

Corporate whistleblowing system disclosure under anti-corruption law:

The role of legalists on audit committee

Abstract

Given that corruption is a prominent social problem, companies are exposed to anti-corruption laws that mandate them to establish internal controls preventing or detecting corrupt acts, which include corporate whistleblowing systems (CWS). This study aims to provide an insight into the role of legalists on audit committee in responding to the anti-corruption law. Particularly, it predicts a positive association between legalists on audit committee with the extent of whistleblowing system disclosure under anti-corruption law mandating the system. Using the French setting with the enactment of Sapin II law, this study provides evidence supporting the prediction. However, since the whistleblowing system is a specific matter under the law, the association is found only with the legalists having specific experience related to auditing (e.g., internal or legislative/legal auditing). Meanwhile, legalists with more general knowledge or experience tend to respond to the anti-corruption law in a broader way. The results are also supported under the difference-in-difference analysis and propensity score matching approach.

Keywords: Whistleblowing system, anti-corruption law, legalists, audit committee

1. Introduction

This study aims to investigate the role of legalists on audit committee in a setting where there is an anti-corruption law mandating the implementation of corporate whistleblowing systems (hereafter, CWS). To do so, this study conducts content analysis to assess the extent of

corporate disclosure on CWS. As the disclosure may signal how much attention companies put on the matter of mandatory CWS, this study examines the association between the proportion of legalists on audit committee and the extent of disclosure on CWS.

It is evident that corruption results in significant negative impacts on society (Gupta et al., 2002; Gyimah-Brempong, 2002). Therefore, more countries are enacting anti-corruption laws that encourage (if not, require) companies to establish internal controls preventing or detecting corrupt acts that include CWS (e.g., UK Bribery Act 2010, Brazilian Clean Company Act 2014, and French Sapin II Law 2016). Given the legal exposure from the anti-corruption law, directors with a legal background, especially on audit committee, may provide relevant resources of knowledge to respond to the law. However, while prior literature on audit committee has extensively investigated the role of accounting-financial experts in the matter of financial reporting quality (e.g., Badolato et al., 2014; Hansen et al., 2019; G. Krishnan & Visvanathan, 2009), the role of legal experts in responding to government regulation is less highlighted (Alhababsah & Yekini, 2021). Therefore, relying on resource dependence theory, this study aims to provide an insight into the role of legalists on audit committee in responding to the anti-corruption law, particularly in the matter of CWS.

To address the research aim, this study uses a unique setting of France considering its legal environment by the enactment of Sapin II law in December 2016. Unlike other anti-corruption laws, Sapin II law, not only encourages but also mandates companies to establish CWS together with other legally binding requirements. The regulation came with monitoring systems and financial consequences to ensure that companies comply with the requirements. Nevertheless, since 2013, French listed companies have been also required to provide information on their actions taken to prevent corruption. This mandatory non-financial reporting (NFR) was used by the government as a soft regulation to encourage the adoption of corporate social responsibility (CSR) policies (Jackson et al., 2020), including the implementation of CWS.

Then, starting in 2017, the French anti-corruption law came as a hard regulation that supplements the mandatory NFR regulation by stipulating more precise and clear rules.

One can argue that the hard regulation of anti-corruption law can reduce the legal ambiguity for companies in the implementation of anti-corruption policies and CWS. Therefore, the legal expertise on audit committee may not be highly needed in the process of translating the regulation since it has been clear and precise (Boyle, 1999; Karlsson-Vinkhuyzen & Vihma, 2009). In that sense, audit committees, even without members with legal backgrounds and knowledge, can identify what should be done. However, although it is more precise than merely NFR regulation, the hard regulation is more complex which may create risks of companies not fulfilling all the requirements and being punished. Therefore, it can also be argued that these risks (i.e. uncertainties) make legal knowledge on audit committees a relevant resource even under hard regulation. Hillman et al. (2000) provided evidence that directors with specialized expertise, such as in law, are more needed during the period when companies experience high regulatory oversight than under the 'deregulation' period. Further, Khaled and Gond (2020) found that legalists dominate the process of designing ethical tools to respond to external regulation, either hard or soft. Therefore, this study predicts a positive association between legalists on audit committee with the extent of CWS disclosure.

Supporting the prediction, the results of this study suggest that audit committees with a higher proportion of legalists are associated with greater disclosure on CWS. However, it is only applicable to the legalists possessing specific experience related to auditing (e.g., internal or legislative/legal auditing). It could be because CWS is a specific requirement of the law, and therefore it needs more specific knowledge in legal-related internal control to ensure companies put more attention to that matter. Departing from that, this study attempts to examine audit committees' general response to the law by observing the disclosure of their activities as reported in the corporate governance report section. This study finds that audit committees with

a higher proportion of legalists are also more likely to include activities that generally mention anti-corruption matters or follow up on the law. However, in this case, there is no association with legalists having specific experience in auditing. Instead, the likelihood of companies mentioning activities related to anti-corruption law is associated with legalists without specific experience in auditing. It may suggest that legalists with general knowledge or experience respond to the anti-corruption law more broadly, whereas legalists with specific experience put attention to more detail. These results are also supported under the difference-in-difference analysis and propensity score matching (PSM) approach.

This study contributes to the literature that studies audit committee expertise, particularly in legal-related backgrounds. Few accounting studies have examined the role of legal experts on audit committee that improves monitoring of internal controls (Sterin, 2020) and financial reporting quality (Alhababsah & Yekini, 2021; Krishnan et al., 2011; Sterin, 2020). This study extends those studies by examining the role of legalists on audit committee in responding to government regulation, particularly on anti-corruption and CWS. It further examines different types of legalists depending on their previous experiences. In this regard, this study also extends Khaled and Gond's (2020) study that, using a qualitative approach, found the dominant role of "legalists", as compared to "non-legalists", in translating external regulation into corporate ethical tools. This study provides similar evidence but uses a quantitative approach focusing on anti-corruption and CWS matter.

It also contributes to the literature on whistleblowing systems, especially those that study from the perspective of companies' governing bodies (Hassink et al., 2007; Lee & Fargher, 2013, 2018). While Lee and Fargher (2018) investigated the role of audit committee quality in general, this study provides a more extensive analysis of audit committee legalists under regulation mandating CWS. Finally, this study is relevant for policy-makers in the area of anti-corruption. Particularly on CWS, the EU Parliament has passed EU Directive on Whistleblower

Protection which is effective in 2021. As part of the directive, companies with at least 50 employees are mandated to establish internal channels and procedures for whistleblower reporting.

