Effects Of Governance On Corporate Ethics: A Cross-Country Investigation

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This research paper empirically investigates the extent to which the quality of governance measured through six dimensions developed by World Bank has a positive influence on the corporate ethics, or in other words, the ethical behaviour of firms in their interaction with public officials, politicians and other companies. By using a dual approach, from geographical and income group classification, this study analyses data from official reports issued by World Bank and World Economic Forum for a final sample of 140 countries, trying to highlight the positive relationship that might exist between governance clusters and ethical behaviour of firms. For the purpose of the paper, a multiple regression analysis was performed. The research results confirm that there are strong positive correlations between most of the governance indicators and companies' ethical behaviour, even if there are some differences between various geographical areas, and also between different income categories economies, in terms of the intensity of this influence.

Keywords: ethical behaviour, governance indicators, control of corruption, rule of law, cross-country survey
JEL Classifications: M40, M48, M49

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Introduction

A wide range of reports and academic papers discuss the various connections that might be identified between various dimensions of governance and different business development outcomes, but fail to consider sufficiently the ethical component, or, in other words, the impact of quality of governance on the ethical behaviour of companies. To address this shortcoming, our intuition set at the beginning of our paper is that governance indicators matters for the ethical aspects of various companies' behaviour. Thus, our paper aims to empirically develop an assessment of the governance's impact on the corporate ethics.

This article starts from the idea of Morrel (2006) that there are too few attempts trying to establish potential links between various forms of governance and ethics, while in the same author's vision good governance should incorporate ethical mechanisms such as "*accountability, responsibility, probity and representativeness*". While trying to establish the potential connections that could exist between various governance dimensions and ethical behaviour, this research attempt might lead to a better understanding of the factors that are determinants for ethical behaviour for both private and public sectors. Thus, the author hopes that through developing such an idea, the researchers, particularly those involved in ethics and governance research, could gain a deeper understanding of the impact of governance dimensions on the business ethics and ethical behaviour, from a cross-country perspective.

The remainder of the paper is organized as follows. Next section provides a brief overview of the previous scholarship studies that aim to identify the determinant factors of the ethical behaviour of companies. The coming section offers the main coordinates that we used in developing our research design and methodology. The subsequent section presents the research findings and discusses their implications, closely related to previous studies focused on companies'

ethics determinants. Finally, the paper ends with a section summarizing the main conclusions.

2. **Arguments for linkage between business ethics and governance – prior backgrounds**

Schwartz and Weber (2006) define business ethics as being "any formal activity taking place among individuals, organizations, or other entities operating within or related to a business context that involves the explicit interaction and/or application of ethical standards".

Seeking to analyse the perceptions of business managers of Israeli companies on the term of business ethics, through a complex survey where 22 interviews were conducted with leaders of the Israeli business environment from seventeen major companies, Schwartz (2012) associates the concept of business ethics with various elements such as acting in a professional and legal manner; being responsible for the society; treating the people with honesty and respect; being able to make difference between right versus wrong actions; having a professional conduct and acting with transparency and honesty in a proper manner, following the rules of the society.

The key elements that should define ethics, including in businesses and economic world has always represented a controversial theme for both practitioners and academics. A large number of scholarships have been tried to develop an approach for this concept from many perspectives, therefore, there is not a unique conceptual approach widely accepted. This opinion is also shared by Lategan and Hooper (2009) who state that the implementation of key elements of ethical behaviour varies across countries and cultures, a universal definition of what can be considered as best practice in ethics has not been yet generally agreed.

