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LA COMPOSICIÓN DE LOS CONSEJOS DE ADMINISTRACIÓN DE LAS EMPRESAS COTIZADAS ESPAÑOLAS Y SU IMPACTO EN LA TOMA DE

Blanca López Zamora

BOARD COMPOSITION OF SPANISH LISTED FIRMS AND ITS IMPACT ON BUSINESS DECISIONS

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Memoria presentada por Blanca López Zamora para optar al grado de doctor internacional por la Universitat Jaume I

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A Guillermo y Rodrigo

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ABSTRACT

This thesis aims to study how board composition of Spanish listed companies affects certain types of business decisions. For this reason, three specific objectives have been proposed.

The first objective is to analyse whether foreign and institutional directors affect the business decision of paying dividends. In this sense, our results show that foreign and institutional directors have a positive effect on the dividend policy of Spanish listed companies, suggesting that these types of directors are more likely to mitigate agency costs. As the previous literature on this subject shows, institutional directors should not be treated as a homogeneous group because depending on the relation that they have with the firm; their interests and incentives are completely different. For this reason, we have differentiated between pressure-sensitive institutional directors (in addition to maintaining an investment relationship with the company, they also maintain business relations with the company) and pressure-resistant institutional directors (they do not have business relations with the company, just investment relationships). In this sense, another important idea suggested by the results is that pressure-sensitive institutional directors eject a controlling role over firms' managers, affecting the decision of paying dividends. However, pressure-resistant institutional directors, contrary to our expectations, do not affect the dividend policy of Spanish listed companies.

The second objective is to analyse how institutional directors of Spanish listed companies affect the decision to disclose information on Corporate Social Responsibility

(hereinafter CSR). For this purpose, an index (CSR_Index) has been created focusing on 3 types of information that should be disclosed by companies in their CSR reports or in their annual report: Social information, environmental information and information on stakeholders. In this sense, our results show that institutional directors have a positive effect on the decision to disclose CSR information, since these this type of directors are concerned about their reputation and the reputation of the company they work for and they have a long-term horizon and, therefore, will exert a monitoring role over the company's managers. As in the study concerning the dividend policy of Spanish listed companies, we have differentiated between pressure-resistant and pressure-sensitive institutional directors and we have demonstrated that just only pressure-resistant institutional directors have impact on CSR disclosure, and that impact is positive.

Finally, the third objective of this thesis is to analyse how institutional directors of Spanish listed companies affect the decision to disclose environmental information. The dependent variable (Environmental disclosure) has been measured in two ways: (1) with a dichotomous variable that will take the value 1 if the company discloses the sustainability report and 0, otherwise and (2) with an index (EN_Index), which takes into account aspects such as the disclosing of environmental policy by companies, business objectives in the environmental field and the environmental impact of companies, among others. The results show once again that institutional directors have a positive effect on the environmental firms' disclosure, reinforcing the idea that these directors eject a control function over the managers of the companies. We have differentiated between pressure-sensitive institutional directors and pressure-resistant institutional directors and we find that only pressure-resistant institutional directors affect the disclosure of environmental information and do so in a positive way.

This thesis is based mainly on differents theories: agency theory, stakeholder theory and legitimacy theory and we use a sample of Spanish listed firms to test the hypotheses posed in the three chapters, which have been supported theoretically by these approaches and by past empirical research. All these hypotheses have been tested by using the most appropriate methodology, according to previous empirical research and literature focused on the topic analysed.

The findings of this doctoral thesis contribute significantly to prior literature on corporate governance, providing evidence on the effect of institutional directors, pressure-sensitive directors and pressure-resistant directors on decisions such as dividend policies, corporate social responsibility disclosure and environmental disclosure. Our evidence has several important implications for policy-makers, researchers, users, shareholders and all stakeholders. Additionally, our findings also suggest several future research lines such as the impact of these institutional directors when they are women on the decisions commented.

RESUMEN

Esta tesis tiene el objetivo de estudiar cómo la composición de los consejos de administración de las empresas cotizadas españolas afecta a cierto tipo de decisiones empresariales. Para ello, se han propuesto tres objetivos específicos.

El primer objetivo es analizar si los consejeros extranjeros y dominicales afectan en la decisión empresarial de repartir dividendos. En este sentido, nuestros resultados muestran que los consejeros extranjeros y dominicales tienen un efecto positivo en la política de dividendos de las empresas cotizadas españolas, lo cual sugiere que este tipo de consejeros son más proclives a mitigar costes de agencia. Tal y como la literatura previa sobre este tema pone de manifiesto, no se puede tratar a los consejeros dominicales como un grupo homogéneo, dado que dependiendo del tipo de relación que tengan con la empresa, sus intereses e incentivos son completamente diferentes. Por ello, hemos diferenciado entre consejeros dominicales sensibles a la presión (además de mantener una relación de inversión con la empresa, también mantienen relaciones empresariales con la misma) y consejeros dominicales resistentes a la presión (no mantienen relaciones empresariales con la empresa, sino únicamente relaciones de inversión). En este sentido, otra idea importante que sugieren los resultados es que los consejeros dominicales sensibles a la presión ejercen una función de control sobre los directores de las empresas, afectando de esta manera positivamente a la decisión de repartir dividendos. Sin embargo, los consejeros dominicales resistentes a la presión, en contra de nuestras expectativas, no afectan a la política de dividendos de las empresas cotizadas españolas.

El segundo objetivo consiste en analizar cómo los consejeros dominicales de las empresas cotizadas españolas afectan en la decisión de divulgar información de Responsabilidad Social Corporativa (de aquí en adelante, RSC). Para ello, se ha creado un índice (CSR_Index) centrado en 3 tipos de información que deberían divulgar las empresas en sus memorias de RSC o en su informe anual: Información social, información medioambiental e información sobre los grupos de interés. En este sentido, nuestros resultados muestran que los consejeros dominicales afectan de manera positiva a la decisión de divulgar información de Responsabilidad Social Corporativa, ya que este tipo de consejeros se preocupa por su reputación y la reputación de la empresa para la que trabajan, tienen una visión a largo plazo y, por ello, ejercerán una labor de monitoreo sobre los directivos de la empresa. Al igual que en el estudio concerniente a la política de dividendos de las empresas cotizadas españolas, hemos diferenciado entre consejeros dominicales resistentes a la presión y sensibles a la presión y hemos demostrado que a la hora de analizar el efecto de estos consejeros en la divulgación de información de RSC, son los consejeros resistentes a la presión los únicos que afectan a esta decisión empresarial, y lo hacen positivamente.

Finalmente, el tercer objetivo de esta tesis es analizar cómo los consejeros dominicales de las empresas cotizadas españolas afectan en la decisión de divulgar información medioambiental. La variable dependiente (Divulgación medioambiental) se ha medido de dos formas: (1) con una variable dicotómica que tomará el valor 1 si la empresa publica el informe de sostenibilidad y 0, en caso contrario y (2) con un índice (EN_Index), el cual tiene en cuenta aspectos como la publicación de política medioambiental por parte de las empresas, objetivos empresariales en el campo medioambiental y el impacto ambiental de las empresas, entre otros. Los resultados

muestran una vez más que los consejeros dominicales tienen un efecto positivo en la divulgación del informe de sostenibilidad y en la divulgación de información medioambiental, reforzando la idea de que estos consejeros ejercen una función de control sobre los directivos de las empresas. Separando entre consejeros dominicales sensibles a la presión y consejeros dominicales resistentes a la presión, obtenemos que tan solo los consejeros dominicales resistentes a la presión afectan a la divulgación de información medioambiental y lo hacen de forma positiva.

Esta tesis se enmarca en diferentes teorías: Teoría de agencia, teoría de los stakeholders y teoría de la legitimidad y hemos usado una muestra de empresas cotizadas españolas con el proposito de contrastar las hipótesis planteadas en lost tres capítulos, las cuales han sido apoyadas teóricamente por estos tres enfoques y por evidencia empírica previa. Todas estas hipótesis han sido contrastadas utilizando la metodología más apropiada, según las evidencias empíricas previas y la literatura especializada en el tema analizado.

Los resultados de esta tesis doctoral contribuyen significativamente a la literatura previa sobre gobierno corporativo, proporcionando evidencia sobre qué efecto tienen los directores institucionales, directores institucionales sensibles a la presión y directores institucionales resistentes a la presión en decisiones tales como políticas de dividendos, divulgación de información sobre responsabilidad social corporativa y divulgación de información medioambiental. Nuestro trabajo tiene varias implicaciones importantes para los reguladores, los investigadores, los usuarios, los accionistas y todos los grupos de interés. Además, nuestros resultados también sugieren varias líneas de investigación futuras como el impacto que estos directores institucionales tendrían sobre las decisiones comentadas si fueran mujeres.

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INTRODUCCIÓN

Según Cadbury (1992), el gobierno corporativo se define como "el sistema mediante el cual las empresas son dirigidas y controladas". Por ello, el análisis de la composición de los consejos de administración es crucial a la hora de analizar la toma de decisiones empresariales. En consecuencia, autores como Shivdasani (1992) muestran que un importante mecanismo de gobierno corporativo es la composición de los consejos de administración, ya que dependiendo de qué consejeros formen parte de los mismos, las decisiones que tome la empresa en diferentes materias se verán orientadas hacia el corto o el lago plazo, entre otras.

En referencia al caso español, las características y la composición del gobierno corporativo son diferentes a las del mundo anglosajón (donde se han centrado la mayoría de los estudios). Por este motivo, es importante hacer mención a algunas de las características del gobierno corporativo en España como es la presencia de accionistas mayoritarios, una alta concentración de la propiedad y una alta concentración de la propiedad por ciertas familias, un nivel bajo de protección hacia los inversores, una escasa supervisión de los mercados financieros, un nivel de independencia débil de los consejos y, por último, tanto los consejeros ejecutivos como los no ejecutivos tienen presencia en los consejos de administración.

Por otra parte, España es el país con el mayor porcentaje de consejeros dominicales de toda la Unión Europea (40%). Por tanto, el estudio de estos consejeros y su efecto en las decisiones empresariales es crucial a la hora de analizar el

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comportamiento de los consejos de administración de las empresas cotizadas españolas. Estudios empíricos anteriores (Almazan, 2005; Ajinkya, 2005; García-Meca and Pucheta-Martínez, 2015; López-Iturriaga et al., 2015) demuestran que los consejeros dominicales ejercen una función de monitoreo y control sobre los directores de las empresas y, por tanto, juegan un rol importante en la reducción de costes de agencia.

Otro tipo de consejeros que ha cobrado importancia en la actualidad son los extranjeros. En este sentido, aquellas empresas que tenga intención de establecerse en otros países, pueden beneficiarse de los conocimientos sobre el mercado en cuestión de este tipo de consejeros. Algunos autores como Mishra (2014) demuestran que los directores extranjeros son más eficientes en términos de gobierno corporativo. Otros autores como Ramaswamy y Li (2001) evidencian que los consejeros extranjeros tienen un impacto positivo en la estrategia de la empresa. Por tanto, este tipo de directores puede afectar a la toma de decisiones empresariales de las empresas cotizadas españolas.

Esta tesis tiene como objetivo principal el análisis del efecto de la composición de los consejos de administración de las empresas cotizadas españolas en cierto tipo de decisiones empresariales. Para ello, se ha analizado cómo la composición de los consejos afecta a las decisiones de (1) repartir dividendos, (2) publicar información de RSC y (3) publicar información medioambiental. La muestra que se ha utilizado comprende a las empresas cotizadas en la bolsa de Madrid desde el año 2004 hasta el año 2012 en el caso del primer capítulo y desde el año 2004 hasta 2013 en los capítulos segundo y tercero. Para poder contrastar las hipótesis que se han planteado en los tres capítulos, se ha utilizado regresiones lineales y logísticas.

Con el objetivo de hacer el análisis mencionado anteriormente, esta tesis se ha dividido en tres capítulos.

En el primer capítulo se ha analizado cómo los consejeros extranjeros y los dominicales afectan a las políticas de dividendos de las empresas cotizadas españolas. En este sentido, autores como Díez de Foronda y Esteban (2001) muestran que uno de los mecanismos más importantes y efectivos para mitigar costes de agencia es el pago de dividendos, entre otras cosas porque es un mecanismo para controlar que los directivos de las empresas no usen ese capital para sus propios fines o proyectos. Con el propósito de alcanzar este objetivo, hemos revisado literatura académica previa de este tema y hemos analizado sus cuentas anuales y los informes de gobierno corporativo que anualmente las empresas cotizadas españolas están obligadas a publicar. La política de dividendos ha sido medida con (1) una variable dicotómica que toma el valor 1 si la compañía reparte dividendos y 0, en caso contrario y (2) el ratio entre dividendos anuales y el activo total. Aunque hay trabajos previos que analizan la composición de los consejos de administración y las políticas de reparto de dividendos, la gran mayoría están centradas en países anglosajones, cuya evidencia no puede aplicarse al caso español, debido a que las características de los consejos de administración son diferentes. Además, dado que los consejeros dominicales no son un grupo homogéneo, hemos distinguido entre consejeros dominicales sensibles a la presión y consejeros dominicales resistentes a la presión.