This article is structured as follows: first is a literature review by providing institutional background and hypothesis development, followed by an explanation of the research methods, including sample selection and research design. Then, this article presents the results and conclusion, which includes the limitation of this study.

2. Literature review

2.1 Institutional background: anti-corruption regulation in France

France has been recognized as the ‘pioneer’ for CSR policy and practices with very active lead from the government (Antal & Sobczak, 2007; Avetisyan & Ferrary, 2013; Blasco & Zølner, 2010). The government extensively codified laws to regulate industrial relations, which enhance CSR (Avetisyan and Ferrary, 2012; Antal and Sobczak, 2007). Concerning corruption topic, there are two important French CSR regulations: mandatory corporate disclosure on anti-corruption initiatives and French anti-corruption law.

France was the first country that mandated companies to provide non-financial disclosure under *Bilan social* in 1997, although the scope of disclosure was limited to employment matters. The scope was expanded into other social and environmental issues, including anti-corruption topics, after the government passed the Grenelle II law. The law became effective in 2013 by addressing companies with over 500 employees. Particularly for anti-corruption matters, it is only mandatory for listed companies. Jackson et al. (2020) pointed out that non-financial disclosure regulation is not only intended to improve companies’ transparency, but also expected to increase the adoption of CSR policies and practices. Therefore, the mandatory anti-

corruption disclosure regulation is expected to be soft regulation that encourages companies to initiate voluntary anti-corruption policies, including the practice of whistleblowing systems.

To be more efficacious in addressing corruption issues, the French regulator enacted anti-corruption law in December 2016, called Sapin II law¹ that requires companies to implement internal whistleblowing mechanisms. This law came as a hard regulation on anti-corruption and CWS by having some important features. First, under the law, whistleblowers are protected concerning confidentiality and other potential retaliation. It means that companies also need to consider this clause in designing mandatory CWS. Second, by the enactment of the Sapin II law, the government has also established the French anti-corruption agency that is responsible for giving recommendations and conducting monitoring of the regulated entities. The establishment of the agency and its recommendations may enrich firms' resources in fulfilling the regulation requirement regarding CWS. Third, this law imposes fines for companies that deviate from the requirements (i.e. have legally enforced). Lastly, the law also touches upon accounting matters by requiring companies to have accounting control procedures to prevent the concealment of corruption acts that can be carried out by internal governance, or by external auditors when carrying out the audits of accounts. These features show that Sapin II law provides more precise rules and requirements, albeit its complexity.

While the Grenelle II law is a soft regulation on corporate anti-corruption initiatives, the Sapin II law acts as a hard regulation with stronger enforcement supplemented by monitoring systems and consequences. Therefore, starting from 2017, the legal environment for the matter of CWS changes from soft to hard law. This study aims to investigate whether audit committee members with a legal background are relevant internal resources that translate the hard regulation on

¹ Sapin II law came into force on 1 June 2017 for companies employing more than 500 employees with revenue of 100 million euro at minimum.

anti-corruption into greater attention to the quality of CWS, as observed from corporate disclosure.

2.2 Resource dependence theory in the context of CWS

Firstly introduced by Pfeffer and Salancik (1978), resource dependence theory (RDT) recognizes the external environment or social context to rationalize companies' behavior in acquiring and using resources or power (Hillman et al., 2009). Relying on this theory, this study considers audit committees as firms' internal resources or power in which the utilization of the matter of whistleblowing system is subject to external environments.

After the introduction of RDT, prior literature has applied this theory to study corporate boards (Al-Shaer & Zaman, 2018; Hillman, 2005; Hillman et al., 2000; Zhou et al., 2018). The board of directors and its committee represent the distribution of power and control within organizations. According to RDT, the external environment, as the source of uncertainty, affect companies' distribution of power and control which eventually impacts organizational activities and results (Pfeffer & Salancik, 1978). Pfeffer & Salancik (2003) argued that:

those people or subunits which could best cope with critical organizational uncertainties came to have relatively more power inside organization, and used that power to ensure that their view of what should be done, including who should succeed to various positions, prevailed.

The directors are expected to provide advice and counsel, access to channels information between firms and environment uncertainties, access to preferential resources, and legitimacy (Hillman et al., 2009). Therefore, the characteristics of corporate directors, including their expertise and experience, are significant firms resource that affects companies' activities and results (Al-Shaer & Zaman, 2018; Dhaliwal et al., 2010; Zhou et al., 2018).

Applying RDT in the context of corporate whistleblowing systems, this study focuses on audit committee. Prior research has examined the specific role of audit committees in fraud detection

and whistleblowing practice (Asare et al., 2008; Guthrie et al., 2012; Lee & Fargher, 2013; Read & Rama, 2003). Read and Rama (2003) found that audit committees with high involvement in the internal auditors' activities received a higher number of whistleblowing complaints, indicating an effective whistleblowing system. Moreover, Lee and Fargher (2018) showed that audit committees with higher quality (i.e., higher independence, meeting frequency, and financial expertise) increase the likelihood of whistleblowers using internal relative to the external channel since the companies put in place stronger internal whistleblowing systems.

The relation between audit committees and whistleblowing systems implementation was also evident from the practical view. First, in some jurisdictions, such as in the U.S., the regulation (e.g. Section 301 of the U.S. Sarbanes-Oxley Act) states that the audit committee is the governing body that is responsible for establishing the whistleblowing procedure. Furthermore, the committee is the most common recipient of internal whistleblowing reports (Kaplan & Schultz, 2006), in which they perform the investigation of reports in many cases. In conclusion, audit committee characteristics, particularly the background and knowledge of their members, represent important firms' resources and power that provide advice in the implementation of whistleblowing systems. This study specifically emphasizes the role of audit committee members with legal backgrounds.