But, at least one thing is clear, that both academic and business environment agree the idea that ensuring the successful of businesses in the economic world is absolutely necessary the incorporation of

ethical behaviour into business practices (opinion also clearly expressed by Saee 2005). Even more, Saee (2005) concludes that because of higher specialization of today's businesses, each company or department is focused on a particular field, and so the necessity of a specialized set of guidelines that should ensure a proper ethical behaviour must necessarily exist and be respected. A quite significant contribution was assigned to the company's ethical code, starting from the premise that this framework of ethical guidelines must have a relevant impact on corporate ethical behaviour. According to Lugli et al. (2009), the existence of an ethical code represents an indicator of business ethics, or an evidence that company have admitted the need for developing a proper corporate ethics behaviour (this opinion is also shared by O'Dwyer, Madden 2006; García-Sánchez 2011; Groşanu et al., 2012). Thus, the ethical corporate codes are not only an internal instrument through it is required a commitment to ethical behaviour from their employees, but also represent a valuable standpoint for developing relationships with other stakeholders, sending a message to the entire society about the attention that should be paid for acting in a proper and correct manner, according to the ethical principles assumed in its ethical code.

But it is enough the existence of a code of ethical guidelines for ensuring appropriate ethical behaviour? According to Lategan and Hooper (2009) the potential answer at the question above is negative, at least looking at the various international events that have been shuddered the economic world during recent years, suggesting that the existence of these ethical codes represented no guarantee for ethical behaviour. Previous studies in the scholarship literature focused on the analysis of corporate ethical code impact on ethical behaviour reveal results that were not always consistent. Thus, if Adams et al (2001) found that the existence of a code of ethics appears to exert a positive influence on perceptions of ethical behaviour in various organization, through their study which investigated the effects of codes of ethics on ethical behaviour by

using 465 respondents (top management, supervisors, peers, subordinates) from various companies, these results are not necessarily confirmed by other studies in this area (see for example Frankel 1989; Stevens 1994; Kitson 1996; Blodgett, Carlson 1997; Weaver 2005; Cleek, Leonard 1998; Kaptein, Wempe 1998; Schwartz 2001; Lere, Gaumnitz 2003).

Trying to answer to the question *"If affecting decision making is an important role for codes of ethics, why have researchers not found a major observable impact of codes of ethics on decision making?"*, Lere and Gaumnitz (2003) proposes a model, starting from relevant previous literature, trying to highlight the main conditions that should comply with, in order to ensure an impact of ethical code on ethical behaviour, proposing the incorporation within the ethical codes of enforcement provisions which are meant to discourage unethical behaviour by establishing various forms of penalties for all those actions that are considered by the organization unethical. Valentine and Fleischman (2008) propose another solution for increasing the influence of the ethical codes on corporate ethical behaviour, highlighting the necessity of being aware about the relationships that should exist between ethics and different aspects of social responsibility.

Analysing corporate ethics practices and policies from 500 industrials and 500 service corporations from Fortune 1000 as listed in 1994, Weaver et al.(1999) emphasize the main factors that are determinant for corporate ethics activity like formalized CEO responsibilities for ethics aspects; ethics-oriented policy statements; the engagement of management in ethics activities; training and education programs for ethics activities; developing of reporting/advice systems where unethical issues are reported or proper advices in terms of ethics are received.

But what type of relationship is/should be between ethical behaviour of firm and governance features?

According to Rorty (1988) quoted by Fleming and McNamee (2005), the analysis of the behaviour of individuals in the social context cannot ignore the political dimensions of policy and practices, which influence them both as individuals and also within an organization. Even more, Fleming and McNamee (2005) admit that failure to consider these political aspects *"would betray a conceptual and theoretical naiveté',* while Pashev (2011) stresses the idea of the importance that must to be paid for the enforcing higher standards of ethics correlated with the integrity of political leaders.

Also, fair policies and strategies which refer to the goods, services and other activities represent the necessary equity that must ensure the applying of the idea of *"social justice and fairness"* (Fleming, McNamee 2005). Or, in the vision of the same authors, starting from the premise of ensuring the equity, it's obviously that companies should not simply apply the most effective policies to achieve its goals, but should action so under the circumstances of treating all individuals with fairness. Such elements that might contribute for the ensuring the necessary circumstances for equity, as an essential elements of ethics, are given by the quality of public services, the competence of civil servants, the independence of civil services, but also the effectiveness of the judiciary systems that has to provide the security of property rights. These elements are very well expressed by the relevant characteristics of governance such as *government effectiveness* and *rule of law*.