En el segundo capítulo nos hemos centrado en el análisis de cómo los consejeros dominicales afectan a la decisión empresarial de publicar información sobre RSC. Para ello, se revisaron las memorias de sostenibilidad y los informes anuales de las empresas de la muestra, además de revisar la página Web de la Global Reporting Iniciative (GRI),

donde las empresas de forma voluntaria publican información referente a RSC. En las últimas décadas, la investigación en materia de RSC ha aumentado mucho debido a que si las empresas quieren sobrevivir en el mercado, deben ser competitivas y, por tanto, no solo deben centrarse en el aspecto económico, sino que también deberán hacerlo en el social y el medioambiental. Uno de los principales motivos que podrían llevar a las empresas a preocuparse por estos aspectos viene explicada por la teoría de los grupos de interés, debido a que éstos pueden afectar directamente a la actividad de la empresa. En este sentido, las políticas de gobierno corporativo se han convertido en una herramienta importante a la hora de analizar decisiones empresariales de carácter económico, social y ambiental. En este sentido, hay estudios que analizan el efecto de los consejeros dominicales sobre la decisión de publicar información de RSC en otros países, no centrado en el caso español. También hay literatura previa que se centra en la publicación de información de RSC en empresas de un determinado sector. En este aspecto, este capítulo adquiere una especial importancia dado que se presenta un estudio mucho más completo que aporta una nueva medida de la información publicada sobre RSC, teniendo en cuenta todos los sectores de actividad y dividiendo a los consejeros dominicales en resistentes a la presión y sensibles a la presión.

Por último, el tercer capítulo analiza el efecto de consejeros dominicales en la decisión de publicar información medioambiental. En este sentido, se volvieron a revisar las memorias de sostenibilidad y los informes anuales de las empresas de la muestra y los informes colgados en la página Web de la GRI para comprobar si las empresas consideras en la muestra hacían referencia a (1) los objetivos en materia medioambiental, (2) el compromiso medioambiental de la empresa (3) la política medioambiental de la empresa (4) el sistema de gestión medioambiental, (5) el impacto medioambiental y (6) las mejoras

relacionadas con el impacto medioambiental. En este sentido, la literatura previa referente a este tema se centra únicamente en determinados sectores y la mayoría de ellos en países anglosajones. Por el contrario, esta tesis presenta un escenario más amplio, teniendo en cuenta todos los sectores de actividad empresarial, además de diferenciar entre los consejeros dominicales resistentes a la presión y los sensibles a la presión. Además, se utilizó un índice de creación propia para medir la información medioambiental publicada por las empresas cotizadas españolas.

CHAPTER 1
HOW FOREIGN AND INSTITUTIONAL DIRECTORSHIP AFFECTS CORPORATE DIVIDEND POLICY

1.1. INTRODUCTION

One of the most relevant financial and economic policies for both investors and managers is dividend policy, because it affects their interests and impacts on firm performance and on the economic and financial capacity of the company. The total of retained earnings and financing with private capital is reduced by dividend payment and, as a result, the investment financing decision and the earnings allocation priorities in companies will determine dividend policy. According to Jensen (1986) and Hwang, Kim, Park, and Park (2013), among others, the dividend payment reduces free cash flow at managers' disposal, prevents unprofitable projects, alleviates agency costs and decreases minority shareholder rights.

Therefore, this may explain why the payment of dividends is considered one of the most important and effective mechanisms to mitigate agency conflicts of interests within the company (Díez de Foronda and Esteban, 2001). In this sense, Rozeff (1982) evidences that dividend payments could be part of a corporate monitoring tool. In a similar manner, Easterbrook (1984) argues that dividends help reduce agency conflicts by exposing firms to more frequent monitoring by the primary capital markets, because paying dividends increases the probability that new common stock has to be issued. De

Angelo, De Angelo and Skinner (2004) find that firms with high cash and low debt capital structures paid dividends to mitigate the agency costs.

The board of directors is the link between shareholders and directors and one of its main roles is to reduce agency costs. In this respect, prior research suggests that board composition is an important corporate governance mechanism (Shivdasani, 1992). Among the different directors within the board composition, institutional investors, represented on boards by institutional directors, have been the most important controlling shareholders in countries like Spain, where the principal agency conflict has been based on the expropriation of minority shareholders' wealth by controlling shareholders. In fact, institutional directors play an important role in the Spanish context, because they represent 40 per cent of the directorship in firms, the highest presence in large companies among European countries (Heidrick and Struggles, 2011), compared with British firms, where these directors represent only two per cent. The academic literature demonstrates that institutional directors on boards play an important role in mitigating agency costs and in monitoring the management team (López-Iturriaga, García-Meca, and Tejerina-Gaite, 2015), along with their influence on leverage (David, Hitt, and Gimeno, 2001), financial reporting quality (Ajinkya, Bhojraj, and Sengupta, 2005) and firm performance (García-Meca and Pucheta-Martínez, 2015), among others. Furthermore, Gillan and Starks (2003) argue that the activism of institutional investors as a control mechanism has increased in recent years, which the theory suggests and the empirical evidence supports (Almazan, Hartzell, and Starks, 2005).

Foreign directors are also considered relevant members of the board since they can provide firms with valuable international expertise and advice. In this regard, Masulis, Wang, and Xie (2012) suggest that foreign directors provide region-specific

expertise that is helpful to cross-border acquirers in evaluating targets. According to García-Meca and Pucheta-Martínez (2015), foreign directors could provide valuable insights and assistance to companies, mainly to those companies that want to expand their activity internationally. Previous evidence (Lee and Park, 2006; Masulis et al., 2012) shows that foreign investors are more efficient in terms of corporate governance as well as in their impact on firm value (Mishra, 2014) or firm strategy (Ramaswamy and Li, 2001). Yon and Park (2006) also find that foreign directors prefer short-term performance since they demand high dividend payouts rather than ploughing the profits back into the firm. The OECD (2008) argues that, as a result of globalisation, it is much easier to incorporate foreign directors into companies.

Accordingly, given the importance of institutional and foreign directors on boards in allocating capital to firms, their involvement in firm governance (Lee and Park, 2006) and the role that they perform on corporate boards, an examination of how institutional and foreign directors sitting on boards affects the dividend policy of the company may provide new insights. Therefore, we aim to contribute to the growing literature on the role of institutional and foreign directors in corporate governance. Our study tries to fill this gap in the literature. To the best of our knowledge, we are the first to study the influence of institutional and foreign directors on dividend policies and to analyse the relationship between institutional directors on boards and dividend policies, differentiating between those who keep business relations with the firm of the board where they sit (pressure-sensitive institutional directors: banking institutions and insurance companies) and institutional directors whose business activity is not related to the company in which they hold a directorship (pressure-resistant institutional directors: mutual, pension and investment funds).

This paper contributes to the literature in different ways. Firstly, it clarifies the role of institutional directors on boards and their influence on dividend policies. Due to institutional directors behaving differently in Spain from the Anglo-Saxon environment and the important role that they play in the Spanish context, this research shows the extent to which dividend policies are affected by institutional directors. Secondly, our results suggest that institutional directors cannot be analysed as a homogeneous group due to the fact that pressure-sensitive institutional directors contribute positively to dividend policies, while pressure-resistant institutional directors do not have an impact. This finding is consistent with the thesis that pressure-sensitive institutional directors may contest the power of other controlling owners and dominant shareholders, which suggests that pressure-sensitive institutional directors may be more motivated to monitor the governance of the firms on whose boards they sit. Thus this result confirms that the type of institutional director is a key factor in a dividend policy. Thirdly, the results show that foreign directors on boards play a significant monitoring role, since they exert a positive impact on Spanish listed firms' dividend policy. Our paper provides evidence of the importance of having these directors on boards in the Spanish context, since they may help to mitigate agency problems and assist firms in growing internationally with their expertise and knowledge about other markets.

The paper is organised as follows. The next section describes the theoretical background and develops the hypotheses. The third section describes the institutional setting, the sample, methodology and variables used in the study; the fourth section analyses the findings, and the fifth and final section discusses the conclusions, the limitations inherent to this study and the future lines of research.

1.2. THEORETICAL BACKGROUND AND HYPOTHESES

According to agency theory, the separation between ownership and control of the firm generates information asymmetries between the parties (see Lee, Park, and Park, 2014), because the owners of a firm delegate power to managers to act on their behalf. This informational disadvantage between the two parties includes information about the firm's prospects, earnings and risk aversion, among others. Jensen and Meckling (1976) argue that information asymmetry between managers and shareholders might lead to agency costs. This gives rise to a conflict of interests between shareholders and managers; therefore, it becomes an agency problem, which makes investors pessimistic about future cash flows being absorbed. Managers take daily decisions about the firm's earnings, although they do not always adopt dividend policies that benefit the shareholders' interest, since they may choose a dividend policy that maximises their own private benefits. Grossman and Hart (1980) report that dividend payouts mitigate agency conflicts by reducing the amount of free cash flow available to managers. In the same vein, Jensen (1986) shows that the distribution of dividends reduces the free cash flow at managers' disposal, prevents unprofitable projects from being carried out and alleviates agency costs. Hwang et al. (2013) demonstrate that dividend payments reduce the amount of free cash flow, thus reducing minority shareholder rights.

Most prior research (Easterbrook, 1984; Firer, Gilbert, and Maytham, 2008; Jensen, 1986; Rozeff, 1982) draws on agency theory to examine the influence of dividend policies when there are conflicts of interest within companies. The payment of dividends is considered an effective mechanism for mitigating agency conflicts of interest within the firm (García-Meca and Tejerina-Gaite, 2014; Sedzro, 2010). In this sense, dividend policies are constructed on the understanding that they can be used as a corporate

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governance mechanism (Mancinelli and Ozkan, 2006). In addition, Grossman and Hart (1980) show how dividend payouts mitigate agency conflicts by reducing the amount of free cash flow available to managers. In a similar manner, Jensen (1986) reports that the distribution of dividends reduces the free cash flow at managers' disposal, prevents unprofitable projects from being carried out and alleviates agency costs. Hwang et al. (2013) demonstrate that dividend payments reduce the amount of free cash flow. In conclusion, there is a large theoretical and empirical investigation into how the corporate ownership structure influences financing, dividend and investment decisions.

Agency theory argues that board characteristics, particularly board composition, have an impact on dividend payouts. This theory also suggests that when companies pay dividends, insiders cannot use earnings to benefit themselves due to the fact that they return to investors (La Porta, Lopez-de-Silanes, Shleifer, and Vishny, 2000), while outside directors are more proactive in paying dividends because they may mitigate agency problems between managers and shareholders. In this sense, Dalton, Daily, Ellstrand, and Johnson (1998) argue that effective boards are composed of a high proportion of outside directors because they can provide more benefits due to their independence from the firm management.

Regarding outside directors on boards, the importance of institutional directors has increased in terms of corporate governance (García-Meca and Tejerina-Gaite, 2014). The academic literature has paid attention to the role of institutional investors when they act as shareholders (Gillan and Starks, 2003; Short, Zhang, and Keasey, 2002). However, little is known about the influence of institutional investors when they act as board directors, probably due to the scarce presence of these directors on US and UK boards, in which institutional directors appointed by institutional investors are less common.

Furthermore, the previous literature on the role of institutional investors in corporate governance (Bhojraj and Sengupta, 2003; Xiangqian, 2002) emphasises their monitoring role and their active behaviour in the corporate governance problems of companies. In this sense, institutional directors on boards, who represent institutional investors—considered as reference shareholders (they may or may not keep business relations in the company in which they invest)—play an essential role in maximising the benefits of their shareholders (García-Meca and Pucheta-Martínez, 2015). This view has led some institutional investors to give up their traditional passive role and become actively engaged in management activities, directly through their ownership and indirectly by trading their shares.

Agency theory argues that institutional directors may act independently from managers and may act as good monitors to protect the shareholders' interests, mitigating agency problems between shareholders and managers (Abd-Elsalam and El-Masry, 2008; Bhojraj and Sengupta, 2003; Colpan and Yoshikawa, 2012). Institutional investors have greater expertise and resources in companies and, consequently, they have strong incentives to monitor managers (Grossman and Hart, 1980; Shleifer and Vishny, 1997). Some previous research supports this hypothesis, as authors such as Charitou, Louca, and Panayides (2007), Wan-Hussin (2009) and Xie, Davidson and DaDalt (2003) show that institutional directors increase corporate transparency, publish unbiased or less biased information and reduce fraudulent accounting practices, among others. Hence, this perspective exposes a positive association between institutional directors on boards and dividend policies, because they play a complementary role in corporate governance mechanisms. This view is supported by the agency perspective, which hypothesises that institutional directors on boards have a positive impact on dividend payments, since they

demand dividends and force firms to the capital market for future funds to reduce the agency costs of the free cash flow. Institutional shareholders may help to counter the tendency for managers to prefer the excessive retention of cash flow; hence they force managers to pay out dividends (Eckbo and Verma, 1994). Thus, institutional directors can monitor the company and influence the amount of dividends paid. Chen, Firth, Gao and Rui (2005) report that dividend payouts have been used by controlling or institutional shareholders as a way of extracting resources from the firms that they control. Zeckhauser and Pound (1990) established a framework for boards and dividend policies, suggesting that institutional shareholders may act as a substitute monitoring device, reducing the need for external monitoring by capital markets.

A large number of previous studies provide evidence that institutional ownership contributes to increased dividend payouts (e.g. Abd-Elsalam and El-Masry, 2008; Farinha, 2003; Han, Lee, and Suk, 1999; Short et al., 2002; Van Pelt, 2013). Furthermore, Al-Kuwari (2012), Faccio and Lasfer (2000), Gugler (2003) and He and Xinran (2012), among others, demonstrate that institutional directors on boards are more likely to pay dividends, reducing agency problems.