2.3 The role of legalists on audit committee

This study centers the analysis on the role of legalists on audit committee. In the accounting literature, some studies have investigated the role of legal experts, either on the board or specifically in the audit committees (Alhababsah & Yekini, 2021; de Villiers et al., 2011; Krishnan et al., 2011; Liu & Sun, 2021; Sterin, 2020). de Villiers et al. (2011) found that the number of legal experts on the board is positively associated with corporate environmental performance, whereas Liu & Sun, (2021) found that the proportion of independent directors

with legal expertise is negatively associated with bank-risk taking activities. Specifically investigating legal experts in the audit committees, Krishnan et al. (2011) provided evidence that the presence and proportion of legal experts on the audit committee are associated with higher financial reporting quality. Meanwhile, Sterin (2020) found that acquiree companies with a greater proportion of legal experts in the audit committees are more likely to integrate the internal control testing for the acquired firms since the first-year acquisition. It is argued that legal experts are more sensitive to litigation risk that may arise from companies' wrongdoings, and therefore improve the financial reporting and internal control quality (Krishnan et al., 2011)

Since the implementation of CWS is intended to prevent and detect wrongdoings, legalists in the audit committee will provide pertinent resources of knowledge in this context. Also, with their legal background, they are expected to work closely with legal matters, especially in translating the regulation on corporate ethics into internal corporate policies (Khaled and Gond, 2020). Near & Dworkin (1998) found that companies implement whistleblowing systems because of legal concerns raised by their general counselor. Also, companies may introduce whistleblowing systems by considering applicable law (Lewis, 2006).

One could argue that the application of hard regulation on corporate anti-corruption may reduce the legal ambiguity for companies in implementing anti-corruption policies and CWS. Therefore, referring to RDT, the role of legalists in translating the hard regulation might be less needed in this setting. The audit committee members, even without a legal background, can identify what should be done since hard law provides relatively precise rules and requirements (Boyle, 1999; Karlsson-Vinkhuyzen & Vihma, 2009).

However, although it is more precise than soft regulation, the hard regulation of French anti-corruption law is more complex which may create risks of companies not fulfilling all the requirements and it may result in legally binding consequences. Therefore, this study can also

use RDT to argue that the risks (i.e. uncertainties) created from the complexity of the regulation make legal knowledge in audit committees relevant resources in this setting. Hillman et al. (2000) provided evidence that directors with specialized expertise, such as in law, are more needed during the period when companies experience high regulatory oversight than under the ‘deregulation’ period. They argued that directors with legal expertise can aid greatly in interpreting the regulation and explaining them to other directors. Further, Khaled and Gond (2020), using a qualitative approach, conducted a study to understand how internal actors in multinational companies translate external regulation, hard and soft, into internal corporate ethics tools. They distinguished the actors into “legalists” and “non-legalists” and found that legalists dominate the process of designing ethical tools. Therefore, it can be expected that audit committees with more knowledge of legal matters are more likely to put greater attention on the hard regulation of anti-corruption law, including mandatory CWS requirements. Following this argument, the hypothesis of this study is stipulated as follows.

Hypothesis. The proportion of legalists on audit committees is positively associated with the extent of corporate disclosure on whistleblowing policy.

3. Data and research design

3.1 Sample

The sample of this study is French public companies listed in Euronext Paris with at least 500 employees and 100 million euros in revenue. For the main analysis, this study includes three years of observations from 2017 (i.e. the year when the Sapin II law became effective) to 2019. The list of companies is generated from the Euronext website which comprises 495 unique companies (listed between 2017 and 2019). Since this study focuses on the CWS disclosure under the regulation mandating the system, the sample only includes companies that are subject

to Sapin II law, and therefore the sample is confined to companies whose number of employees is at least 500 and revenue is 100 million euros at minimum. This selection process results in 286 companies in the sample. Then, after excluding the missing data, the final sample of this study is 535 firm-year observations, which consists of 182 unique companies. Table 1 presents the sample selection and industry distribution.

[Table 1 near here]

As an additional test, this study conducts a difference-in-difference analysis in which the sample also covers three years of observations before the law became effective (i.e., 2014-2016). Using the same sample selection process, the sample for this analysis is 1,053 firm-year observations, which consists of 196 unique companies.

3.2 Research design

To examine the association between legalists in audit committees and corporate disclosure on CWS, this study employs the following OLS regression models:

$$\begin{aligned} \text{WSD}_{i,t} = & \alpha + \beta_1 \text{Legal_All}_{i,t} + \beta_2 \text{AccFin}_{i,t} + \beta_3 \text{ACMeet}_{i,t} + \beta_4 \text{ACIndependence}_{i,t} + \beta_5 \text{ACSize}_{i,t} \\ & + \beta_6 \text{EthicsCSR}_{i,t} + \beta_7 \text{Size}_{i,t} + \beta_8 \text{ROA}_{i,t} + \beta_9 \text{Leverage}_{i,t} + \beta_{10} \text{ForeignSales}_{i,t} \\ & + \beta_{11} \text{CorrRisk}_{i,t} + \beta_{12} \text{UNGC}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (1)$$

$$\begin{aligned} \text{WSD}_{i,t} = & \alpha + \beta_1 \text{Legal_AccFin}_{i,t} + \beta_2 \text{Legal_Audit}_{i,t} + \beta_3 \text{Legal_Only}_{i,t} + \beta_4 \text{AccFin}_{i,t} \\ & + \beta_5 \text{ACMeet}_{i,t} + \beta_6 \text{ACIndependence}_{i,t} + \beta_7 \text{ACSize}_{i,t} + \beta_8 \text{EthicsCSR}_{i,t} + \beta_9 \text{Size}_{i,t} \\ & + \beta_{10} \text{ROA}_{i,t} + \beta_{11} \text{Leverage}_{i,t} + \beta_{12} \text{ForeignSales}_{i,t} + \beta_{13} \text{CorrRisk}_{i,t} \\ & + \beta_{14} \text{UNGC}_{i,t} + \varepsilon_{i,t} \end{aligned} \quad (2)$$

where i denotes the firm, and t denotes the year. The dependent variable of this study is corporate disclosure on CWS that is hand-collected from the firms' mandatory non-financial disclosure (*WSD*). In this regard, this study develops a disclosure index adopted from the International Chamber of Commerce (ICC)² Guidelines on Whistleblowing³. The guidelines consist of eight points, which are translated into ten disclosure criteria (see Appendix A). The disclosure index score for whistleblowing policy is calculated by the firm's total score as a percentage of the maximum possible score.

The independent variables that are the main interests of this study are audit committee legalists. Following prior studies (Khaled & Gond, 2020; Krishnan et al., 2011), an audit committee member is identified as a legalist if s/he had an education in law and/or had legal-related working experiences that include lawyer, attorney, solicitor, legal manager, and legislative/legal auditor⁴. This study also specifies an audit committee member as a legalist if s/he had working experience as an internal auditor⁵ due to its relation to legal compliance, as stipulated in Khaled and Gond's (2020) study. Model 1 includes an independent variable of *Legal_All* that measures the proportion of all types of legalists on audit committees. Meanwhile, Model 2 differentiates the type of legalists into three variables. *Legal_AccFin* measures the proportion of legalists having a background in general accounting and finance, *Legal_Audit* measures the proportion of legalists having a background in auditing, and *Legal_Only* measures the proportion of legalists without any background in accounting, finance, or auditing.