Also, the *control of corruption* is another relevant determinant factor of ethical behaviour of both individuals and firms. As Khan (2003) states*: "Corruption has become so endemic that it has engulfed both public and private sectors and touched and affected, in one way or another, many individuals";* so that it becomes obviously that neglecting the role of policies and instruments which are meant to keep the various forms of corruption under control, sooner or later, the ethical behaviour of companies will be strongly affected. Same opinion is also shared by Fattah (2011) who considers that *"irrationalization of corruption*" is a determinant factor

in providing ethical conduct and compliance with professional ethics. Therefore, Fattah (2011) recommends designing the system in a way so that *"it is in your best interest to act ethically*", so that ethical behaviour represents *"the rational choice in most cases"*.

Seeking to describe the democratic governance process from United States from the perspective of ethical behaviour and professional ethics, especially in public administration, Fattah (2011) states that democracy could ensure a favourable environment for compliance with professional ethics, even if the democracy is a necessary condition, but not a sufficient one in providing professional ethics respected. In the vision of Fattah (2011) the political system with all its complex mechanisms has a major influence on the ethical behaviour of both public and private sectors. The political system with components such as rule of law, political accountability, freedoms of expressions, independence of civil services from political influences, peaceful transfer of power, independence and effectiveness of justices and the security of property rights should provide enforcement of ethical professional behaviour (Fattah 2011). Summing up the conclusions of Fattah (2011) the most influencing factors for ethical behaviour for both public and private organizations are given by the democracy, institutionalization of ethics, political system, role of leadership and control of corruption.

Since, as Morrel (2006) remarked there are too few research studies focused on the linkage between governance features and ethics, but also their impact on ethical behaviour standpoint, this study sought to fill this gap by testing proposed relationship between governance indicators and ethical behaviour of firms.

Research constructs

Hypotheses development

Consequently, starting from the stated objective for this paper, namely, to find empirical evidences that could supports the idea of strong relationship between governance features and corporate ethical behaviour, one of the first challenge in constructing the research methodology of this study was to identify those governance indicators which best express the key coordinates that a system of good governance should posses.

Previous academic literature (Kaufmann 1999a,b; Boivard, Loffler 2003; van de Walle 2006; Hood et al. 2007) focused on various topics related to governance revealed a wide range of cross-country indices through researchers aim to capture the main features of a good system of governance, representing quantitative measurements of different dimensions specific to an effective governance. But the most widely used cross-country governance indicators are those developed by Kaufmann et al. (1999a,b) starting from on a methodology based on unobserved components model. Combining information from different sources and using a database of more 300 governance indicators for a sample of more than 150 countries, Kaufmann et al. (1999a,b) developed six aggregate governance clusters through the quality of good governance can be quantitatively measured.

But we have to be aware that even this complex system of governance indicators is not absolutely accepted and recognised at global level, while there are some critics (see for example Andrews 2008, p.380) that consider being quite difficult to be able to develop *"a one-best-way"* model of good governance, particularly due to the key features that characterize governance models such as Swedish model which is different from the German model, or the British which is different from American model. Also, another critic to this system of governance indicators is given by the fact that all those six governance clusters developed by Kaufmann et al. (1999a, b) are not always

perfectly adequated to various national contexts facing different challenges and particularities.

On the other hand, some imperfections are also admitted by the authors themselves (Kaufmann et al.1999a,b) being aware about the existence of some standards errors generated by the estimations of different governance features, but even so, their utility cannot be rejected. One of the major advantages for using this system of governance indicators is the possibility to proceed to large cross-country investigations, being able to measure the quality of governance system for a large sample of countries. Also, those governance indicators achieve to incorporate the major key elements an effective governance system should have, in spite of the fact there could also be found other relevant indicators that might also reflect relevant governance features.

Considering the arguments mentioned above, in spite of the critics to the system of governance indicators developed Kaufmann et al. (1999a,b) under World Bank project *"The Worldwide Governance Indicators*", in developing this paper, the authors' decision was to use all these six indicators of good governance (*Voice and Accountability; Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law and Control of Corruption*) as they are measured for more than 200 economies over the period 1996-2011.