Therefore, based on the above arguments, we predict that institutional directors on boards will increase dividend payouts. Thus, we posit the following hypothesis:

H1: Institutional directors on boards are positively associated with dividend payments.

According to Almazan et al. (2005), institutional directors on boards may not be able or equally willing to serve the decision-making process of boards. Accordingly, prior research argues that maintaining business relationships with the company may

significantly influence the incentive and preferences of the institutional investors to control the corporate decisions. Authors such as Agrawal and Mandelker (1990), Almazan et al. (2005), Borokhovich, Brunarski, Harman, and Parrino, (2006), Ferreira and Matos (2008), Hartzell and Starks (2003) and Ramalingegowda and Yu (2012) show that institutional investors have different positions towards profitability, anti-takeover amendments, R&D investment decisions, CEO remuneration and earnings management, among others. Thus, this evidence suggests that some institutional investors prefer to choose information gathering and short-term trading profits, whereas others monitor firms and exert their influence on managers (Elyasiani, Jia, and Mao, 2010). According to Bennett, Sias, and Starks (2003), among institutional investors, there are not only legal differences but also differences in terms of their investment strategy and their incentives and resources to gather information and to engage in the governance of firms.

Therefore, institutional investors cannot be considered as a monolithic group due to their different abilities and incentives to engage in corporate governance (Almazan et al., 2005; Jara-Bertin, López-Iturriaga, and López-de-Foronda, 2012). Thus, two groups of institutional investors on boards can be differentiated according to their business objectives: pressure-resistant and pressure-sensitive institutional directors (Bhattacharya and Graham, 2007; Dong and Ozkan, 2008; Zeckhauser and Pound, 1990). Johnson, Schnatterly, Johnson, and Chiu (2010) argue that the reduction of agency costs by institutional investors may depend not only on their ability to influence, but also on their incentive to monitor managers. Pressure-resistant institutional investors (mutual funds, investment funds, pension funds and venture capital firms) only keep an investment relationship with companies in which they own shares. These directors may have a passive role due to the free-rider problem, which is consistent with entrenchment theory

(López-Iturriaga and Rodriguez-Sanz, 2001) and the expropriation hypothesis (Lee and Yeh, 2004). In contrast, pressure-sensitive institutional investors (insurance companies and banks) are likely to keep both investment and business relationships with companies. They have a substantial influence in European countries, where the main conflict of agency is the expropriation of the wealth of minority shareholders by a majority or significant shareholders. For this reason, they play a very important role on boards due to the fact that they can offset the weak protection that the law provides for minority investors, and they may then mitigate agency problems.

Regarding pressure-sensitive institutional investors (banks and insurance companies), who keep an investment and business relationship with the company whose board they sit on, prior literature (Booth and Deli, 1999; Dittmann, Maug, and Schneider, 2010; Kroszner and Strahan, 1999; Rosenstein and Wyatt, 1997) shows that they may mitigate agency costs, provide financing for the firm and reduce the cost of borrowing by monitoring the lending relationship between their firm and the firm whose board they sit on, among others. This evidence is in line with the view that pressure-sensitive directors may play an active role in monitoring and in the firm's governance (García-Meca and Tejerina-Gaite, 2014; Kaplan and Minton, 1994; Morck and Nakamura, 1999).

Banks are usually the main providers of external financing and keep close relationships with non-financial companies. Thus, it is much easier to obtain finance when financial institutions are present as directors on boards. When banks—the most important type of pressure-sensitive institutional investor—are creditors and shareholders of companies, they can perceive that this double role gives them more information than other types of shareholder; therefore, they may use this information in their own interest (Fernández, 2001; Gorton and Schmid, 2000). Additionally, Booth and Deli (1999)

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suggest that commercial banks sitting on boards can supply bank debt market expertise, and Fama (1985) argues that the control costs incurred by banks are lower than those faced by other institutional investors because they can identify the risks better.

Consequently, pressure-sensitive investors may be interested in contesting the power of other controlling shareholders and avoiding collusion among other large shareholders, because the cost of extracting private benefits may be higher due to the fact that these institutional investors are under stricter scrutiny by regulatory bodies (Maury and Pajuste, 2005). Thus, as the presence of pressure-sensitive institutional investors on boards increases, they will have more influence and ability to contest the power of controlling owners and dominant shareholders, enhancing firm performance (Bloch and Hege, 2001; Gomes and Novaes, 2005), which suggests that pressure-sensitive institutional directors may be more motivated to monitor the governance of the firms whose boards they sit on. This view is consistent with the supervision (contest) hypothesis between pressure-sensitive institutional directors and firm value, which can be measured through profitability; as a result, profitability and the dividend policy are linked because if a company pays dividends, it is because it is profitable and, consequently, the company is showing to shareholders and potential investors that it is creating value (Ouma, 2012). Signal theory also supports this view, arguing that pressure-sensitive institutional directors such as financial companies give a positive sign to the market, providing firm solvency (García-Meca and Tejerina-Gaite, 2014). Therefore, we can argue that due to the fact that pressure-sensitive institutional directors have a positive relationship with firm value, they may also have a positive effect on dividend payments. In this sense, authors such as Allen, Gottesman, Saunders, and Tang (2012) and Easterbrook (1984), among others, report that pressure-sensitive directors are positively associated with

dividend payouts, and, accordingly, may mitigate agency problems. Thus, we posit that pressure-sensitive institutional directors on boards will have a positive impact on dividend payments, since they should be more engaged with financial benefits and the shareholders whose interests they represent.

Pressure-resistant institutional directors (investment, mutual and pension funds), according to Ersoy-Bozcuk and Lasfer (2000) and Jensen and Meckling (1976), may be passive and their role in monitoring managers may be ineffective because they prefer not to monitor actively the managers of a company in which they have invested because of the free-rider problem or because they do not have the capability (Faccio and Lasfer, 2000; Goergen, Renneboog, and Zhang, 2008; Gorton and Kah, 1999). By controlling coalitions formed between pressure-resistant institutional directors and other shareholders, and creating corporate groups to extract private benefits, they will entrench themselves and take absolute control of firms; as a result, they will have a negative effect on dividend payments and, accordingly, agency problems may arise. This is consistent with the expropriation (collusion) and entrenchment hypotheses (Lee and Yeh, 2004; López-Iturriaga and Rodríguez-Sanz, 2001), which argue that the creation of expropriating alliances with dominant shareholders will be negatively associated with firm value (Pinto, 2006) and, consequently, the dividend payments will be reduced.

Sherman, Beldona, and Joshi (1998) report that pressure-resistant institutional directors, especially pension funds, may limit firms' ability to sell their stocks. If this happens, the price per share may descend drastically and may provoke substantial losses for the firm and, as a result, the likelihood of the company paying dividends will reduce. In addition, the OCDE (2011) argues that in Australia a large number of institutional investors, such as pension funds, are passive. Therefore, it is

expected that this type of institutional director fails in its role as a monitor of managers, which could reduce the likelihood of the company paying dividends. According to Wahal (1996), while pressure-resistant institutional directors may have a positive impact on managers, and they may, therefore, provoke changes in corporate governance, these changes do not necessarily lead to improved firm performance and, consequently, they will not encourage the firm to pay dividends either. Additionally, Joh (2002) argues that in developing countries, pressure-resistant institutional investors do not have any incentive to monitor the management due to the fact that firms are largely controlled by governments.

Finally, and according to Clifford (2008), although academic theory suggests that blockholders, particularly pressure-resistant, might be able to overcome the free-rider problem, previous research (Gorton and Kah, 1999) shows that the behaviour of some pressure-resistant blockholders, such as pension and mutual funds, is not always consistent with this theory. This idea is supported by Grossman and Hart (1980), who report that small pressure-resistant institutional directors may not have incentives to monitor managers; thus, the free-rider problem may arise.

This evidence suggests that pressure-resistant institutional directors do not accomplish the monitoring role well because, as managers, they have a general preference for internal funds over paying dividends, since this leaves more funds at their disposal (Pinkowitz, Stulz, and Williamson, 2006). In this sense, Jiao and Ye (2013) argue that pressure-resistant institutional investors may also align themselves with incumbent managers due to strategic alliances, thus leading to a decline in corporate monitoring. Additionally, the weaker legal protection for investors in the Spanish corporate governance system encourages pressure-resistant institutional directors to control and

dominate corporate groups (Ali, Chen, and Radhakrishnan, 2007) and to create alliances with other large shareholders. Accordingly, we posit that pressure-resistant institutional directors on boards will have a negative impact on dividend payments because they may enjoy the private benefits of control and they are less motivated to monitor their governance.

Thus, according to the above perspectives, we pose our second hypothesis in a dual way:

H2a: Pressure-sensitive directors on boards are positively associated with dividend payments.

H2b: Pressure-resistant directors on boards are negatively associated with dividend payments.

Prior research (Hillman, Cannella, and Paetzold, 2000) pays attention to directors' backgrounds and characteristics beyond independence. In this sense, nationality (foreign directors) appears to be an important dimension of board diversity, particularly in Europe (Oxelheim and Randoy, 2003; Ruigrok, Peck, and Tacheva, 2007), while gender diversity, ethnicity and race are increasing on North American boards (Carter, Simkins, and Simpson, 2003; Erhardt, Werbel, and Shrader, 2003). The number of firms that want to grow internationally is becoming high (Masulis et al., 2012), which is more important in countries with weak governance standards because foreign directors are likely to export their standards and apply them to the firm in which they hold a directorship.

According to agency theory, adding outside directors, such as foreign directors, to the board may reduce information asymmetry and the associated agency costs, improve the financial flexibility of domestic firms by increasing the pool of potential investors and financing opportunities, and expand the cross-border flow of knowledge, experience and technology of other countries (Fogel, Lee, Lee, and Palmberg, 2013); therefore, they would be more capable of monitoring and evaluating the strategic direction of the top management team (Fama and Jensen, 1983).

The academic literature argues that foreign directors' input exceeds financial contributions and extends to the provision of managerial expertise and technical collaboration, so increasing creativity and innovation. Additionally, authors such as Kim and Eum (2008) and Shin, Lee, and Chang (2004) report that foreign directors lead to more efficient management in terms of enhancing corporate governance. In this respect, foreign directors use board membership as a channel to monitor the management and can also be considered as independent from large shareholders and the management, because foreign investors are not part of the traditional domestic cronyism that exists through regionalism (Choi, Sul, and Kee Min, 2012). Foreign directors provide heterogeneity of experiences, ideas and points of view, among others (Ezat and El-Masry, 2008; Samaha, Dahawy, Hussainey, and Stapleton, 2012). This thesis is also supported by Choi et al. (2012) and Oxelheim and Randoy (2003), who argue that directors of different nationalities may offer expertise that is missing in the managerial atmosphere and may signal that firms with this kind of director are applying an advanced governance structure.

Theories from social psychology, economics and organisation behaviour provide some understanding of the nature of the link between national minority diversity of the board and dividend payouts. In this sense, Ajinkya et al. (2005) show that foreign

directors are usually minority shareholders and are, therefore, more likely to be dependent on an effective corporate governance structure—that is, they will prefer to pay dividends to minimise the risk associated with managers. Liljeblom and Pasternack (2006) find that in Finland, foreign ownership is positively associated with share repurchases and dividend payments. Kumar (2006) and Manos (2003) report that foreign ownership has a positive effect on dividend payouts. Baba (2009) demonstrates that a higher level of foreign ownership is associated with a significantly higher probability of dividend payouts. Jeon, Lee and Moffett (2011) provide evidence that foreign investors show a preference for firms that pay high dividends. When they have substantial shareholdings, foreign investors lead firms to pay more dividends.

Accordingly, this evidence seems to support the thesis that foreign directors help to increase dividend payments due to their monitoring role, as well as the assertion that foreign directors have a positive impact on dividend payouts because they possess better financial and technological resources and experience than local investors (Huang and Shiu, 2009), and can transfer these attributes to the firms (Romalis, 2011). Thus, most of the previous research about diversity shows that traditional forms of task-related diversity are often related to positive cognitive and signalling consequences (e.g. creativity, innovation or a better image).

Hence, a solid link between foreign directors and dividend payments is a realistic possibility supported by a set of interdisciplinary theories. Thus, based on the above perspectives, we hypothesise that foreign directors have a positive effect on dividend payouts, and therefore, we posit the following hypothesis:

H3: Foreign directors on boards are positively associated with dividend payments.

1.3. EMPIRICAL DESIGN

1.3.1. INSTITUTIONAL SETTING

Spain has undergone both legal and institutional changes to enhance the level of protection of minority shareholders and the transparency of firms. Consequently, several corporate governance codes have been issued: the Olivencia Report in 1998, the Aldama Code in 2003 and the Unified Good Governance Code (CUBG) in 2006, also known as the Conthe Code. The Conthe Code (2006) is addressed to all listed companies independently of their size and capitalization, which recommends that one competence of the board should be to approve the dividend policy and especially its boundaries.