² ICC is world business organization headquartered in Paris, France. The world chambers network comprises around 40 million companies covering more than 100 countries. The organization also worked closely with United Nations and it is an organization with considerable potential influence.

³ I also reviewed the recommendation issued by French Anti-Corruption Agency regarding whistleblowing system to ensure that all recommended points have been covered by the disclosure index.

⁴ In France, there is a public institution called *Cour des Comptes* (i.e., Court of Audit) that has responsibility to conduct financial and legislative/legal audit for the use of public money.

⁵ In either public or private institutions.

As prior studies have found the role of accounting and financial expertise in audit committees, this study controls for the proportion of accounting-financial experts (without legal background) in the audit committees (*AccFin*). Following prior literature (e.g., Badolato et al., 2014; Ghafran & O'Sullivan, 2017), an audit committee member is classified as an accounting-financial expert if s/he had direct experience in accounting or finance-related positions. It includes a financial auditor, certified public accountant, chief financial officer, controller or treasurer, accounting/tax/budgeting officer, financial directors/managers, financial analysts/advisor, and investment directors. The data of audit committee members are collected from BoardEx (Europe), while the expertise is identified from the directors' background description generated from CapitalIQ and/or annual reports.

The model includes some control variables that may affect the association between audit committee legal background and CWS disclosure. Firstly, this study controls for other audit committee characteristics, such as activity, independence, and size. The activity of audit committees is measured by the number of audit committee meetings (*ACMeet*). This study measures the size of audit committees as the number of audit committee members (*ACSize*). Then, the independence of audit committees is measured by the percentage of independent members in the committee (*ACIndependence*).

This study further controls for factors related to other firms' resources and external environment that potentially impact the relation between legalists in audit committees and CWS disclosure. The factors related to firms' resources are ethics/CSR committee on the board, firm size, profitability, and leverage. The existence of an ethics/CSR committee is indicated by a dummy variable (*EthicsCSR*). Size is measured by the natural logarithm of firms' total assets (*FirmSize*), and profitability is measured by return on equity (i.e., net income deflated by beginning-of-year shareholders' equity) (*ROA*). Meanwhile, leverage is calculated by the total debt at the end of the year, divided by ending-of-year total assets (*Leverage*). These variables

are expected to be positively associated with firms' resources in the matter of corporate social activities (Blanc et al., 2017; Healy & Serafeim, 2016; Maroun, 2019).

For factors related to the external environment, This study determines three control variables. First, foreign sales are calculated by the percentage of sales made outside France (*ForeignSales*). A higher number of foreign sales indicates that companies are more exposed to external environments from other countries (Healy & Serafeim, 2016). The second external environment factor to be controlled is whether or not companies are operated in industries with high risks of corruption (*CorrRisk*). Companies operating with high industry corruption risk may face higher institutional pressure to engage in anti-corruption initiatives (Barkemeyer et al., 2015; Branco & Matos, 2016; Healy & Serafeim, 2016). Third, this study includes a dummy variable that indicates whether or not companies are members of the UN Global Compact (*UNGC*). UNGC is a key international initiative that promotes sustainable business, including the anti-corruption topic (Barkemeyer et al., 2015). Finally, I include year- and industry-fixed effects (3 digits ICB).

4. Results

4.1 Descriptive statistics

Table 2 shows the summary statistics for all variables in the model. Meanwhile, Panel B presents the t-test on the difference in mean between samples whose audit committees have at least one member with legal background and samples without any legalist in audit committees.

[Table 3.1 near here]

From Panel A, it can be concluded that the average score of CWS disclosure (*WSD*) is relatively low (0.256), although it is ranging from 0 to 0.9. Meanwhile, from Panel B, the average score of *WSD* for firm-years with legalist(s) on their audit committees is greater than

for those with no legalist, indicating that the legal background of audit committee members is associated with greater disclosure on CWS. However, firm-years with audit committee legalists also have more independent directors on the committee (*ACIndependence*), more members (*ACSize*), an ethics/CSR-related committee (*EthicsCSR*), and fundamentally are bigger (*FirmSize*). Since these results may indicate the difference in firm characteristics between samples with legalists and the ones without, this study performs an additional test using the propensity score matching (PSM) approach.

For the difference-in-difference analysis, this study also collects the data for the period 2014-2016. Thus, this study can compare the CWS disclosure under voluntary (with non-financial disclosure regulation) and mandatory settings (with anti-corruption law). Under voluntary settings, only 53 companies (out of 186) disclosed information on CWS. Meanwhile, in the period between 2017 and 2019, 171 companies (out of 182) reported that they have put in place CWS. It shows that the hard law has a significant impact on CWS, whereas non-financial regulation seems not quite effective in encouraging companies to put attention to the implementation of CWS.

4.2 Hypothesis testing

This study predicts that the proportion of legalists on audit committee is positively associated with the extent of CWS disclosure. The hypothesis is tested using fixed effects (i.e., year and industry) regression with standard errors clustered at the firm level. The regression results are presented in Table 3.2.

[Table 3.2 near here]

Table 3.2 Column 1 presents the result under Model 1 that includes an independent variable of *Legal_All*, the proportion of all types of legalists in the audit committees. The result shows that

the coefficient of *Legal_All* is positive and significant at $\rho < 0.05$. It suggests that the proportion of legalists in audit committees is positively associated with the extent of CWS disclosure.

Further, using Model 2 (Column 2), this study examines the different types of legalists by replacing *Legal_All* with three different variables: *Legal_AccFin*, *Legal_Audit*, and *Legal_Only*. Among those three variables, only *Legal_Audit* is positively significant at $\rho < 0.01$. It may indicate that the association between the proportion of legalists in audit committees and CWS disclosure is mainly from the legal background with auditing experience or knowledge. Nevertheless, the results support the hypothesis of this study.

4.3 Additional analyses

4.3.1 Audit committee's general response to the anti-corruption law

While the main purpose of this study focuses on CWS which is a specific requirement of the Sapin II law, this study also attempts to investigate the role of legalists in responding to the law in a more general manner. To do so, this study hand-collects data on whether audit committee states, in their activity under corporate governance disclosure, anti-corruption matters/agenda, including an activity addressing the Sapin II law. Table 3.3 presents the results of logistic regressions.