As specified above, the main research question of this study refers to whether the governance measured through all these six indicators as developed by World Bank project, exert a positive influence on the ethical behaviour of firms, seeking to develop this empirical analysis from two perspectives, namely, from geographical standpoint but also from the perspective of classification of economies of all countries divided on income groups (according to classification issued by World Economic Forum).

Summing up the prior mentioned studies in the section above, but also the established objectives at the beginning of this paper, the

present research paper considers one relevant research hypothesis namely:

H: All these six dimensions of governance (1.Voice and Accountability; 2. Political Stability and Absence of violence; 3.Government effectiveness; 4. Regulatory Quality; 5.Rule of Law; 6. Control of Corruption) exert a positive influence on ethical behaviour of firms (as it is ranked by World Economic Forum).

Sample and data used

Starting from the intuition set at the beginning of our paper, the fist dataset used in our empirical analysis was given by the World Bank report "*The Worldwide Governance Indicators",* where all those six governance indicators are quantified for more than 200 economies, based on information provided by more than 40 data sources produced by over 30 various organizations worldwide, being updated on an annual basis since 2002.

Next dataset used was the ranking assigned to the ethical behaviour of firms, measuring ethical behaviour of corporations in interactions with public officials, politicians, and other enterprises as it is measured within the report "*Global Competitiveness Report"* issued by the World Economic Forum[2], which includes a wide range of relevant indicators reflecting information about the economic developments in various fields, while it is considered as one of the most comprehensive evaluation reports focused on global competitiveness.

The purpose of "*Global Competitiveness Report*" is to express a global view about the global competitiveness for a large sample of countries, and the final result is a global indicator which includes approximately 115 variables and 12 pillars grouped on three sub indexes (*1.Basic*

[2] The first version of this global report was issued in 2004 (Sala-i-Martin, Artadi, 2004)

requirements sub index; 2.Efficiency enhancers sub index; 3.Innovation and sophistication factors sub index) that has an impact on the level of competitiveness at each country-level. The variable "ethical behaviour of firms" used in our study presented within this paper is a component of the *1st pillar – Institutions* presented within this report issued by World Economic Forum in 2012 (World Economic Forum, 2012).

Next dataset used was represented by the World Bank report "*Country and Lending Groups*" issued in July 2012, where all economies of all countries with population of more than 30,000 citizens are classified according to the main criterion the gross national income (GNI) per capita. Thus, the world economies are divided on income groups such as low income, lower middle income, upper middle income, high income non OECD, high income OECD. This report containing income groups classification are set each year on July 1, starting from the premise of establishing the validity of this official classification during the World Bank's fiscal year (which ends on June 30). For the purpose of our study, it was used the World Bank's classification set on July 1, 2012 which is available until 1 July 2013, and within this classification, economies are divided according to 2011 GNI per capita, determined using the World Bank Atlas method.

Table 1 summarizes all data sources and variables used for developing this study.

Table 1

Description of variables and data sources

Variable Name	Source	Description	No. of countries
1.Voice and accountability*:* expresses the capacity of government to provide fairness of political process, civil liberties and political rights	Worldwide Governance Indicators (WGI) project 1996-2011 (data for 2011)[3]	It ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance)	215 countries
2.Political Stability and Absence of Violence*:* combines several indicators which express the potential likelihood that the government in exercise to be overthrown through unconstitutional or illegal changes.			
3.Government effectiveness*:* contains indicators that express the quality of public service provision, the competence of civil servants, the level of bureaucracy, the independence of the civil services from political influences and the credibility of government			
4.Regulatory quality: *i*ndicates the effects of the policies which are perceived as market-unfriendly such as price controls or inadequate bank supervisions or excessive regulation			
5.Rule of law: contains indicators that express the effectiveness of the judiciary systems and the security of property rights, but also the extent to which public and citizens have confidence in and abide by the rules of society			
6.Control of corruption': includes indicators that measure the public's perception regarding the effectiveness of the control of corruption, including various forms of public power exercises for illegally private gains			