The Spanish institutional setting is similar to the French and Italian structures because they are built in a common legal environment, but it is different from the Anglo-Saxon framework. In this vein, the Spanish corporate governance system is characterised by the presence of large shareholders on boards, low independence of boards, a low level of development of capital markets, no active market control, high ownership concentration and family ownership, a one-tier board system (all directors, executives and non-executives form one board), a low level of legal protection of investors and pyramidal groups. The problem of the expropriation of minority shareholders' wealth by controlling shareholders is due to the pyramidal groups typical of most large Spanish firms, because minority shareholders are not well represented. According to De Miguel, Pindado, and De La Torre (2004), the insufficient development of capital markets and

some legal loopholes explain why Spain shows larger levels of ownership concentration in comparison with other countries, such as Germany, Japan or the UK.

The high ownership concentration of Spanish listed firms explains why controlling or dominant shareholders take important positions on boards and exert a strong influence on the management. In fact, in Spain, in contrast with the US and the UK, the monitoring role of boards is not played by independent directors, but by directors who represent controlling shareholders (García and Gill De Albornoz, 2007). Institutional investors are among the most important controlling shareholders in Europe, especially in Spain, where they have a significant influence on corporate governance (Crespí, García-Cestona, and Salas, 2004). Therefore, Spain provides a good scenario to examine the role played by institutional directors since Spain is the European country with the highest proportion of institutional investors on boards. Concretely, in Spain, 40 per cent of the board directors are appointed by institutional investors (Heidrick and Struggles, 2011). Most of the controlling shareholders of Spanish listed firms are large banks, which take important positions on boards. Spain has a financial system in which the presence of banks has been significant and important not only as creditors, but also as shareholders and directors on firms' boards, since the capital markets are less liquid, unlike the UK and the US, where the financial markets play an important role. In fact, the banking system is one of the cornerstones of the Spanish economy and has contributed to economic growth and business development.

The role of foreign directors on boards is also crucial because they can provide international expertise that is useful for making international strategic decisions in the firm (García-Meca and Pucheta-Martínez, 2015) and can provide a clear signal of the firm's intention to expand internationally. In other words, directors with a foreign

education and background may be more motivated to look at international opportunities in a favourable way. Foreign directors possess unique knowledge and an understanding of various overseas strategic markets, which may become invaluable. Top managers may have information that owners do not have or do not understand, and foreign directors are quite likely to have different levels of knowledge of company strategies. In this vein, the Spencer Stuart Index (2014) highlights the need to incorporate more foreign directors into boards. The percentage of foreign directors on European boards is, on average, 24 per cent, accounting for 10 per cent on Spanish boards. The Spanish firms with the largest number of foreign directors are those of which the significant shareholders are foreign companies and which are trying to grow internationally.

1.3.2. SAMPLE

The sample for the panel data analysis comprises non-financial firms listed on the Madrid Stock Exchange during the period 2004–2012. We exclude financial companies both because they are under special scrutiny by financial authorities that constrain the role of their board of directors and because of their special accounting practices. The data are obtained from the Public Register of the Spanish Securities Market Commission (CNMV), from the Sistemas de Análisis de Balances Ibéricos (SABI) database and from the corporate and annual reports that all listed companies have been required to publish since 2003.

We build an unbalanced panel of 947 firm-year observations. The panel is unbalanced because during this time period some firms became public and other firms delisted as a consequence of mergers and acquisitions. Nevertheless, the estimations

based on unbalanced panels are as reliable as those based on balanced panels (Arellano, 2003).

1.3.3. VARIABLES

The dependent variable, dividend policy (DP), is calculated in two ways: (1) DIVDECISION and (2) DIVASSETS. In Table 1 we describe how these two variables have been measured, as well as the description of all independent and control variables used in this analysis.

TABLE 1. Variable Description

Variables	Description	Expected Sign
Dependent		
DIVDECISION	Dummy variable that takes the value of 1 if the company pays dividends and 0, otherwise	
DIVASSETS	Ratio between the annual cash dividends and total assets	
Independent		
INST	Ratio between the total number of institutional directors on board and the total number of directors on board	+
RESIST	Ratio between the total number of pressure-resistant institutional directors on board and the total number of directors on board	-
SENSIT	Ratio between the total number of sensitive-resistant institutional directors on board and the total number of directors on board	+
FOREIGN	Ratio between the total number of foreign directors on board and the total number of directors on board	+
Control		
WOMEN	Ratio between the total number of female directors on board and the total number of directors on board	+
OWNCON	The ownership concentration in the firm	-
OWNMANG	Percentage of shares held by directors	-
OWNEXEC	Percentage of shares held by executive directors on board	+/-
LEV	Ratio of book value of debt over total assets	-
ROA	Ratio of earnings before interest and taxation (EBIT)/ Total book assets	+
GROWTH	The rate of assets growth	+/-
SIZE	Log of total assets	+
D_CRISIS	Dummy variable: 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise	-

The following model was estimated in order to test the hypotheses.

$$DP = \alpha + \beta_1\ INST_{it} + \beta_2 \cdot SENSIT_{it} + \beta_3 \cdot RESIST_{it} + \beta_4 \cdot FOREIGN_{it} + \beta_5\ WOMEN_{it} + \beta_6 \cdot OWNCON_{it} + \beta_7 \cdot OWNMANG_{it} + +\beta_8 \cdot OWNEXEC_{it} + \beta_9 \cdot LEV_{it} + \beta_9 \cdot ROA_{it} + \beta_{10} \cdot GROWTH_{it} + \beta_{11} \cdot SIZE_{it} + \beta_{12} \cdot D\_CRISIS_{it} + \mu_i + \mu_t + \varepsilon_{it}$$

Firm fixed and year fixed effects have been also controlled. Firm fixed effects aim to capture non-observable and constant characteristics of the companies that are potentially correlated with the dependent variable. We consider firm and year fixed effects to control for year- and firm-specific effects on dividend policies.

1.4. RESULTS

1.4.1. DESCRIPTIVE STATISTICS

Table 2 shows the descriptive statistics of the variables. As can be appreciated, the data show that 55.76 per cent of the companies decided to pay dividends (DIVDECISION) and the ratio between the annual cash dividends and the total assets (DIVASSETS) is, on average, 2.66. Institutional directors (INST) account for 30.42 per cent of the directorship on boards, and the proportion of resistant (RESIST) and sensitive (SENSIT) institutional directors is 23.24 per cent and 7.18 per cent, respectively. The percentage of foreign directors (FOREIGN) sitting on boards, on average, is 6.01 per cent and the percentage of female directors on boards (WOMEN) is, on average, 7.50 per cent. The ownership concentration (OWNCON) represents 24.78 per cent, the management ownership (OWNMANG) accounts for 27.14 per cent and the percentage of shares held by executive directors on boards (OWNEXEC) represents 9.84 per cent. The level of leverage (LEV) is, on average, 53.31 per cent, the return on assets (ROA) is 3.18 per cent, the rate of assets growth (GROWTH) is 23.13 per cent and the size firm (SIZE) is 13.16 (log of total assets in thousands of Euros). Finally, 58 per cent of the examined period (2004–2012) runs from 2008 to 2012 (crisis period).

TABLE 2. Main descriptive statistics

a) Continuos Variables

	N	Mean	Std. Dev.	Perc. 25	Perc. 50	Perc. 75
DIVASSETS	947	2.660	5.041	0.000	1.000	3.000
INST	947	30.423	23.617	13.000	27.000	47.000
RESIST	947	23.240	23.491	0.000	17.000	38.000
SENSIT	947	7.180	12.655	0.000	0.000	11.000
FOREIGN	947	6.010	12.914	0.000	0.000	7.000
WOMEN	947	7.510	8.305	0.000	6.200	11.950
OWNCON	947	24.777	22.342	8.830	17.370	34.960
OWNMANG	947	27.139	26.676	1.390	19.060	51.060
OWNEXEC	947	9.841	18.410	0.000	0.180	12.160
LEV	947	53.310	28.535	33.000	55.000	70.000
ROA	947	3.180	14.061	-1.000	3.000	8.000
GROWTH	947	23.130	14.179	-4.000	4.000	16.000
SIZE	947	13.159	1.889	11.760	12.960	14.450

b) Dummy variables

	0	0%	1	1%
DIVDECISION	419	44.24%	528	55.76%
D_CRISIS	398	42.00%	549	58.00%

1.4.2. MULTIVARIATE ANALYSIS

In Table 3, we provide the correlation matrix to test for multicollinearity. The correlation between most of the pairs is low, generally below 0.3. None of the correlation coefficients is high enough (>0.80) to cause multicollinearity concerns (see Archambeault and Dezoort, 2001; Carcello and Neal, 2000), except for the pairs INST and RESIST and DIVDECISION and DIVASSETS, which is not a problem because these pairs do not interact in any regression. Therefore, we can conclude that the models are free of multicollinearity problems. The variance inflation factors (VIFs) are also calculated and reported in Table 3, and none is as high as to indicate multicollinearity problems (see

Neter, 1985), since all the values are below 10, which is generally used as a critical threshold, according to Haan (2002).

TABLE 3. Correlation Matrix

	VIF	DIVDECISION	DIVASSETS	INST	SENSIT	RESIST	FOREIGN	WOMEN	OWNCON	OWNMANG	OWNEXEC	LEV	ROA	GROWTH	SIZE	D_CRISIS
DIVDECISION	1.560	1														
DIVASSETS	1.620	0.850***	1													
INST	9.640	0.069**	0.056*	1												
SENSIT	2.910	0.139***	0.108***	0.244***	1											
RESIST	9.110	-0.028	-0.039	0.849***	-0.252***	1										
FOREIGN	1.150	0.029	0.133***	0.122***	0.103***	0.086***	1									
WOMEN	1.130	0.030	0.030	0.083**	-0.017	0.098***	-0.023	1								
OWNCON	1.180	0.081**	0.061*	0.125***	-0.106***	0.150***	0.072**	-0.049	1							
OWNMANG	1.790	-0.147***	-0.187***	0.115***	-0.041	0.189***	-0.118***	0.123***	-0.277***	1						
OWNEXEC	1.700	-0.045	-0.054	-0.216***	-0.074**	-0.106***	-0.014	0.100	-0.163***	0.491***	1					
LEV	1.350	-0.088*	-0.146*	0.139***	-0.008	0.158***	0.015	0.009***	0.064**	0.150***	0.050	1				
ROA	1.580	0.566***	0.649***	-0.074**	0.002	-0.115***	0.044	-0.070**	0.033	-0.154***	-0.036	-0.265***	1			
GROWTH	1.020	0.002	-0.015	-0.059**	-0.017	-0.070**	-0.047	-0.045	0.043	0.002	0.042	-0.052	0.058*	1		
SIZE	1.510	0.321***	0.292***	0.151***	0.249***	0.006	0.219***	0.122***	0.235***	-0.254***	-0.231***	0.332***	0.084***	-0.015	1	
D_CRISIS	1.190	-0.189***	-0.165***	0.158***	0.010	0.162***	0.056*	0.237***	0.027	0.041	-0.022	0.143***	-0.208***	-0.152***	0.092***	1

VIF is the variance inflation factors; DIVDECISION is a dummy variable that takes the value of 1 if the company pays dividends and 0, otherwise; DIVASSETS is the ratio between the annual cash dividends and total assets; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board; OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * $p<0.1$; **$p<0.05$; ***$p<0.01$

In Table 4, we present the estimates of the linear regression for all the hypotheses when the dependent variable is DIVDECISION, which takes the value one if the firm pays dividends and zero otherwise. As can be appreciated, four models are built. In model 1, we analyse the influence of institutional directors on the decision to pay dividends; in models 2 and 3, the effect of pressure-resistant and pressure-sensitive institutional directors on the decision to pay dividends, respectively; and finally, in model 4, the influence of foreign directors on the dividend policy.

As predicted, the findings for model 1 are in line with hypothesis 1, because the variable percentage of institutional directors on boards has a positive impact on the decision to pay dividends ($p<0.01$). Our result supports the thesis that institutional directors on boards play an active monitoring role of managers because they prefer actively to monitor the managers of the firm in which they have invested, avoiding managers retaining profits instead of paying dividends (Eckbo and Verma, 1994). In the same vein, authors such as Abd-Elsalam and EI-Masry (2008), Farinha (2003), Han et al. (1999), Short et al. (2002) and Van Pelt (2013) show that institutional ownership contributes to increasing dividend payouts.