[Table 3.3 near here]

According to Table 3.3 Column 1, the coefficient of *Legal_All* is also significantly positive (at $\rho < 0.05$), which indicates that the higher proportion of legalists on audit committee increases the likelihood of companies signaling through disclosure their general response to the anti-corruption law. However, from the result under Model 2 that differentiates the types of legalists (Column 2), it is found that *Legal_Audit* is not significant. Instead, *Legal_AccFin* and *Legal_Only* are positively significant at $\rho < 0.05$ and $\rho < 0.10$, respectively. It may suggest that the legal background with specific experience/knowledge of auditing (e.g., legal-related

internal controls) is relevant for specific matters regarding the anti-corruption law (e.g., corporate whistleblowing system). Meanwhile, legalists with more general knowledge tend to respond to the anti-corruption law from a broader view.

4.3.2 *Financial auditing experience without a legal background*

From the main results, it is shown that only legalists with auditing experience (mostly, internal and legislative audits) are significantly associated with the extent of CWS disclosure. Thus, the significant association may be driven by any auditing experience of the members, not necessarily the legal-related auditing experience. Therefore, in this additional analysis, the variable of *AccFin* is further divided into the ones with financial auditing experience (*AccFin_Audit*) and the ones without (*AccFin_NonAudit*). Then, it is examined whether audit committee members with financial auditing experience (without legal background) are associated with the extent of CWS disclosure. Table 3.4 presents the results.

[Table 3.4 near here]

The results show that the coefficient of both *AccFin_Audit* and *AccFin_NonAudit* are not significant. It may indicate that the legal background (not necessarily auditing experience) of audit committee members is a necessary knowledge that drives the result of a significant association between audit committee legalists and CWS disclosure.

4.3.3 *Difference-in-difference analysis*

As an additional test, this study conducts a difference-in-difference analysis to examine the role of legalists on audit committee in the matter of CWS before and after the introduction of the anti-corruption law. For this purpose, this study creates a dummy variable of *Law*, which is equal to 1 for observations in the period 2017-2019 (after the law) and 0 for observations in the period 2014-2016 (before the law). Then, each measure of audit committee expertise (i.e.,

Legal_All, *Legal_AccFin*, *Legal_Audit*, *Legal_Only*, and *AccFin*) is interacted with the variable of *Law*. The results are presented in Table 3.5.

[Table 3.4 near here]

According to Table 3.5, as expected, the coefficient of *Law* is positively significant at $\rho < 0.01$. It shows that after the implementation of anti-corruption law, companies provide more disclosure on CWS. Regarding the role of legalists on audit committee, the coefficient of *Legal_All* and the interaction variable, *Legal_All x Law* is not significant. However, the coefficients of *Legal_Audit* and *Legal_Audit x Law* are positive and significant at $\rho < 0.05$. Thus, supporting the main analysis, only legalists with auditing experience on audit committee are associated with the extent of CWS disclosure and it is more pronounced after the implementation of anti-corruption law.

4.3.4 Propensity score matching (PSM)

As shown in the descriptive statistics, firm-years whose audit committees have legalists are different in characteristics from firm-years whose audit committees have no legalists. It indicates a sample selection bias that possibly affects the results. Therefore, this study performs regressions using the PSM approach to mitigate that concern. Under this approach, this study firstly runs a logit regression model by including all control variables to compute a propensity score or predicted value for each firm-year observation. For this purpose, the dependent variable is *Legal_Dummy* which is coded 1 if the audit committee has a proportion of legalists (*Legal_All*) more than the average (0.226), and 0 otherwise. This study, then, uses the propensity scores obtained from the logit regression model to match the treatment (firm-year observation with *Legal_Dummy*=1) with the control groups (firm-year observation with *Legal_Dummy*=0) by the nearest distance (caliper width = 0.1, without replacement). It is also defined that the treatment should be matched with the control from the same industry (1 digit

ICB) and year. This procedure results in 135 matches (270 firm-year observations). The results are presented in Table 3.6, that in overall, supports the main results.

[Table 3.4 near here]

5. Conclusion

Prior literature has found that corruption deteriorates society, such as by prohibiting economic growth and fostering social inequality (Gupta et al., 2002; Gyimah-Brempong, 2002). To combat corruption, more countries are enacting anti-corruption laws that encourage (if not, require) companies to implement anti-corruption initiatives, including CWS. Given the legal exposure, this study aims to investigate the role of legalists on audit committee in the setting where the anti-corruption law mandates the implementation of CWS. As corporate disclosure on CWS may signal how much attention companies put on that matter, this study conducts content analysis to assess the extent of corporate disclosure on CWS under the law. Then, it is predicted that the proportion of legalists on audit committee is positively associated with the extent of CWS disclosure.

Using the French setting by the enactment of Sapin II law, this study finds the positive association between legalists on audit committee and CWS disclosure, supporting the prediction. However, the association is mainly driven by the legalists having specific experience related to auditing (mostly, internal or legislative/legal auditing). The possible explanation is that, because CWS is a specific requirement of the law, it needs more specific knowledge to ensure companies put more attention to that matter. Then, as additional analysis, this study examines audit committees' general response to the law by observing the activity disclosure of the committee in the corporate governance report section. This study finds that audit committees with a higher proportion of legalists are also more likely to include activities

that generally mention anti-corruption matters or follow up on the law. However, in this case, the likelihood of companies mentioning activities related to anti-corruption law is associated with legalists without specific experience in auditing. These results may indicate that legalists with general knowledge or experience tend to respond to the anti-corruption law from a broader perspective, whereas legalists with specific experience put more attention in the detail. These results are also supported under the difference-in-difference analysis and propensity score matching (PSM) approach.

This study acknowledges that it has several limitations. First, this study highly relies on corporate disclosure that may deviate from the actual activities. Therefore, this study has carefully interpreted the result in which it shows companies' signal on how much attention is given to the matter of anti-corruption law or CWS. Second, this study depends on how complete the information regarding the background of audit committees' members. However, this study also supplements the information from the annual report and other sources when the database provides limited information regarding directors' backgrounds. Lastly, it may be difficult to validate the causal relation between audit committee legalists and corporate disclosure on CWS due to potential confounding effects. Nevertheless, this study has attempted to conduct matching strategies to minimize it.

