sample and, in model "b", only companies that released sustainability reports. We used multiple linear regression for all models, and then controlled for year fixed effects and robust standard error – only the latter are shown in Table 3, since the variation of coefficients and significance did not indicate relevant differences in the results. The regressions proved adequate to the fixed effects model as the Hausman test showed statistical significance at the 0.05 level.

The findings show that companies with larger BODs and a higher percentage of external members in their BODs are more likely to disclose anti-corruption practices. These results are consistent with those of Agyei-Mensah (2017), since we also found that a higher proportion of independent board members encourages voluntary disclosure. Therefore, it is proved that external members in the BOD are more committed and sensitive to ethical issues and more interested in meeting the demands of the various stakeholders, which also contributes to the fight against corruption (Frías-Aceituno et al., 2014).

In addition, less connection between external members and the other board members hinders collusion and increases the feeling of scrutiny. Considering the corruption cases covered by national media, it is plausible to assume that external board members have been paying special attention to the fight against corruption (Luca, Moura, & Nascimento, 2012).

With regard to audit characteristics, audit committee size and being audited by one of the Big Four auditing firms proved significant, which allows inferring that companies with these conditions have a higher level of disclosure of anti-corruption practices. This result is consistent with the findings of Malagueño et al. (2010), Owolabi (2011), Healy and Serafeim (2015) and Na et al. (2018), thus revealing that audit quality increases anti-corruption practices.

The evidence allows us to argue that the studied CG mechanisms are reflected in companies' CSR through the disclosure of anti-corruption practices. It is proven that CSR in the fight against corruption has been exercised through the action of CG mechanisms, thus corroborating previous evidence provided by Wu (2005), Agyei-Mensah (2017), Hills et al. (2009), Owolabi (2011), Branco & Delgado (2012), Hoi & Lin (2012), Frías-Aceituno et al. (2014) and Na et al. (2018). In addition, CG has used CSR to minimize agency conflicts, through the disclosure of anti-corruption practices, as suggested by Malagueño et al. (2010). This increases trust between controlling and minority shareholders with regard to corporate decision making (Jensen & Meckling, 1976).

Our study suggests that the political connection through government shareholding positively influences the disclosure of anti-corruption practices, with evidence of improved CSR (Etxeberria & Odriozola, 2018; Huang & Zhao, 2016; Khan et al., 2013; Nasir & Abdullah, 2004; Said et al., 2009).

Companies with government shareholding took care of their corporate reputation and stakeholders' interests by disclosing better quality information on anti-corruption practices (Etxeberria & Odriozola, 2018), thus confirming Agency Theory's precepts. The presence of the government in companies' ownership structure led to greater disclosure on measures to combat corruption, due to a certain moral obligation that it has towards society, mainly after Law no. 12,846/2013 was enacted.

In turn, the presence of politicians in the BOD negatively influences the disclosure of anti-corruption practices. Our findings suggest that the compensation-related interests of companies that strengthen ties with politicians in the BOD may be a factor that limits the disclosure of anti-corruption practices. In addition, the private benefit of the politician who has a seat in the BOD hinders corporate monitoring (Camilo et al., 2012; Chaney et al., 2011; Guedhami et al., 2014).

With regard to the control variables, company size had a positive influence on anti-corruption practices. The result is consistent with the assumption that larger companies are exposed to public scrutiny, which leads to greater voluntary disclosure (Agyei-Mensah, 2017; Frías-Aceituno et al., 2014). The recent Brazilian political and business context justifies large companies' attitude on matters of fight against corruption, with a view to increasing legitimacy in the market.

Being in the ISE portfolio contributed to the level of disclosure of anti-corruption practices by the company. The fact that a particular company is part of this portfolio derives from proactive initiatives concerning social issues, including the fight against corruption. This agenda was possibly boosted after Law no. 12,846/2013 was enacted, and the companies forming the ISE underscored their anti-corruption practices in pursuit of better organizational reputation. Thus, the adoption of CSR integrates social interests into organizations' strategies (Hills et al., 2009).

Companies in the construction, oil, gas and biofuels industries were negatively related with the disclosure of anti-corruption practices. Companies in those industries were frequently referred to in the corruption scandals of Operation Car Wash and were less keen to disclose information related to anti-corruption initiatives. This result is consistent with the assumption that the greater the organization's exposure in corruption cases, the smaller its informational openness regarding prevention measures (Barkemeyer, Preuss, & Lee, 2015).

While increased ownership concentration had statistical significance in some models, it also had very low coefficients of influence on the level of disclosure of information on fight against corruption, and their explanatory power should be sparingly considered. However, the results are in line with Braga, Oliveira and Salotti (2009) and Murcia and Santos (2009), thus refuting Agency Theory's assumption that diluted shareholding increases voluntary disclosure to reduce agency conflict.