TABLE 4. Regression models when the dependent variable is DIVDECISION

Variables	Expected Sign	Model 1 Estimated coefficient (p.value)	Model 2 Estimated coefficient (p.value)	Model 3 Estimated coefficient (p.value)	Model 4 Estimated coefficient (p.value)
INST	+	1.085*** (0.007)			
RESIST	-		0.932 (0.146)		
SENSIT	+			0.781** (0.052)	
FOREIGN	+				0.103* (0.096)
WOMEN	+	0.347** (0.039)	0.391** (0.021)	0.337** (0.045)	0.371** (0.027)
OWNCON	+	-0.002 (0.561)	-0.000 (0.978)	-0.002 (0.460)	-0.001 (0.748)
OWNMANG	-	-0.003 (0.468)	0.008 (0.813)	-0.001 (0.681)	0.001 (0.752)
OWNEXEC	+/-	-0.005 (0.394)	-0.009* (0.064)	-0.006 (0.226)	-0.009** (0.052)
LEV	-	-0.845** (0.032)	-0.742* (0.055)	-0.845** (0.033)	-0.768** (0.049)
ROA	+	1.071*** (0.000)	1.069*** (0.000)	1.053*** (0.000)	1.054*** (0.000)
GROWTH	+/-	-0.032 (0.389)	-0.033 (0.396)	-0.032 (0.397)	-0.033 (0.404)
SIZE	+	0.501*** (0.000)	0.492*** (0.000)	0.518*** (0.000)	0.508*** (0.000)
D_CRISIS	-	-0.733*** (0.000)	-0.700*** (0.000)	-0.734*** (0.000)	-0.709*** (0.000)

DIVDECISION is a dummy variable that takes the value of 1 if the company pays dividends and 0, otherwise; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board**;** OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * p<0.1; **p<0.05; ***p<0.01

In models 2 and 3 of Table 4, we differentiate between pressure-resistant and pressure-sensitive directors on boards, respectively. The findings, contrary to our expectations, do not report different roles for pressure-resistant directors and pressure-sensitive directors. Both types of directors show a positive influence on the decision to pay dividends, but only the effect of pressure-sensitive directors is statistically significant ($p<0.10$). According to these findings, hypothesis H2a cannot be rejected, but hypothesis H2b has to be rejected. Thus, these results support the thesis that the positive impact of institutional directors on boards on dividend policies is driven by pressure-sensitive directors (banks and insurance companies). Our findings are supported by Allen et al. (2012) and Easterbrook (1984), among others, who show that pressure-sensitive directors are positively associated with dividend payouts and, consequently, agency problems may be mitigated. This evidence is in line with the view that pressure-sensitive directors play an active role in monitoring and in the firm's governance (García-Meca and Tejerina-Gaite, 2014; Kaplan and Minton, 1994; Morck and Nakamura, 1999), and is also consistent with the supervision (contest) hypothesis and with signal theory.

Finally, our findings show the positive effect of foreign directors on boards on dividend policies, which supports the third hypothesis ($p<0.10$). Our results are consistent with Ajinkya et al. (2005) and Liljeblom and Pasternack (2006), among others, who report a positive relationship between foreign directors and dividend policy. Due to its monitoring role and the fact that they possess better financial and technological resources and experience than local investors (Huang and Shiu, 2009) and can transfer these attributes to the firms (Romalis, 2011), foreign directors are more likely to influence dividend policies positively.

The results are also confirmed for female directors. As expected, female directors on boards exert a significant effect on the decision regarding paying dividends. This result is in line with previous studies such as those by Knyazeva, Knyazeva, and Raheja (2009) and Wellalage, Locke, and Scrimgeour (2012), among others, who demonstrate that female directors on boards will be more likely to pay dividends, due to the fact that they can mitigate agency costs and the opportunistic behaviour of the management.

As regards the control variables, leverage (LEV), return on assets (ROA), firm size (SIZE) and the period extending from 2008 to 2012 (period for the crisis) (D_CRISIS) exhibit the expected sign, and they are statistically significant. The variable proportion of shares held by executive directors on boards (OWNEXEC) shows a negative sign, but it is only statistically significant for models in which the effect of pressure-resistant and foreign directors is analysed. Finally, the remaining variables lack significance.

In Table 5, we present the estimates of the linear regression for all the hypotheses when the dependent variable is DIVASSETS, measured as the ratio between annual cash dividends and total assets. Four models are also built. In model 1, we analyse the influence of institutional directors on DIVASSETS; in models 2 and 3, we examine the effect of pressure-resistant and pressure-sensitive directors, respectively, on DIVASSETS; and finally, in model 4, we analyse the impact of foreign directors on DIVASSETS.

In line with the first hypothesis, our results for model 1 show that the variable percentage of institutional directors on boards has a positive impact on the ratio DIVASSETS. This finding supports the agency perspective, which hypothesises that

institutional directors on boards influence dividend payments positively, since they will demand dividends and force firms to the capital market for future funds to reduce the agency costs of the free cash flow. This perspective is supported by authors such as Abd-Elsalam and El-Masry (2008), Brickley, Lease, and Smith (1988) and Colpan and Yoshikawa (2012), who posit that these directors may act independently from managers and may act as good monitors to protect the shareholders' interests, mitigating the agency problems between shareholders and managers.

TABLE 5. Regression models when the dependent variable is DIVASSETS

Variables	Expected Sign	Model 1 Estimated coefficient (p.value)	Model 2 Estimated coefficient (p.value)	Model 3 Estimated coefficient (p.value)	Model 4 Estimated coefficient (p.value)
INST	+	0.032*** (0.002)			
RESIST	-		0.027 (0.213)		
SENSIT	+			0.022** (0.035)	
FOREIGN	+				0.075*** (0.000)
WOMEN	+	0.009** (0.050)	0.009** (0.040)	0.008* (0.058)	0.010** (0.021)
OWNCON	+	-0.000 (0.239)	-0.000 (0.681)	-0.000 (0.217)	-0.000 (0.200)
OWNMANG	-	-0.000 (0.263)	-0.000 (0.959)	-0.000 (0.403)	0.000 (0.601)
OWNEXEC	+/-	0.000 (0.620)	-0.000 (0.659)	0.000 (0.893)	-0.000 (0.392)
LEV	-	-0.030*** (0.008)	-0.027** (0.018)	-0.030*** (0.007)	-0.029*** (0.009)
ROA	+	0.414*** (0.000)	0.418*** (0.000)	0.416*** (0.000)	0.402*** (0.000)
GROWTH	+/-	0.001 (0.678)	0.001 (0.647)	0.001 (0.663)	0.001 (0.501)
SIZE	+	0.011*** (0.000)	0.010*** (0.000)	0.011*** (0.000)	0.011*** (0.000)
D_CRISIS	-	-0.175*** (0.000)	-0.164*** (0.000)	-.0175*** (0.000)	-0.168*** (0.000)

DIVASSETS is the ratio between the annual cash dividends and total assets; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board; OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * $p<0.1$; **$p<0.05$; ***$p<0.01$

In models 2 and 3, we distinguish between pressure-resistant and pressure-sensitive directors on boards, respectively. Contrary to our expectations, the findings do not indicate different roles for pressure-resistant directors and pressure-sensitive directors. Our results report that both types of director show a positive influence on the variable DIVASSETS, but only the effect of pressure-sensitive institutional directors is statistically significant ($p<0.05$), as shown in Table 5. According to these findings, hypothesis H2a cannot be rejected, while hypothesis H2b has to be rejected. Therefore, our results support the view that the positive impact of institutional directors on boards on the dividend policy is driven by pressure-sensitive directors. In this sense, Maury and Pajuste (2005) demonstrate that pressure-sensitive institutional directors may be interested in contesting the power of other controlling shareholders and so avoiding collusion among other large shareholders. Thus, these directors may be more motivated to monitor the governance of firms, and as a result, they ensure the welfare of the company and exert a positive impact on the dividend policy.

Finally, the findings in model 4 show the positive effect of foreign directors on boards on dividend policies, which support the third hypothesis. This result is consistent with Baba (2009), Fogel et al. (2013) and Li (1994), who find that foreign directors may reduce information asymmetry and the associated agency costs, and improve the financial flexibility of domestic firms. Consequently, it is logical to assume that this kind of director will have a positive effect on firm value and, as a consequence, the impact on the dividend policy will be positive, as Jeon et al. (2011) report.

As we expected, the results also confirm the positive role of female directors on dividend policies. This finding is in line with previous studies such as those by Byoun and Xu (2013), Harjoto, Laksmana, and Yang (2014), Knyazeva et al. (2009), Van Pelt

(2013), Wellalage et al. (2012) and Ye, Zhang, and Rezaee (2010), who predict that female directors on boards will have a positive effect on the demand for corporate governance mechanisms such as dividend payments.

Concerning the control variables, leverage (LEV), return on assets (ROA), firm size (SIZE) and the period extending from 2008 to 2012 (period for the crisis) (D_CRISIS) provide the predicted sign, and they are statistically significant. The rest of the control variables are not significant.

The potential endogeneity between institutional and foreign directors and dividend policies is also considered. We wonder whether these directors lead to high dividend payments or companies with high dividend payouts attract these directors to their boards. The causality between dividend payments and these directors is more probably in the direction from directors to dividends, but it is also likely that the dividend payments may impact on board composition. We have addressed this concern by bringing lagged independent variables into our regressions. The findings for the model where the dependent variable is DIVDECISION are reported in Table 6, while the results for the model where the dependent variable is DIVASSETS are provided in Table 7. These findings are consistent with our main results—that is, the estimates of the models with lagged independent variables corroborate the results previously reported.

**TABLE 6. Regression models when the dependent variable is DIVDECISION
(Lagging independent variables)**

Variables	Expecte Sign	Model 1 Estimated coefficient (p.value)	Model 2 Estimated coefficient (p.value)	Model 3 Estimated coefficient (p.value)	Model 4 Estimated coefficient (p.value)
INST_1	+	1.168** (0.011)			
RESIST_1	-		1.210 (0.111)		
SENSIT_1	+			0.794** (0.079)	
FOREIGN_1	+				0.206* (0.091)
WOMEN	+	0.369** (0.037)	0.413** (0.020)	0.359** (0.041)	0.385** (0.029)
OWNCON	+	-0.001 (0.630)	0.000 (0.924)	-0.002 (0.541)	-0.000 (0.828)
OWNMANG	-	-0.004 (0.254)	-0.000 (0.784)	-0.003 (0.421)	-0.000 (0.800)
OWNEXEC	+/-	-0.002 (0.668)	-0.000 (0.200)	-0.004 (0.455)	-0.007 (0.198)
LEV	-	-1.110*** (0.007)	-0.949** (0.019)	-1.110*** (0.007)	-1.010** (0.013)
ROA	+	1.047*** (0.000)	1.059*** (0.000)	1.032*** (0.000)	1.039*** (0.000)
GROWTH	+/-	-0.044 (0.286)	-0.038 (0.352)	-0.039 (0.343)	-0.036 (0.381)
SIZE	+	0.506*** (0.000)	0.493*** (0.000)	0.523*** (0.000)	0.516*** (0.000)
D_CRISIS	-	-0.728*** (0.000)	-0.693*** (0.000)	-0.728*** (0.000)	-0.705*** (0.000)

DIVDECISION is a dummy variable that takes the value of 1 if the company pays dividends and 0, otherwise; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board; OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * p<0.1; **p<0.05; ***p<0.01

TABLE 7. Regression models when the dependent variable is DIVASSETS
(Lagging independent variables)

Variables	Expected Sign	Model 1 Estimated coefficient (p-value)	Model 2 Estimated coefficient (p-value)	Model 3 Estimated coefficient (p-value)	Model 4 Estimated coefficient (p-value)
INST_1	+	0.039*** (0.001)			
RESIST_1	-		0.029 (0.241)		
SENSIT_1	+			0.029*** (0.008)	
FOREIGN_1	+				0.082*** (0.000)
WOMEN	+	0.010** (0.044)	0.010** (0.034)	0.009* (0.056)	0.011** (0.019)
OWNCON	+	-0.000 (0.242)	-0.000 (0.696)	-0.000 (0.191)	-0.000 (0.185)
OWNMANG	-	-0.000* (0.064)	-0.000 (0.392)	-0.000 (0.100)	-0.000 (0.782)
OWNEXEC	+/-	0.000 (0.372)	-0.000 (0.972)	0.000 (0.567)	-0.000 (0.610)
LEV	-	-0.038*** (0.003)	-0.032** (0.011)	-0.038*** (0.002)	-0.034*** (0.006)
ROA	+	0.407*** (0.000)	0.415*** (0.000)	0.409*** (0.000)	0.400*** (0.000)
GROWTH	+/-	0.001 (0.721)	0.001 (0.688)	0.001 (0.634)	0.001 (0.542)
SIZE	+	0.011*** (0.000)	0.011*** (0.000)	0.012*** (0.000)	0.011*** (0.000)
D_CRISIS	-	-0.182*** (0.000)	-0.170*** (0.000)	-0.183*** (0.000)	-0.174*** (0.000)

DIVASSETS is the ratio between the annual cash dividends and total assets; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board; OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * $p<0.1$; **$p<0.05$; ***$p<0.01$

1.4.3. ANALYSIS EXTENSION

The international financial crisis that started in 2008 has had a devastating impact on countries like Spain, Greece and Portugal. In this context, some Spanish firms have reported losses and, as a result, their likelihood of paying dividends is lower. Thus, we extend our analysis, removing from the sample companies that report a negative ROA.

Table 8 shows the findings for the dependent variable DIVDECISION, which takes the value one if the firm pays dividends and zero otherwise. The results show that the variable institutional directors, as predicted, is positively associated with the decision on paying dividends when firms exhibit a positive ROA. If we separate institutional directors into pressure-sensitive and pressure-resistant categories, the findings report that both types of director have a positive impact on the decision regarding paying dividends, both variables being statistically significant. Contrary to our predictions, pressure-resistant directors on boards have a positive effect on the decision on paying dividends when firms with positive ROA are examined. The variable foreign directors presents the expected sign, but it is not statistically significant when companies report a positive ROA.