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Appendix A: Whistleblowing system disclosure index

Point	ICC Guidelines on Whistleblowing	Disclsoure criteria	Scoring
1	Enterprises are encouraged to establish, within their organization and as an integral part of their integrity programme, a whistleblowing system, commensurate with their size and resources.	1.) The existence of internal whistleblowing system	1, if companies indicate that the system has been established.
2	Such whistleblowing system should aim to: (i) receive and entertain, in full confidentiality, all reasonable requests for advice and guidance on business conduct matters and ethical concerns raised by the employees of the enterprise and of its subsidiaries or affiliates (the group), but also, to any extent possible, by any of the group's agents, suppliers and customers; and to (ii) receive and handle, at the earliest stage possible, by the same categories of persons, all reports made about any occurrence, whether established or soundly suspected, of a breach of applicable laws and regulations, the enterprise's code of conduct or the ICC Combating Extortion and Bribery Rules of Conduct and Recommendations, which could seriously harm the enterprise or the group, if no remedial action is taken.	2.) Confidentiality principle	1, if it is stated that the system is confidential.
		3.) Users of the system (employee and external parties).	1, if it is stated that the system can be used by <i>both</i> employee and external parties.
		4.) The scope of the case that can be received by the system (request for ethical advice and report potential misconduct.	1, if it is stated that the system can be used <i>both</i> to request for ethical advice and to report potential misconduct.
3	Enterprises should appoint high level personnel of undisputable repute and extensive work experience to be in charge of the management and administration of their whistleblowing units or ombudsservice. This personnel should be given a large autonomy within the enterprise and report to the highest echelon possible within the group.	5.) Personnel who manage and administer the system.	1, if it indicates that the system is administered by reliable and/or independent personnel.
4	It is up to each individual enterprise to define the kind of communication channels it wants to use for whistleblowing purposes: oral or written communication, telephone based communication (toll free call help lines or hot-lines) or computer-based communication (Intranet) or any other tool which it considers adequate. Enterprises should endeavor to use in these communication channels as many of the languages spoken in the different countries of operation as reasonably possible.	6.) The accessibility of communication channels.	1, if it is disclosed the type of communication channel used and/or the availability of the system in different languages.

5	A whistleblowing system, being part and parcel of the enterprises' voluntary integrity programmes, will only be successful if it is not over-regulated from the outside. Enterprises, however, should be aware that, in certain jurisdictions and cultural environments and because of inter alia data protection and labour law concerns, legal restrictions have been imposed on whistleblowing procedures, which they will have to comply with.	7.) Companies' control of the whistleblowing system	1, if it is stated that the system is regulated by companies, but it considers any applicable regulations.
6	Each individual enterprise may decide, taking into account the applicable law of every country, in which a whistleblowing system will be put into place: i) whether reporting under the whistleblowing system will be made compulsory or voluntary, and ii) whether reporting can be done on an anonymous as well as on a disclosed basis.	8.) Option to use the system anonymously or on a disclosed basis	1, if it is stated whether employees have the option to use the system anonymously or on a disclosed basis.
7	All whistleblowers' reports should be diligently acknowledged, recorded and screened.	9.) Procedure in handling the report	1, if it is disclosed how the whistleblowing report(s) is handled.
8	All employees should be in a position to report serious occurrences, as defined above, without fear of retaliation or of discriminatory or disciplinary action.	10.) Guarantee that the whistleblowers are protected from retaliation or other adverse consequences.	1, if it is stated that employees will not suffer retaliation or other adverse consequences for reporting potential misconduct.

Appendix B

Variable definitions and sources

Variable	Definition	Source
<i>WSD</i>	A firm's total disclosure score as a percentage of the maximum possible score.	Hand-collected from non-financial reports, based on a developed disclosure index
<i>Legal_All</i>	The number of all types of legalists on audit committee divided by the total number of audit committee members.	Background description: Compustat IQ
<i>Legal_AccFin</i>	The number of legalists on audit committee with general knowledge/experience in accounting-finance divided by the total number of audit committee members.	Background description: Compustat IQ
<i>Legal_Audit</i>	The number of legalists on audit committee with auditing experience divided by the total number of audit committee members.	Background description: Compustat IQ
<i>Legal_Only</i>	The number of legalists on audit committee without any background in accounting, finance, or auditing divided by the total number of audit committee members.	Background description: Compustat IQ
<i>AccFin</i>	The number of accounting-financial expertise on audit committee without legal backgrounds divided by the total number of audit committee members.	Background description: Compustat IQ
<i>ACMeet</i>	The number of audit committee meetings	Annual Reports
<i>ACIndependence</i>	The percentage of independent members on audit committee	BoardEx
<i>ACSize</i>	The number of audit committee members	Annual Reports
<i>EthicsCSR</i>	1 if a company has ethics/CSR related committee, 0 otherwise.	Compustat IQ
<i>FirmSize</i>	The natural logarithm of firm's total assets.	Compustat IQ
<i>ROA</i>	The firm's net income divided by the beginning total assets.	Compustat IQ
<i>Leverage</i>	The ratio of debt to total assets.	Compustat IQ
<i>ForeignSales</i>	The percentage of sales made outside France	Compustat IQ
<i>CorrRisk</i>	1 if a company is operated in high corruption risk industry, 0 otherwise.	Healy and Serafeim (2016)
<i>UNGC</i>	1 if a company is a member of UNGC, 0 otherwise.	UNGC website
<i>Law</i>	1 for observations in the period 2017-2019 (after anti-corruption law), 0 otherwise	-

Table 1		
Panel A: Sample selection		
	Description	#Firms
	French companies listed in Euronext (between 2017 and 2019)	495
	Exclude: Companies with less than 500 employees and €100 m in revenue	(211)
	Companies subject to Sapin II law	280
	Exclude:	
	Companies whose annual reports are not available	(9)
	Companies with no separate audit committees	(37)
	Companies whose audit committee's data are missing	(44)
	Companies with other missing data (i.e. foreign sales)	(8)
	Number of companies	182
	Three years of observations (main)	535
	Six years of observations (diff-in-diff)	1,053
Panel B: Industry distribution		
2-Digits ICB	Industry	#Firms
05	Oil and Gas	3
13	Chemicals	4
17	Basic Resources	5
23	Construction and Materials	8
27	Industrial Goods and Services	28
33	Automobiles and Parts	8
35	Food and Beverages	9
37	Personal & Household Goods	13
45	Health Care	13
53	Retail	9
55	Media	15
57	Travel and Leisure	9
65	Telecommunications	2
75	Utilities	7
83	Banks	5
85	Insurance	5
86	Real Estate	7
87	Financial Services	5
95	Technology	20
	Total	182