Finally, sensitivity tests were conducted using equations with the CG mechanisms, political connections and control variables together. Some tests considered all companies in the sample, and others, only the ones that released sustainability reports. The models used multiple linear regression, control for year fixed effects and robust standard error.

Table 4. **Sensitivity test for the influence of corporate governance and political connections on the disclosure of anti-corruption practices**

Dependent Variable: Disclosure of Anti-corruption Practices (DAP)				
Independent Variables	Linear regression with year fixed effects and robust standard error		Multiple Linear Regression	
	Model a	Model b	Model a	Model b
BOD size	0.0026	-0.0017	0.0026	-0.0017
Percentage of external board members	**0.0675***	0.1167	**0.0690****	0.1169
Big Four audit firm	0.0151	0.0341	0.0136	0.0339
Audit committee size	0.0069	**0.0188****	0.0073	**0.0188****
Audit committee independence	0.0340	-0.1077	0.0322	-0.1074
Corporate governance level	0.0061	-0.0557	0.0057	-0.0557
Board members with political expertise	-0.0179	**-0.1564****	-0.0183	**-0.1569****
Government shareholding	0.0962**	0.1133**	0.0965**	0.1135**
Company size	0.0339**	0.0377*	0.0339**	0.0377*
Ownership concentration	**0.0004****	0.0007	**0.0004****	0.0007
Industry	**-0.0372****	0.1318	**-0.0375***	0.1318
ISE portfolio	0.2014**	0.0851**	0.2010**	0.0849**
(Constant)	**-0.2144****	0.0224	**-0.2045****	0.0234
Observations	740	181	740	181
Adjusted R^2	0.3157	0.1899	0.3135	0.1899
Prob > F.	0.000**	0.000**	0.000**	0.000**
Breusch-pagan	0.000	0.5613	0.000	0.5613
Hausman	0.034**	0.048**	0.034**	0.048**
Durbin Watson	1.917	1.897	1.917	1.897
VIF	<2.060	<1.689	<2.060	<1.689

a: test with the total number of observations; b: sensitivity test excluding companies that did not publish sustainability report.
** Significant at 5%; * Significant at 10%.

The results support the tendency that the presence of politicians in the BOD makes companies less concerned with disclosing anti-corruption practices, thus corroborating other evidence provided by Abramo (2005), Camilo et al. (2012), Chaney et al. (2011), Guedhami et al. (2014), Liu et al. (2016) and Guo (2018). The evidence allowed confirming that government shareholding caused an increase in the disclosure of anti-corruption practices by companies. In addition, it reinforces that a higher percentage of independent board members and larger audit committees increase anti-corruption practices.

FINAL CONSIDERATIONS

Regarding ownership structure, having the government as a shareholder, in addition to CG mechanisms, increased companies' engagement in the fight against corruption and encouraged CSR through anti-corruption practices. This result is due to constant pressure from stakeholders in the national environment in view of the corporate scandals involving politicians. The practical effects are mitigation of agency conflicts, improved CSR and reduced information asymmetry between stakeholders.

In turn, the presence of politicians in the BOD decreases the firm's engagement in CSR and reduces concerns with anti-corruption practices. This result provides insights into the evidence of conflicts of interest caused by failure to monitor CG due to the presence of politicians in companies (Ding et al., 2015; Huang & Zhao, 2016; Pan & Tian, 2017).

As board members, politicians are less concerned with adopting anti-corruption practices, which requires greater caution on the part of stakeholders in observing these firms' behavior. The practical effect is information asymmetry, which causes agency conflicts and impairs CSR engagement and the firm's performance in fighting corruption.

Our study suggests that, in the field of CG, the presence of politicians in the BOD aggravates conflicts of interest between majority and minority shareholders (Ding et al., 2015; Huang & Zhao, 2016; Pan & Tian, 2017), which is contrary to the alliance between political connections and CG in strengthening the corporate image, as suggested by Said et al. (2009). Legitimation only occurs when the government is part of firms' ownership structure, in which the corporate image seems essential to stakeholders.

We conclude that government shareholding indicates a greater interest in maintaining the reputation of companies, considering that stakeholders easily associate government and company. On the other hand, the presence of politicians in the BOD indicates diverging interests, because their presence is hidden from most stakeholders and facilitates corrupt practices for private benefit.

The study sought to differentiate itself in the way it analyzes corruption, considering that few empirical studies address this social problem from the perspective of disclosure by companies. It is worth noting, however, that disclosing terms related to anti-corruption practices does not make a company free of non-conformities; but the topic has occupied its executives' agenda.

Among this study's limitations is the fact that it did not address the issue of CEO duality, i.e., when the same person serves as both CEO and board chair. This limitation may be addressed by future research. Further investigations may also consider elements such as the nature of the controlling shareholder and the distribution of dividends.

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AUTHORS' CONTRIBUTIONS

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