TABLE 8. Regression models with ROA positive when the dependent variables is DIVDECISION

Variables	Expected Sign	Model 1 Estimated coefficient (p-value)	Model 2 Estimated coefficient (p-value)	Model 3 Estimated coefficient (p-value)	Model 4 Estimated coefficient (p-value)
INST	+	1.485 (0.002)			
RESIST	-		0.815* (0.075)		
SENSIT	+			2.696 (0.009)***	
FOREIGN	+				0.154 (0.864)
WOMEN	+	0.304 (0.131)	0.322 (0.106)	0.375* (0.061)	0.352* (0.077)
OWNCON	+/-	-0.006 (0.182)	-0.006 (0.192)	-0.002 (0.555)	-0.004 (0.331)
OWNMANG	-	-0.006 (0.211)	-0.003 (0.500)	-0.001 (0.674)	-0.000 (0.883)
OWNEXEC	+/-	0.001 (0.808)	-0.002 (0.768)	-0.004 (0.465)	-0.005 (0.381)
LEV	-	-0.602 (0.131)	-0.629 (0.121)	-0.400 (0.308)	-0.557 (0.163)
ROA	+	3.811** (0.024)	3.807** (0.021)	3.829** (0.020)	3.797** (0.020)
GROWTH	+/-	-0.051 (0.179)	-0.051 (0.187)	-0.058 (0.148)	-0.055 (0.167)
SIZE	+	0.558*** (0.000)	0.572*** (0.000)	0.536*** (0.000)	0.569*** (0.000)
D_CRISIS	-	-0.716*** (0.000)	-0.710*** (0.000)	-0.669*** (0.000)	-0.689*** (0.000)

DIVDECISION is a dummy variable that takes the value of 1 if the company pays dividends and 0, otherwise; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board; OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * $p<0.1$; **$p<0.05$; ***$p<0.01$

In Table 9, we present the findings for the dependent variable DIVASSETS when all the firms of the sample report a positive ROA. As can be seen, institutional, sensitive and foreign directors, as expected, positively influence the ratio DIVASSETS. These findings suggest that institutional, sensitive and foreign directors on boards have a positive effect on dividend policies. The role of pressure-resistant directors in dividend policies is also significant, but they affect the ratio DIVASSETS positively, contrary to our expectations.

TABLE 9. Regression models with ROA positive when the dependent variables is DIVASSETS

Variables	Expected Sign	Model 1 Estimated coefficient (p-value)	Model 2 Estimated coefficient (p-value)	Model 3 Estimated coefficient (p-value)	Model 4 Estimated coefficient (p-value)
INST	+	0.036*** (0.001)			
RESIST	-		0.011** (0.046)		
SENSIT	+			0.044* (0.089)	
FOREIGN	+				0.078*** (0.000)
WOMEN	+	0.010** (0.016)	0.004** (0.018)	0.011** (0.011)	0.012*** (0.006)
OWNCON	+/-	-0.000 (0.144)	0.000 (0.154)	-0.000 (0.606)	-0.000 (0.120)
OWNMANG	-	-0.000 (0.313)	0.000 (0.565)	0.000 (0.865)	0.000 (0.481)
OWNEXEC	+/-	-0.000 (0.321)	0.000 (0.600)	0.000 (0.964)	-0.000 (0.723)
LEV	-	-0.023** (0.026)	-0.023 (0.024)	-0.018* (0.077)	-0.022** (0.026)
ROA	+	0.397*** (0.000)	0.400 (0.000)	0.400*** (0.000)	0.038*** (0.000)
GROWTH	+/-	0.000 (0.760)	0.000 (0.737)	0.000 (0.745)	0.000 (0.565)
SIZE	+	0.011*** (0.000)	0.011 (0.000)	0.010*** (0.000)	0.010*** (0.000)
D_CRISIS	-	-0.166*** (0.000)	-0.165 (0.000)	-0.152*** (0.000)	-0.158*** (0.000)

DIVASSETS is the ratio between the annual cash dividends and total assets; INST is the ratio between the total number of institutional directors on board and the total number of directors on board; RESIST is the ratio between the total number of pressure-resistant directors on board and the total number of directors on board; SENSIT is the ratio between the total number of pressure-sensitive directors on board and the total number of directors on board; FOREIGN is the ratio between the total number of foreign directors on board and the total number of directors on board; WOMEN is the ratio between the total number of female directors on board and the total number of directors on board**;** OWNCON is the ownership concentration in the firm; OWNMANG is the percentage of stocks owned by directors; OWNEXE is the percentage of shares held by executive directors on board; LEV is the ratio of book value of debt over total book assets; ROA is the ratio of earnings before interest and taxation (EBIT) over total book assets; GROWTH is the rate of asset growth; SIZE is the log of total assets and D_CRISIS is a dummy variable that takes the value 1 if the period goes from 2008 to 2012 (period for crisis) and 0, otherwise. * $p<0.1$; **$p<0.05$; ***$p<0.01$

In summary, the findings suggest that listed companies with profits are more likely to pay dividends and to increase the amount of dividends paid when their boards are made up of institutional, pressure-resistant and pressure-sensitive directors. Finally, foreign directors do not have an effect on the decision on paying dividends, but they positively influence the amount of dividends paid.

1.5. CONCLUSIONS

In this paper, we examine the impact of board composition on the dividend policy of Spanish listed firms. Concretely, we analyse the effect of institutional directors as a whole, also differentiating between pressure-sensitive and pressure-resistant institutional directors, depending on whether or not they maintain a business relationship with the company on whose board they sit. The effect of foreign directors is also analysed.

Our results show that institutional directors on boards positively influence the decision on paying dividends and the dividends to total assets ratio. When we distinguish between pressure-sensitive and pressure-resistant institutional directors, the findings suggest that they behave differently, since pressure-sensitive institutional directors on boards are positively associated with distributing dividends and the dividends to total assets ratio, but pressure-resistant institutional directors on boards, contrary to our expectations, do not have an effect. Thus, when banks and insurance companies sit on boards, the likelihood of them paying dividends is higher. In line with previous research (Bhattacharya and Graham, 2007), our findings suggest that pressure-sensitive directors, due to their business relations with the company in which they invest, face more conflicts of interest and, therefore, affect dividend policies positively, since they may mitigate agency problems (Sedzro, 2010). The particular case of institutions such as banks

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represented by pressure-sensitive institutional directors may also be justified because, if they encourage dividend payments, the ability of firms to rely on internally generated funds will decrease and, thus, firms will lend more from banks. The results in this paper also suggest that an emphasis on distinguishing between pressure-sensitive and pressure-resistant directors alone may not be enough to affect dividend policies, since only the former have an impact on them. Finally, we demonstrate that foreign directors sitting on Spanish boards have a positive impact on dividend policies, reinforcing the hypothesis that they may reduce information asymmetry and improve the financial flexibility of domestic firms by increasing the pool of potential investors and financing opportunities, among others.

Our results have important implications for the corporate governance debate. Firstly, policymakers are paying growing attention to board composition, but not to ownership structure. Concretely, in Spanish listed firms, the main agency problem is between controlling and minority shareholders. For this reason, it is crucial for policymakers to pay attention to both ownership structure and board composition. Secondly, institutional directors play an important role in mitigating agency costs and influencing dividend policies positively. However, it is important to differentiate between pressure-sensitive and pressure-resistant directors due to the fact that they behave in different ways with respect to dividend policies. Therefore, policymakers should consider this distinction when they make recommendations for the board composition, since our findings suggest that pressure-sensitive institutional directors have a positive effect on dividend policies, but pressure-resistant do not. Thirdly, the results suggest that foreign directors on boards promote good corporate governance practices and attain better corporate governance, such as increasing dividend payments and, as a consequence, they

may reduce agency costs. Thus, policymakers need to promote policies such as the quota of foreign directors on boards, reaching a fair and appropriate percentage.

This paper has the following limitation. Although we have controlled for many factors based on the previous theoretical and empirical studies, it is possible that unknown factors that may have an impact on dividend policies have not been considered.

Lastly, this paper contributes to opening future lines of research. Future research may analyse the role of institutional and foreign directors in family firms. Finally, it would be interesting to investigate the possible repercussions that these kinds of director may have for small and medium enterprises (SMEs).

CHAPTER 2
CORPORATE SOCIAL RESPONSIBILITY STRATEGIES OF SPANISH LISTED FIRMS AND CONTROLLING SHAREHOLDERS' REPRESENTATIVES

2.1. INTRODUCTION

Corporate social responsibility (CSR) can be defined as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (European Commission, 2001:7). This description underlines the idea that firms voluntarily become involved with society and the environment in order to enhance and improve them. As noted by Santos (2011), this definition of CSR combines diverse objectives that must be integrated into the management process and go hand in hand with the objective of achieving positive economic outcomes.

The rapid globalization process has placed companies on a new stage where they are more aware of promoting CSR disclosure. In other words, if firms want to survive in today's very competitive environment, they will have to adapt to the global economy and, as a consequence, they will not only have to pay attention to the economic dimension, but will also have to increase their interest in the social and environmental dimensions of their businesses. Additionally, the pressure exerted by a company's interest groups, including non-governmental organizations (NGOs), customers and their own workers, as well as stricter laws on CSR matters, have meant that firms must be held accountable for

their economic, social and environmental activities if they wish to be competitive. Thus, globalization has raised the priority of CSR disclosure on the agenda of Spanish listed firms, since they have to behave in a similar way to other listed firms around the world in order to compete in international markets that have become more socially aware, and the true driver of disclosing CSR matters among Spanish listed companies has been increased social awareness (Olcese, 2012).

Authors such as Morsing and Schultz (2006) support the view that firms must be responsible to all of their stakeholders, because their activities have consequences not only for those belonging to the firm, but also for third parties. Waddock (2003) argues that firms are interested in adopting CSR as a business management model because they can develop systems and policies based on benefits to the company and its stakeholders. Therefore, although the first reason for integrating CSR is to be sustainable over the long term, companies must also consider broader social and environmental dimensions. The importance of firms' social practices has generated a demand for information to allow judgments to be made as to the extent to which companies are ethical and, consequently, public reports on CSR are essential to identify which companies are, or are not, committed to society and all their stakeholders.

Thus, these views highlight the importance of firms' CSR disclosure for society, practitioners and academia. First, in the current context, CSR reporting is relevant for society since the purpose of CSR programs is to satisfy social requirements (Angelidis and Ibrahim, 1993). Society is interested in knowing what firms are doing in relation to CSR matters. Some of these matters may affect society and, therefore, society pushes firms to show their commitment to CSR issues in order to satisfy the demands of stakeholders (among which society is included). Firms may report CSR information with

the purpose of demonstrating their commitment (Nekhili et al., 2017a). In this sense, CSR reporting becomes an important mechanism by which society assesses these purposes. Second, practitioners, particularly those familiar with CSR matters, are conscious that firms not involved with CSR issues may have a reputational crisis and, as a result, have to find out which values are most important for their stakeholders in order to satisfy their demands. In line with this, CSR reporting is gaining in importance as it allows practitioners to keep stakeholders informed about firms' CSR matters, thus avoiding a reputational crisis and helping them to improve the relationship between firms and society. Practitioners are interested in providing understandable CSR reports and achieving a good reputation because this is likely to have positive repercussions on a firm's profits. Finally, CSR literature has received growing attention in recent decades since there is a gap to be filled regarding how CSR disclosure impacts different business decisions. Thus, CSR reporting helps researchers to collect data in order to show evidence of these issues and, accordingly, this evidence may also be useful for supervisory bodies, practitioners and society.

Sánchez-Ballesta and García-Meca (2007) show that corporate governance mechanisms generate corporate behaviour that influences CSR disclosure. Cuadrado-Ballesteros et al. (2015) place specific emphasis on the influence of boards on CSR disclosure, with particular reference to size and independence, for example. Systematic reviews by Hahn and Kuhnen (2013) and Dienes et al. (2016) also identify board independence and size as corporate governance structure determinants affecting CSR disclosure (e.g., Jizi et al., 2014). Other identified determinants are board activity measured as board meetings (e.g., Kent and Monem, 2008), board gender diversity (e.g., Fernandez-Feijoo et al., 2014) and CEO duality (e.g., Jizi et al., 2014). An excellent

revision of past and recent research focused on the influence of these corporate governance determinants on CSR reporting can be found in Hahn and Kuhnen (2013) and Dienes et al. (2016). Miras-Rodríguez et al. (2015) also underline that cultural, legal and political aspects may affect a firm when it makes decisions on CSR. However, little attention has been paid to other board characteristics, such as the presence of institutional directors.

This analysis has shown that institutional directors, who represent institutional investors such as pension funds, insurance companies and banks, have increased their influence on the financial markets as they have abandoned their former passive roles on company boards and, consequently, have begun to perform an important role in monitoring management teams (López-Iturriaga et al., 2015). In this regard, previous research demonstrates that these directors have an effect on leverage (e.g., David et al., 2001) and financial reporting quality (e.g., Pucheta-Martínez and García-Meca, 2014), inter alia. Institutional activism (direct involvement) may lead to firms being more involved in socially responsible investments and practices. In this sense, institutional investors have increased their activism concerning CSR in an attempt to integrate social, ethical and environmental matters in their businesses. Institutional investors may participate as directors and shareholders in the decision-making process of a firm and, thereby, can play a relevant and active monitoring role in relation to managers, since they are concerned about their reputation and, consequently, will put pressure on firms to disclose CSR information. Hence, institutional investors will endorse the sustainability of companies in which they have invested.