Table 3.1
Panel A: Summary statistics

Variable	Mean	SD	Min	p50	Max
WSD	0.256	0.221	0	0.2	0.9
Legal_All	0.226	0.245	0	0.2	1
Legal_AccFin	0.082	0.153	0	0	1
Legal_Audit	0.091	0.163	0	0	0.75
Legal_Only	0.054	0.114	0	0	0.5
AccFin	0.342	0.288	0	0.333	1
ACMeet	4.865	2.014	1	4	13
ACIndependence	0.706	0.219	0	0.667	1
ACSize	3.832	1.316	1	4	8
EthicsCSR	0.333	0.472	0	0	1
FirmSize	8.568	2.065	3.407	8.268	14.588
ROA	0.035	0.070	-0.574	0.035	0.563
Leverage	0.276	0.168	0	0.268	1.305
ForeignSales	0.560	0.308	0	0.638	1
CorrRisk	0.252	0.435	0	0	1
UNGC	0.523	0.500	0	1	1

Panel B: t-test on mean difference

Variables	<i>Audit committees with at least one legalist (N=301)</i>		<i>Audit committees without legalist (N=234)</i>		t-test for difference in mean	
	Mean	SD	Mean	SD	Mean diff	p-value
WSD	0.290	0.230	0.213	0.201	0.077***	0.000
AccFin	0.258	0.224	0.450	0.324	-0.191***	0.000
ACMeet	4.850	1.855	4.885	2.206	-0.034	0.846
ACIndependence	0.739	0.194	0.664	0.241	0.075***	0.000
ACSize	4.033	1.285	3.573	1.312	0.461***	0.000
EthicsCSR	0.375	0.485	0.278	0.449	0.098**	0.017
FirmSize	9.159	2.087	7.808	1.769	1.351***	0.000
ROA	0.039	0.048	0.029	0.089	0.011*	0.083
Leverage	0.286	0.159	0.265	0.178	0.021	0.148
ForeignSales	0.581	0.311	0.532	0.302	0.049*	0.068
CorrRisk	0.262	0.441	0.239	0.428	0.023	0.541
UNGC	0.545	0.499	0.496	0.501	0.049	0.260

*** $\rho < 0.01$, ** $\rho < 0.05$, * $\rho < 0.10$ (two-tailed test)

Table 3.2 Hypothesis testing

VARIABLES	(1)		(2)	
	WSD		WSD	
	coef	tstat	coef	tstat
Legal_All	0.10**	(2.24)		
Legal_AccFin			0.00	(0.04)
Legal_Audit			0.26***	(4.30)
Legal_Only			0.03	(0.34)
AccFin	0.02	(0.40)	0.03	(0.60)
ACMeeting	0.01**	(2.27)	0.01**	(1.99)
ACIndependence	-0.01	(-0.24)	0.01	(0.21)
AC_Size	0.00	(0.01)	0.00	(0.17)
EthicsCSR	0.03	(1.00)	0.04	(1.32)
FirmSize	0.02***	(3.24)	0.02***	(3.03)
ROA	0.11	(0.85)	0.10	(0.83)
Leverage	-0.02	(-0.30)	-0.03	(-0.40)
ForeignSales	0.10**	(2.54)	0.11***	(3.22)
CorrRisk	0.05	(1.24)	-0.01	(-0.20)
UNGC	0.08***	(3.44)	0.07***	(2.72)
Constant	-0.25***	(-2.62)	-0.25*	(-1.71)
Year-FE	Yes		Yes	
Industry-FE	Yes		Yes	
Observations	535		535	
R-squared	0.46		0.41	

Notes: This table reports OLS regressions for testing the hypothesis predicting the positive association between legalists on audit committee and the extent of CWS disclosure. Column 1 presents the result using Model 1 by combining all types of legalists in one variable, whereas column 2 presents the results using model 2 by differentiating the legalists into three types. Firm-level clustered standard errors are used. The robust t-statistics are in parentheses. *** $\rho < 0.01$, ** $\rho < 0.05$, * $\rho < 0.1$. Variable definitions are provided in Appendix B.

Table 3.3 Audit committee's general response to anti-corruption law

VARIABLES	(1)		(2)	
	CorrActivity_Disc coef	tstat	CorrActivity_Disc coef	tstat
Legal_All	1.51**	(2.32)		
Legal_AccFin			2.40**	(2.17)
Legal_Audit			0.90	(0.95)
Legal_Only			1.67*	(1.79)
AccFin	0.50	(0.88)	0.47	(0.83)
ACMeeting	0.20***	(2.62)	0.21***	(2.69)
ACIndependence	-0.18	(-0.24)	-0.09	(-0.12)
AC_Size	-0.10	(-0.85)	-0.09	(-0.79)
EthicsCSR	-0.15	(-0.50)	-0.17	(-0.55)
FirmSize	0.12	(1.11)	0.11	(1.01)
ROA	1.69	(0.90)	1.64	(0.87)
Leverage	-0.05	(-0.06)	-0.04	(-0.05)
ForeignSales	0.33	(0.66)	0.37	(0.73)
CorrRisk	0.49	(0.71)	0.53	(0.80)
UNGC	0.22	(0.67)	0.23	(0.69)
Constant	-2.70*	(-1.91)	-2.78**	(-1.97)
Year-FE	Yes		Yes	
Industry-FE	Yes		Yes	
Observations	529		503	
R-squared	0.128		0.139	

Notes: This table reports logit regressions that examine the general response of audit committee on the anti-corruption law. Column 1 presents the result using Model 1 by combining all types of legalists in one variable, whereas column 2 presents the results using model 2 by differentiating the legalists into three types. Firm-level clustered standard errors are used. The robust t-statistics are in parentheses. *** $\rho < 0.01$, ** $\rho < 0.05$, * $\rho < 0.1$. Variable definitions are provided in Appendix B.