[3] Accessible on line at http://info.worldbank.org/governance/wgi/index.asp

Ethical behaviour of firms : ethical behaviour in interactions with public officials, politicians, and other enterprises	World Competitiveness Report 2012-2013[4] (data for 2011)	It ranges from approximately from 1 = among the worst in the world to 7 = among the best in the world	144 countries
Income classifications	World Bank report *'Country and Lending Groups'* issued in July 2012[5]	Economies are divided according to 2011 GNI per capita, using the World Bank Atlas Method, resulting the following groups: * *low income* - $1,025 or less (33 countries); * *lower middle income*, $1,026 - $4,035 (52 countries); * *upper middle income*, $4,036 - $12,475 (49 countries); * *high income*, $12,476 or more, classified also in non-OECD (16 countries) and OECD members (31 countries).	181 countries

Regression analysis and findings

The main outputs obtained by employing a multiple regression analysis from geographical perspective are presented below in Table 2 and 3. Considering all datasets included in this present study, the final

[4] Accessible on line at http://www.weforum.org/
[5] Accessible on line at http://data.worldbank.org/about/ country-classifications/ country-and-lending-groups#Low_income

sample contains data for 140 countries, for which all the necessary information was available in the referenced reports. The dependent variable is the ethical behaviour of firms as it was ranked by World Economic Forum for a sample of 140 countries, while the independent variables are represented by all six governance indicators developed and measured by World Bank in its report.

The outputs of regression analysis from geographical perspective reveal that there is a significant impact of the governance indicators on the ethical behaviour of corporate for almost geographical regions considered, but this influence might be different from one region to another. Thus, while for the countries from Europe, North and Central America and South America, the values of R squared indicates that the influence of governance features on corporate ethics is somewhat similar, strong differences emerge between countries those continents and the last two considered (Africa and Asia).

The governance indicator "*voice and accountability*", that contains an assessment of the extent to which citizens are able to take part in the selection of their governments, including also different aspects of the political process, civil liberties and political rights, is revealed as not being significant for countries from Asia and Africa. In case of African countries, even if the other five indicators (*Political Stability and Absence of Violence; Government Effectiveness; Regulatory Quality; Rule of Law and Control of Corruption*) seem to be statistically significant, still should be noticed that this influence is less relevant compared to the one revealed for the other continents[6].

On the other hand, for the countries for Asian region, even if the first indicator (voice and accountability) is not relevant for the ethical behaviour of firms, still the influence of the other five indicators is somewhat closed to the one given for the first three regions analysed,

[6] In case of African countries the most relevant influence is given by the "Political Stability" (R^2 = 0,348)

while the most significant impact is given by "*government effectiveness", "rule of law" and 'control of corruption"*.

From a global perspective, for all regions (except for Africa) the most influencing governance indicators are represented by indicators that express the competence of government and the quality of public service provision (*government effectiveness*); the confidence of citizens and public in the effectiveness of the judiciary system (*rule of law*); and the effectiveness in controlling various forms of corruption (*control of corruption*).

Table 2

Regression of the ethical behaviour of companies on first three governance indicators – *geographical perspective*

Region	Voice and accountability			Political Stability			Government effectiveness		
	(Constant)	Slope	R^2	(Constant)	Slope	R^2	(Constant)	Slope	R^2
Europe	3,209	1,524	0,652	3,791	1,359	0,518	3,515	1,205	0,784
	(16,055)*	(8,221)		(20,798)*	(6,222)		(27,459)*	(11,440)	
North and Central America	3,667	1,040	0,651	3,959	1,194	0,647	3,943	0,845	0,749
	(24,683)*	(4,920)		(29,311)*	(4,879)		(34,575)*	(6,222)	
South America	3,512	1,104	0,714	3,967	0,813	0,556	3,811	1,071	0,774
	(23,275)*	(4,469)		(19,494)*	(3,164)		(28,806)*	(5,235)	
Africa	3,839	0,249	0,088	3,901	0,425	0,348	4,036	0,557	0,256
	(34,884)	(1,807)		(44,545)*	(4,258)		(33,095)*	(3,424)	
Asia	4,302	0,174	0,019	4,447	0,628	0,475	4,110	0,928	0,700
	(23,713)	(0,843)		(38,644)*	(5,786)		(50,008)*	(9,294)	