Accordingly, the impact of institutional directors on the governance of firms, the positive effects that CSR can have on companies, the daily attention given by boards to

CSR matters and the small amount of research that has explored the association between corporate governance mechanisms and CSR (e.g., Fernández-Sánchez et al., 2011) provide us with the motivation to examine the impact of institutional directors on strategic company decisions like CSR disclosure. Therefore, the purpose of this research is to analyze how CSR disclosure by Spanish listed companies is affected by the presence of institutional directors on their boards. In addition, past literature (e.g., Almazán et al., 2005; Choi et al., 2012) has shown that it is important not to consider institutional directors as a homogeneous group. In this sense, López-Iturriaga et al. (2015), among others, emphasize that "the type of business relation between firms and institutional investors is the key to describing the role of institutional directors". In this sense, we distinguish between pressure-sensitive institutional directors, who represent pressure-sensitive investors who maintain both an investment and a business relationship with the firm, and pressure-resistant institutional directors, who represent pressure-resistant investors who only maintain an investment relationship with the firm. Past and recent research has also distinguished between pressure-sensitive and pressure-resistant institutional directors (e.g., Almazán et al., 2005; Choi et al., 2012; López-Iturriaga et al., 2015), arguing that pressure-sensitive directors are more likely to be influenced by managers. The fact that pressure-sensitive investors maintain commercial ties with the firm explains the term "pressure-sensitive" because these investors are under pressure from the management team since they do not want to lose their business links; consequently, they are more sensitive to pressure. This view is supported by Davis and Thompson (1994), who argue that proxy voting allows managers to know whether institutional investors voted against them or with them. Consequently, various institutional investors (banks and insurance companies) are pressed to support managers' agendas due to their actual or potential business operations with firms, which involve

dealing with managers. In contrast to this, pressure-resistant investors do not maintain such commercial relationships and, as a result, are not under such pressure and can behave more independently (Davis and Thompson, 1994), which explains the expression "pressure-resistant". Hence, we also explore the effects of pressure-sensitive and pressure-resistant directors on CSR reporting, since it is expected that they differ. This investigation is performed in Spain, which gives a different setting from other countries because, among other reasons, there is an important presence of controlling shareholders in firms, mainly institutional investors. An analysis of the role performed by institutional directors on CSR reporting, in an environment where institutions are important controlling shareholders, merits attention.

It is important to remark, in line with Font et al. (2012) and Bowen and Aragon-Correa (2014), that CSR disclosure and CSR commitment do not have to go hand in hand. In this sense, the fact that firms disclose CSR information about their environmental and social programs does not mean that they have to be responsible or commit to CSR, since it may be likely that they are only hoping to improve their reputation.

This paper contributes to the literature in several respects. First, our evidence reinforces the view that institutional directors protect the interests not only of the shareholders, but also of all stakeholders of the firm. Our findings show that institutional directors on boards encourage CSR disclosure; it is not only the shareholders who can benefit from this, but also all the other stakeholders, since CSR information is public and is accessible to both shareholders and stakeholders. Second, we fill the gap in the prior research concerning the role played by institutional directors in firms' CSR disclosure, since we show that institutional directors cannot be considered a uniform group: pressure-resistant and pressure-sensitive institutional directors behave differently with respect to

CSR reporting. Third, we support the thesis that directors who are oriented towards the long term, such as pressure-resistant directors, are more likely to promote CSR disclosure, given the active monitoring role they play and because they are concerned about their reputation. Finally, our analysis provides an index that measures the level of CSR disclosure of a company, and this may be useful for NGOs, CSR observers, practitioners and researchers in determining which firms are more proactive in disclosing information on CSR.

The paper proceeds as follows: in section 2, we focus on the institutional setting; section 3 describes the theoretical background and develops the hypotheses; section 4 describes the sample, methodology and variables used in the study; section 5 provides the analysis of the findings; and the final section discusses the findings and conclusions, the limitations inherent to this study and future lines of research.

2.2. INSTITUTIONAL SETTING

In the last few decades, Spain has increased its interest in CSR policies because society is pressing companies to engage in sustainable production. For this reason, a growing number of CSR reports, guidelines, observers, studies, indicators and indexes have exerted an influence in changing Spanish business culture.

The Spanish Conthe Code (CUBG), issued in 2006, is a key aspect of this change. The Conthe Code (CUBG, 2006) provides three specific recommendations concerning CSR. The first makes reference to the inclusion of CSR disclosure in the corporate governance rules and internal codes of conduct, and states that this is supervised by a committee. The second refers to the minimum subject matter to be included in the CSR disclosure. In particular, the CSR disclosure should include details of specific

practices on issues related to shareholders, employees, customers, suppliers, social and environmental matters, diversity, fiscal responsibility, respect for human rights and prevention of illegal behaviour, and monitoring mechanisms for financial risk, ethics and business conduct. The third states that CSR issues should be reported in the management report, or in a separate report, using any of the different internationally accepted methodologies.

The most relevant features of Spanish corporate governance are the low level of board independence, the lack of active market control (the supervision of the capital markets by the government and financial authorities is weak because the most important source of finance for companies is the banking sector, and not the capital markets), the presence of dominant shareholders on boards, a high ownership concentration and family ownership, a one-tier board system (all the directors, both executive and non-executive, sit on the board) and a low level of legal protection for investors. In this context, dominant shareholders take important positions on the boards of Spanish listed firms, and exert a strong influence on the management because of the high ownership concentration and the weakness of investors' protection. Institutional investors are among the most important controlling shareholders in Spain and, consequently, they have an important influence on corporate governance (e.g., Crespí et al., 2004). Indeed, the boards of Spanish listed firms are characterized by the fact that 40% of directors are institutional directors appointed by institutional investors; this is the highest percentage among European countries (Heidrick and Struggles, 2011).

Thus, Spain offers a good setting in which to examine the role played by institutional directors, given their relevant presence on boards and given the little empirical evidence about the influence of institutional investors on CSR disclosure when

they act as board directors, perhaps because the presence of institutional directors on boards appointed by institutional investors in the US and UK is less common.

2.3. THEORETICAL BACKGROUND AND HYPOTHESES

Stakeholder theory posits that a company should consider all the stakeholders that may affect or be affected by its activities (Freeman, 2010). This theory supports a link between business ethics and organizational management, as a result of which firms have to take into account not only their shareholders, but also a wider range of stakeholders, such as customers, the local community, and their employees, among others. Therefore, firms have to pay attention not only to their economic responsibilities, but also to the stakeholders' interests.

Most sustainable management research is based on the stakeholder perspective (e.g., Montiel and Delgado-Ceballos, 2014). To the extent that boards are responsible for setting the values and standards within their organizations, companies interested in integrating CSR policies and addressing the interests of different stakeholders may have to adapt their board composition and functioning to this new role. Authors such as Arjoon (2005) support the notion that directors have to demonstrate greater ethical responsibility and a stronger ethical attitude when conducting business than when they are not directors, because they represent not only the shareholders, but also the other stakeholders of the firm, and because society is putting pressure on them following the numerous scandals that came to light in the wake of the economic crisis. Walls et al. (2012) also stress the role of boards in relation to environmental performance, measured in two ways – as the addition of the values of the items of strength or as the addition of the values of the items of concern. In particular, they report that environmental performance is better if the board

is more diverse, less independent and smaller. Thus, boards meeting these conditions are effective monitoring tools for environmental performance. In the same vein, Walls and Hoffman (2013) highlight the importance of the board of directors in supervising managers and affecting the firm's strategic orientation. These authors show that boards with greater environmental experience are more likely to diverge in a positive direction from institutional norms. Jain and Jamali (2016) argue that the board of directors is a "rich source of knowledge and guidance" and can, therefore, challenge managers to implement certain actions promoting the firm's CSR.

Galbreath (2016) posits that directors on boards are supposed to move towards the promotion of actions associated with CSR. Concretely, Galbreath (2016) proposes that board composition is a very important issue when a firm's CSR is explored, since board members are a heterogeneous group because of their differing incentives and temporal orientations. The author finds that insider directors show a short-term orientation that is contrary to the long-term orientation needed for CSR and, thus, that insiders have a negative impact on CSR reporting.

In continental European countries, particularly Spain, where listed firms are characterized by high ownership concentration, two types of directors are distinguished in their boards of directors: insiders (executive) and outsiders or non-executive. Executive directors are vested with wide managerial powers and guide the firm's management team, while non-executive directors are mainly tasked with monitoring functions. The boards tend to be numerous, mainly in big companies, and among non-executive directors, two kinds of directors can be considered: those representing the owners or controlling shareholders (institutional directors) and independent directors (a more detailed discussion of this matter can be found in Ferrarini and Felippelli, 2013). Whereas

executive directors are insiders and are directly involved in the management of the firm, both independent and institutional directors are considered outsiders, with different agendas and incentives in terms of controlling managers. In this sense, independent directors are members who are "free of any business, family or other relationship with the company, its controlling shareholder or the management of either, that creates a conflict of interest such as to impair its judgment" (EU, 2005). Furthermore, independent directors are board members appointed in view of their recognized professional expertise, experience and prestige and are neither executive nor institutional directors, while institutional directors are those members who represent dominant institutional investors in the company that are involved somehow with the company and can influence the management of the firm.

Institutional directors have received attention from previous empirical research (e.g., Bhojraj and Sengupta, 2003; López-Iturriaga et al., 2015). Authors such as Hartzell and Starks (2003) suggest that institutional investors perform a relevant monitoring role and Parrino et al. (2003) emphasize their capacity to discipline managers and their active behaviour in response to the corporate governance problems of firms. These characteristics involve an activism that is known as institutional shareholder activism. In this regard, Eesley et al. (2016) show that the activism of investors, such as institutional investors, is an important matter to take into account when examining social changes in companies, since these investors may press firms to report CSR information. Thus, it is logical to assume that firms with institutional directors on their boards are more likely to be transparent and, hence, to encourage CSR reporting, as the costs associated with the monitoring role of institutional directors will be lower in companies that disclose CSR issues. Furthermore, institutional directors tend to be more aware of social and

environmental demands, taking responsibility in these areas (Harjoto and Jo, 2011). In other words, these directors take an active role and, thus, may influence CSR reporting as they are interested in their reputation.

Furthermore, continental European base research, especially that conducted in Spain (e.g., García-Meca and Sánchez-Ballesta, 2009; Pucheta-Martínez and García-Meca, 2014), shows that independent directors on boards, in contrast to the US and UK, appear to be less effective in carrying out the theoretical role of monitoring and, therefore, the supervising role on boards is not played by independent directors, but by directors who represent controlling shareholders such as institutional investors.

Agency theory argues that institutional directors have incentives to act independently of managers and, therefore, will protect the interests of all the stakeholders, particularly shareholders, to mitigate agency costs (Colpan and Yoshikawa, 2012). Institutional directors should react to the expectations of the stakeholders, and institutional directors would therefore be expected to be more committed to CSR reporting demands, given that it might reinforce the internal control of companies and might decrease opportunistic behaviours due to asymmetric information, as Frías-Aceituno et al. (2013) suggest. Furthermore, CSR disclosure is a long-term responsibility of a firm and, accordingly, companies with institutional directors, who are usually associated with a long-term orientation, will have an interest in the long-term sustainability of the company and will be more likely to disclose CSR issues because they are necessary for long-term value creation and sustainable firm performance (Mahapatra, 1984). In this vein, the prior literature (e.g., Zattoni, 2011) shows that institutional directors exert a positive impact on CSR disclosure.

Likewise, from a legitimacy perspective, firms need to be legitimated by society (Patten and Crampton, 2004; Castelo Branco and Rodrigues, 2006) in order to successfully run the business. If society notices that firms behave in an inappropriate manner, such legitimacy can be threatened, so in order to guarantee it, firms carry out legitimation strategies such as CSR reporting. In this regards, CSR disclosure becomes a mechanism for acquiring legitimacy and for protecting a firm's identity and reputation (Panwar et al., 2014). As a result, given that institutional directors are concerned with their reputation, they will be more likely to disclose CSR information. Additionally, CSR disclosure is viewed by institutional directors as crucial to attain competitive advantage and sustainability, as it can help companies achieve legitimacy through support from different stakeholders (Neubaum and Zahra, 2006).

In line with agency and legitimacy approaches, the signaling perspective posits that in situations of asymmetric information, firms signal efforts to disclose sustainability matters in order to reduce this asymmetry and to assure legitimacy in society (Connelly et al., 2010). CSR and sustainability issues may be viewed as such asymmetric information because not all stakeholders have access to this type of information. Hence, institutional directors will support decisions such as CSR disclosure in order to send signals to stakeholders. In this way, institutional directors may send a signal to third parties communicating companies' unobservable features, such as their commitment to environmental and social matters, thus preserving their reputation. Additionally, if stakeholders value these unobservable characteristics, they might reward firms (Ramchander et al., 2012).

Based on the above arguments, we posit the following hypothesis:

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H1: CSR disclosure is positively affected by institutional directors.