Table 3.4 The role of financial auditing expertise

VARIABLES	(1)		(2)	
	WSD		WSD	
	coef	tstat	coef	tstat
Legal_All	0.09**	(2.12)		
Legal_AccFin			-0.05	(-0.61)
Legal_Audit			0.23***	(3.62)
Legal_Only			-0.04	(-0.53)
AccFin_Audit	0.07	(0.76)	0.03	(0.39)
AccFin_NonAudit	0.01	(0.11)	0.03	(0.57)
ACMeeting	0.01**	(2.30)	0.01**	(1.98)
ACIndependence	-0.01	(-0.27)	-0.02	(-0.43)
AC_Size	-0.00	(-0.02)	-0.00	(-0.10)
EthicsCSR	0.03	(0.99)	0.03	(1.03)
FirmSize	0.03***	(3.33)	0.03***	(3.34)
ROA	0.11	(0.86)	0.12	(0.95)
Leverage	-0.03	(-0.35)	-0.03	(-0.44)
ForeignSales	0.10**	(2.50)	0.10**	(2.40)
CorrRisk	0.05	(1.30)	0.04	(0.86)
UNGC	0.08***	(3.36)	0.08***	(3.40)
Constant	-0.25***	(-2.68)	-0.23**	(-2.31)
Year-FE	Yes		Yes	
Industry-FE	Yes		Yes	
Observations	535		535	
R-squared	0.46		0.48	

Notes: This table reports OLS regressions that examine the role of audit committee members with financial auditing expertise (without a legal background. Column 1 presents the result using Model 1 by combining all types of legalists in one variable, whereas column 2 presents the results using model 2 by differentiating the legalists into three types. Firm-level clustered standard errors are used. The robust t-statistics are in parentheses. *** $\rho < 0.01$, ** $\rho < 0.05$, * $\rho < 0.1$. Variable definitions are provided in Appendix B.

Table 3.5 Difference-in-difference analysis

VARIABLES	(1)		(2)	
	WSD		WSD	
	coef	tstat	coef	tstat
Law	0.14***	(5.92)	0.13***	(5.41)
Legal_All	0.02	(1.46)		
Legal_All x Law	0.01	(0.99)		
Legal_AccFin			-0.05	(-0.80)
Legal_AccFin x Law			-0.00	(-0.04)
Legal_Audit			0.12**	(2.25)
Legal_Audit x Law			0.15**	(2.17)
Legal_Only			0.03	(0.58)
Legal_Only x Law			-0.00	(-0.01)
AccFin	-0.02	(-0.57)	-0.03	(-0.84)
AccFin x Law	0.03	(0.68)	0.05	(1.12)
ACMeeting	0.01*	(1.94)	0.01*	(1.88)
ACIndependence	-0.04	(-0.97)	-0.04	(-1.13)
AC_Size	-0.01	(-1.08)	-0.00	(-0.50)
EthicsCSR	0.04*	(1.92)	0.04*	(1.95)
FirmSize	0.02***	(3.07)	0.02***	(3.40)
ROA	0.10	(1.23)	0.11	(1.33)
Leverage	0.03	(0.58)	0.03	(0.61)
ForeignSales	0.08***	(3.16)	0.08***	(3.13)
CorrRisk	0.07	(1.58)	0.06	(1.16)
UNGC	0.07***	(3.92)	0.07***	(3.92)
Constant	-0.23***	(-3.04)	-0.24***	(-3.09)
Year-FE	No		No	
Industry-FE	Yes		Yes	
Observations	1,053		1,053	
R-squared	0.46		0.47	

Notes: This table reports OLS regressions for difference-in-difference analysis examining the role of legalists on audit committee in the matter of CWS before and after the introduction of the anti-corruption law. Column 1 presents the result using Model 1 by combining all types of legalists in one variable, whereas column 2 presents the results using model 2 by differentiating the legalists into three types. Firm-level clustered standard errors are used. The robust t-statistics are in parentheses. *** $\rho < 0.01$, ** $\rho < 0.05$, * $\rho < 0.1$. Variable definitions are provided in Appendix B.

Table 3.6 The results under the PSM approach

VARIABLES	(1) WSD		(2) WSD		(3) CorrActivity_Disc		(4) CorrActivity_Disc	
	coef	tstat	coef	tstat	coef	tstat	coef	tstat
Legal_All	0.11*	(1.68)			0.93	(1.05)		
Legal_AccFin			-0.03	(-0.24)			3.60**	(2.25)
Legal_Audit			0.28***	(2.88)			0.03	(0.02)
Legal_Only			-0.01	(-0.09)			0.77	(0.46)
AccFin	0.06	(0.97)	0.06	(1.01)	0.40	(0.43)	0.29	(0.29)
ACMeeting	0.02*	(1.69)	0.01	(1.56)	0.24**	(2.44)	0.27***	(2.62)
ACIndependence	0.09	(1.43)	0.09	(1.29)	-0.42	(-0.45)	-0.14	(-0.15)
AC_Size	0.01	(0.57)	0.00	(0.32)	-0.06	(-0.35)	-0.06	(-0.34)
EthicsCSR	-0.02	(-0.59)	-0.02	(-0.53)	0.21	(0.52)	0.21	(0.50)
FirmSize	0.02*	(1.84)	0.02**	(2.12)	0.08	(0.55)	0.03	(0.18)
ROA	-0.03	(-0.12)	-0.08	(-0.32)	5.45	(1.13)	5.50	(1.10)
Leverage	0.00	(0.00)	-0.02	(-0.23)	0.35	(0.24)	0.39	(0.28)
ForeignSales	0.12**	(2.32)	0.11**	(2.08)	0.23	(0.36)	0.13	(0.20)
CorrRisk	0.11	(1.27)	0.14	(1.64)	14.02***	(10.12)	13.96***	(9.81)
UNGC	0.11***	(3.57)	0.10***	(3.38)	0.23	(0.49)	0.36	(0.73)
Constant	-0.39***	(-3.00)	-0.40***	(-3.11)	-16.29***	(-7.74)	-16.11***	(-7.64)
Year-FE	Yes		Yes		Yes		Yes	
Industry-FE	Yes		Yes		Yes		Yes	
Observations	270		270		244		244	
R-squared	0.49		0.51		0.132		0.146	

Notes: This table reports OLS and logit regressions under the PSM approach for hypothesis testing (Columns 1 and 2) and audit committees' general response to anti-corruption law (Columns 3 and 4). Column 1 and 3 present the result using Model 1 by combining all type of legalists in one variable, whereas column 2 and 4 present the results using model 2 by differentiating the legalists into three types. Firm-level clustered standard errors are used. The robust t-statistics are in parentheses. *** $\rho < 0.01$, ** $\rho < 0.05$, * $\rho < 0.1$. Variable definitions are provided in Appendix B.