Note: Number in parentheses are *t*-statistics; *statistically significant at 1% level.
Source: Own calculations based on the datasets presented above

Table 3

Regression of the ethical behaviour of companies on last three governance indicators – *geographical perspective*

Region	Regulatory quality			Rule of low			Control of corruption		
	(Constant)	Slope	R^2	(Constant)	Slope	R^2	(Constant)	Slope	R^2
Europe	3,197	1,453	0,673	3,540	1,188	0,777	3,737	1,081	0,886
	(16,579)*	(8,615)		(27,504)*	(11,213)		(45,676)*	(16,690)	
North and Central America	3,628	1,086	0,764	4,097	0,859	0,880	4,040	0,908	0,857
	(29,509)*	(6,493)		(51,529)*	(9,777)		(46,837)*	8,817	
South America	3,783	0,748	0,678	4,013	0,842	0,858	3,778	0,883	0,939
	(24,094)*	(4,108)		(35,288)*	(6,944)		(55,549)*	(11,109)	
Africa	3,997	0,573	0,276	4,013	0,529	0,277	3,975	0,552	0,295
	(36,189)*	(3,598)		(35,436)*	(3,613)		(38,350)*	(3,776)	
Asia	4,137	0,860	0,550	4,286	0,957	0,736	4,373	0,910	0,772
	(41,204)*	(6,721)		(55,863)*	(10,159)		(60,356)*	(11,188)	

Note: Number in parentheses are *t*-statistics; *statistically significant at 1% level.
Source: Own calculations based on the datasets presented above

Proceeding to the same multiple regression analysis and considering same variables, but from the perspective of the World Bank income groups classification, the main outputs are disclosed in Table 4 and 5. The governance cluster "*Voice and accountability*" seems to be least significant for all income groups, except for the last one High income: OECD, where this indicator is revealed as being relevant for corporate ethics behaviour.

The countries from Low income group are influenced by "*political stability", "rule of law"* and *"control of corruption*", but this influence is quite reduced compared to the impact on other income groups such as - High income: OECD.

For the countries included in Lower middle income class, the influence of *"political stability*" is not important, while *"government effectiveness"* and *"regulatory quality*" prove to be. For the countries included in Upper middle income, except for the first governance

indicator, all the others proved to be statistically significant for the ethical behaviour of companies.

The situation for countries classified in High income: non OECD is somewhat surprisingly, especially if we compared these results with the ones obtained for countries classified in High income: OECD. Thus for countries with high level of incomes, but not having the quality of OECD member, only two governance indicators are highlighted as statistically relevant for corporate ethics, namely, *"Rule of law"* and *"Control of corruption"*.

On the other hand, for the countries with high level of incomes and having the quality of OECD member, all governance clusters are statistically significant, while "*Political stability*" is less significant and *"Control of corruption"* is most significant among the factors that are determinant for ethical behaviour of firms.

From a global perspective, for all income groups considered, the most determinant governance clusters from the corporate ethics' perspective are "*Rule of law"* and *"Control of corruption",* this situation being somewhat confirmed also by the findings obtained when ethical behaviour of firms was regressed on each of the six governance clusters, one at a time, from the geographical standpoint.

Table 4

Regression of the ethical behaviour of companies on first three governance indicators – *income group classification*

Income category	Voice and accountability			Political Stability			Government effectiveness		
	(Constant)	Slope	R^2	(Constant)	Slope	R^2	(Constant)	Slope	R^2
Low income	3,463	-0,127	0,012	3,931	0,490	0,269	4,052	0,634	0,168
	(17,787)	(-0,533)		(24,048)*	(2,975)		(15,999)	(2,202)	
Lower middle income	3,632	0,151	0,073	3,628	0,093	0,049	3,816	0,502	0,414
	(52,121)	(1,458)		(49,447)	(1,174)		(53,006)*	(4,367)	
Upper middle income	3,859	0,239	0,088	3,930	0,481	0,355	3,839	0,831	0,505
	(42,255)	(1,913)		(50,017)*	(4,577)		(57,092)*	(6,231)	
High income: non OECD	4,884	-0,384	0,168	4,610	0,614	0,159	4,494	0,605	0,242
	(21,872)	(-1,558)		(14,258)	(1,508)		(14,067)	(1,959)	
High income: OECD	1,347	3,121	0,722	4,510	0,842	0,185	2,292	2,077	0,873
	(2,955)*	(8,674)		(14,067)*	(2,570)		(10,549)*	(14,125)	

Note: Number in parentheses are *t*-statistics; *statistically significant at 1% level.
Source: Own calculations based on the datasets presented above

Table 5

Regression of the ethical behaviour of companies on last three governance indicators – *income group classification*

Income category	Regulatory quality			rule of low			Control of corruption		
	(Constant)	Slope	R^2	(Constant)	Slope	R^2	(Constant)	Slope	R^2
Low income	3,744	0,307	0,047	4,010	0,543	0,142	4,149	0,804	0,304
	(17,467)	(1,090)		(15,597)*	(1,990)		(19,749)*	(3,240)	
Lower middle income	3,707	0,432	0,294	3,906	0,560	0,482	3,803	0,399	0,272
	(57,404)*	(3,350)		(49,458)*	(5,016)		(43,121)*	(3,173)	
Upper middle income	3,824	0,461	0,266	3,959	0,714	0,540	3,961	0,626	0,439
	(46,510)*	(3,714)		(59,339)*	(6,682)		(53,340)*	(5,457)	
High income: nonOECD	4,500	0,590	0,167	4,280	0,995	0,388	4,454	0,798	0,479
	(12,058)	(1,550)		(13,723)*	(2,757)		(19,265)*	(3,324)	
High income: OECD	4,500	0,590	0,643	2,240	2,109	0,868	3,377	1,339	0,926
	(12,058)*	(1,550)		(9,923)*	(13,807)		(30,969)*	(19,093)	

Note: Number in parentheses are *t*-statistics; *statistically significant at 1% level.
Source: Own calculations based on the datasets presented above

Conclusions

From our knowledge, this study could represent one of the first attempts to provide an overview of the potential influence that governance characteristics might exert on business ethical behaviour based on a cross-country empirical investigation, analysing data available from the above mentioned official reports from 140 countries.

Our findings are consistent with previous studies (Fleming, McNamee, 2005; Pashev, 2011; Fattah, 2011), as a confirmation for the role of governance system's elements such as rule of law, independence of civil services from political influences, peaceful transfer of power, independence and effectiveness of justices and the security of property rights for ensuring a proper ethical professional behaviour.

If for the first give governance indicators considered, there were emerged various differences between categories of countries sampled, only one indicator seems to be relevant in absolutely all cases, namely "*Control of corruption*". This results confirms the conclusions of Khan (2003) and Fattah (2011), thus being emphasized the major importance of "*irrationalization of corruption*" as a causal factor for ensuring ethical behaviour and compliance with professional ethics codes.

The outline of a potential solution for the improving the ethical behaviour of firms is beyond the scope of this paper, but the author would like to advance some thoughts on a potential way forward, especially if we consider the impact of governance features on the corporate ethics. It is obviously in the light of the positive relationship existing between governance systems and ethical behaviour of corporate, the necessity to build some mechanisms for enhancing the ethical behaviour of firms, by taking in consideration the effect of governance indicators, is absolutely imperious.

No doubt, further research should address these concerns by employing a variety of data collection methods and information

regarding the ethical constructs from a significant sample of companies, in order to reduce possible bias and to make final conclusions about the relationships between the variables considered. Also, future research should extent the analysis of the causal factors that might affect ethical behaviour of companies, beyond the governance system's influence, looking for solutions for ensuring the necessary premises for companies to achieve the ability to ethically behave in this challenging business world.

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