As stressed above, institutional directors (those who represent institutional investors on boards) are considered to be a heterogeneous group since their interests and incentives are dissimilar. In line with this, earlier research (e.g., Ramalingegowda and Yu, 2012) shows that institutional directors do not behave in a monolithic way, as they represent institutional investors who may or may not maintain business ties with the firm in which they invest and, thus, they may have different attitudes with regard to anti-takeover amendments, CEO compensation and CSR disclosure, inter alia. Such directors can be separated into two groups: pressure-sensitive institutional directors (those representing banks and insurance firms, who both invest in the firm and maintain commercial ties with it) and pressure-resistant institutional directors (those representing mutual funds, investment funds, pension funds and venture capital firms, who only invest in the firm). Huse (2007) also argues that the impact of institutional directors on boards depends on the type of ownership that they represent in companies. In this sense, while pressure-resistant institutional investors are oriented towards the long term, pressure-sensitive institutional investors are oriented towards the short term. The long-term orientation of pressure-resistant directors may explain why they are concerned about their reputation and, consequently, why they are more likely to reduce agency problems and to encourage social issues such as CSR disclosure. On the other hand, maximizing corporate performance and the expansion of their own businesses in order to achieve greater benefit are the results of the short-term orientation of pressure-sensitive directors. Their commercial ties with the firm may cause them conflicts of interest and, therefore, they will be less likely to encourage changes or to mitigate agency costs. Hence, the temporal horizon will determine the behaviour of both types of institutional directors in their

supervision of the management team in relation to reducing agency problems and disclosing CSR information. This idea is supported by Jain and Jamali (2016), who argue that pressure-sensitive investors such as banks have a short-term investment perspective and will be less interested in supporting CSR activities because these practices show their benefits in a long-term horizon; thus, pressure-sensitive investors consider the costs of CSR activities unnecessary. Meanwhile, pension funds (pressure-resistant investors) will be more likely to support CSR firms' disclosure because they have a long-term investment approach (more detail about this point can be found in Jain and Jamali's 2016 paper).

Pressure-sensitive institutional investors, as underlined above, tend to maintain both business and investment links with companies and, in order to preserve their business ties, may not be disposed to take issue with management decisions. Thus, because their profitability depends on it, pressure-sensitive institutional investors will tend to maintain a solid and excellent relationship with the firm. This view is supported by Almazán et al. (2005), who show that pressure-resistant directors can provide more intense managerial monitoring than pressure-sensitive investors because they are more active. According to Huse (2007), when pressure-sensitive institutional directors dominate the board, it will tend to align with managers rather than to control them.

The prior literature (e.g., Almazán et al., 2005; David et al., 1998) emphasizes the hypothesis that banks and insurance companies seek their own profit because of the design of their incentive systems. In this vein, Johnson and Greening (1999) find that pressure-sensitive institutional directors will try to put pressure on the company to adopt a short-term orientation, given their short-term profitability perspective. Hence, these authors suggest that such directors face more conflicts of interest in their relationship with

the firm; thus, they will be less concerned about monitoring managers or CSR matters, for example. This idea is consistent with those of Eng (1999), who reports that insurance companies have a short-term horizon and, consequently, may not be interested in safeguarding the interests of stakeholders.

Within the category of pressure-sensitive institutional investors, banks are the most common, and pressure-sensitive institutional investors may, thus, become both shareholders and creditors. They may perceive that this dual role gives them access to more information than other types of shareholder, and they may use this information for their own interests. This may encourage the formation of controlling coalitions between such types of institutional investor and managers or other stakeholders, creating corporate groups to extract private benefits (Ali et al., 2007). Pressure-sensitive institutional directors will be less effective in monitoring managers, since they can be expected to align themselves with managers as they do not want to lose their business or potential business. Therefore, pressure-sensitive institutional directors may behave in the interests of those whom they represent, and not in the interests of the company's stakeholders. As a result, they will be less likely to require the disclosure of CSR information. This suggests a negative association between pressure-sensitive institutional directors and CSR disclosure, consistent with the collusion hypothesis, which argues that some directors may have incentives to collude with managers. This negative association would mean that pressure-sensitive institutional directors would not press managers to be involved with CSR reporting.

On the other hand, pressure-resistant directors, who represent institutional investors with no business links but only investment ties to the firm and may be mutual funds, investment funds, pension funds or venture capital firms, play a monitoring and

disciplinary role on boards (López-Iturriaga et al., 2015). In contrast to pressure-sensitive institutional directors, pressure-resistant directors do not face a conflict of interests, as those they represent do not maintain any business relationship with the firm. Accordingly, these directors are able to discipline managers. Furthermore, Finkelstein (1992) argues that public pension funds and mutual funds, among others, have no "fear of retribution" from the firm's managers because they can be involved in corporate governance matters without being influenced by them.

Pressure-resistant institutional directors will prefer sustainable firms because the costs associated with monitoring the managers of such firms are lower. Furthermore, Johnson and Greening (1999) find that pressure-resistant institutional directors have a positive effect on CSR issues. More concretely, these authors provide evidence that pension funds have a positive impact on product quality (which includes the environment), the community, human talent matters, gender diversity and minorities. Given that the benefits related to CSR disclosure are derived in the long term, and pressure-resistant directors on boards are characterized by a long-term horizon, the integration between these directors and CSR disclosure is relevant. This argument is also supported by Sethi (2005), who shows that pension funds perform a very relevant role in corporate governance, as they try to ensure that firms have a long-term perspective, which may encourage more CSR firms' disclosure.

Furthermore, Cotter and Najah (2012) provide evidence that large institutional investors, such as pension funds, press firms on climate change issues. According to this evidence, the pressure exerted by their stakeholders means that firms must be concerned about CSR matters if they are to be competitive. Consequently, we expect that pressure-resistant institutional directors will have a positive impact on CSR disclosure, in line with

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the supervision (contest or monitoring) hypothesis, which argues that some directors have the motivation to supervise the management team. Such directors will be concerned for their reputation and, accordingly, will persuade the management to report on CSR issues.

Consequently, we posit the following two hypotheses:

H2: CSR disclosure is negatively affected by pressure-sensitive institutional directors.

H3: CSR disclosure is positively affected by pressure-resistant institutional directors.

2.4. EMPIRICAL DESIGN

2.4.1 Sample

Our sample consists of listed Spanish non-financial firms from 2004 to 2013. Financial entities have been excluded from the sample for several reasons: (1) because they are under special scrutiny by financial authorities that constrain the role of their board of directors and (2) due to the special accounting principles and rules that they have to comply with when preparing their financial statements, which make it more difficult to compare them with those of non-financial firms since they are not homogenous. Our final sample, after excluding financial entities, is composed of an unbalanced panel dataset of 1,018 firm-year observations. Our panel is unbalanced because during the period of the study some companies were acquired or merged and, consequently, were de-listed, while other companies went bankrupt or became public companies. According to Arellano (2003), the findings provided by an unbalanced panel are as reliable as those

reported for a balanced panel and, therefore, there is no concern regarding bias derived from missing data.

The information used to construct the CSR index was collected from web pages of firms (annual sustainability reports) and the Global Reporting Initiative (GRI) website, on which the annual GRI report of companies that have voluntarily disclosed CSR information can be found. Financial data (total assets, total debts and earnings before interest and taxation for measuring the variables leverage, return on assets and firm size) were collected from the financial statements, and corporate governance data (the proportion of institutional, pressure-sensitive and pressure-resistant directors, the proportion of stocks owned by insiders, board independence and board size) were obtained from the annual corporate governance reports. Sector data were also collected from the financial reports. Both financial and corporate governance reports must be annually disclosed by listed firms in the Public Register of the Spanish Securities Market Commission (CNMV).

2.4.2 Variables

Our dependent variable, CSR disclosure or reporting, is defined as the CSR_Index and is created using social, environmental and stakeholder information, since CSR is a multidimensional concept (Peloza and Shang, 2011). We base our CSR_Index on Cuadrado-Ballesteros et al. (2015), who focus on the three types of information mentioned above to construct their CSR disclosure measure, which is also consistent with the recent papers of Jaggi et al. (2017) and Liu and Zhang (2017), who analyze the voluntary disclosure of carbon information among Italian firms and of CSR information

among Chinese companies, respectively. In line with these papers, we also employ content analysis to capture CSR information.

We examine the three matters mentioned above as follows. First, we consider the social information reported by Spanish listed companies. Thus, we analyze information in sustainability reports regarding social labor performed by firms, using their resources (such as financial or human resources) to alleviate social problems or to help underprivileged social groups. In this vein, some companies may, for example, allocate a percentage of their profits to social activities or allow employees to dedicate part of their time to cooperating with NGOs without reducing their salaries. Secondly, we analyze the environmental information disclosed by the listed firms, taking into account whether they disclose information in their sustainability reports about the impact of their activities on the environment and how they alter their activities if they do affect the environment, their environmental management system and their policies and environmental commitments. Finally, regarding stakeholder information disclosure, we bear in mind the level of commitment undertaken by the firm. In relation to this, we explore issues such as management systems for general interest groups, gender diversity, development of employees, human rights matters and relationships with customers and suppliers. To the best of our knowledge, no prior research conducted with Spanish listed firms has, in contrast to our analysis, considered all economic sectors in order to construct the CSR disclosure measure.

For each area (social, environmental and stakeholder information), a company is awarded one point if it gives complete information (meaning that the company reports information on every item we have considered for that particular area). If a company does not disclose any information about the areas we take into account, it receives zero points.

A company receives half a point if it partially discloses information. For instance, if in the environmental area we take into account four items and the firm discloses information about one, two or three of them, this is considered partial disclosure.

Thus, the CSR_Index is calculated as follows:

CSR_Index=($\sum$ (score social area+score environmental area+score stakeholders area))/3

As can be seen, we divide the total score for the firm by 3, which is the maximum score that a firm can attain.

Then, using the CSR_Index, we classify the firms in the following way: if a firm has a CSR_Index of 0, the firm's CSR disclosure is null; a CSR_Index between 0.1 and 0.5 means that the firm's CSR disclosure is moderate; a CSR_Index between 0.6 and 0.9 represents an acceptable level for the firm's CSR disclosure; and a CSR_Index equal to 1 indicates that the firm's CSR disclosure is complete in respect of the issues we take into account.

Some authors, such as Kim and Lyon (2011), Lyon and Maxwell (2011) and Marquis et al. (2016), base their investigations on selective environmental disclosure or, in other words, on how companies can create a false good image by divulging their positive actions, while hiding their negative impacts on the environment. Toffel (2005) explores why firms voluntarily report regulatory environmental violations, while Reid and Toffel (2009) examine how companies behave under shareholder activism that respects the disclosure of corporate social actions, specifically considering the disclosure of information focused on climate change strategies. Kayser et al. (2014) analyze whether

firms voluntarily join environmental and social programs with lax access conditions. More precisely, they analyze whether stakeholder scrutiny encourages companies to participate in the Global Compact program when their prior practices are consistent with the program's principles. In comparison to these papers based on environmental issues, our measure is more complete since it not only takes into account the disclosure of environmental information, but also considers social and stakeholder information reported by the firms. In this way, our index provides a new insight into all the information disclosed by Spanish listed firms on CSR matters.

Several independent variables are used. The variable for the percentage of institutional directors, defined as INST, is calculated as the number of institutional directors on the board of directors as a percentage of the total number of board members. We also consider the representatives of pressure-sensitive and pressure-resistant institutional investors, i.e. pressure-sensitive and pressure-resistant directors, respectively. We label the pressure-sensitive directors as SENSIT, and pressure-resistant directors as RESIST, and these variables are calculated as the total number of pressure-sensitive directors on the board as a percentage of the total number of board members, and the total number of pressure-resistant directors on the board as a percentage of the total number of board members, respectively.

Regarding control variables, we consider several factors that may affect the CSR_Index. First, we control for board independence (BINDEP), which is the total number of independent directors on the board as a percentage of the total number of board members. Hence, we expect a positive sign between BINDEP and CSR reporting. Second, leverage (LEV) is measured as the ratio of the book value of debt to the total assets. We predict a positive sign for this variable. Third, we control for profitability or performance,

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defined as the return on assets (ROA), and calculate this as the ratio of earnings before interest and taxation (EBIT) to book assets. We expect a positive sign for ROA. Fourth, we control for firm size, labeled as SIZE, and measure as the log of the total assets (expressed in thousands of Euros). Consistent with Aragon-Correa et al. (2013) and Nekhili et al. (2017b), we predict a positive association between SIZE and CSR reporting. Fifth, we consider board size (BSIZE), measured as the total number of board members. De Villiers et al. (2011) show a positive relationship between board size and CSR disclosure. Another control variable considered is insider ownership (INSOWN), calculated as the proportion of stocks held by inside directors. In line with Harjoto and Jo (2011), we predict a negative association between insider ownership and CSR disclosure. We control for the sector, calculated as a dummy variable that takes the value 1 if the firm belongs to the particular sector analyzed and 0, otherwise. Here, we draw on the CNMV classification, which considers the following sectors (labels given in parentheses): transport (TR) (the reference category); cement, glass and construction materials (CGCM); commerce and other services (COMER); construction (CONST); energy and water (EW); financial and insurance (FININS); chemical industry (CHIN); real estate (RE); mass media (MASSM); basic metal industries (BMI); other processing industries (OPI); metal processing industries (MPI) and, finally, the remaining sectors not included in any of the above categories and that consist of few firms (OTHR). According to García-Ayuso and Larrinaga (2003), some sectors are more likely to report CSR information than others, as their activities have a greater impact on society. Finally, we also control for firm and year fixed effects.

2.5. RESULTS

2.5.1 Descriptive statistics

Table 1 reports the descriptive statistics for all the variables. The data show that the CSR_Index is, on average, 0.382 out of 1 and, therefore, that the firms in our sample are moderate disclosers of CSR information. Furthermore, the statistics show that, on average, 32.38% of the directors on a board are institutional, with pressure-sensitive and pressure-resistant institutional directors accounting for 6.23% and 26.15%, respectively. In addition, 31.91% of the directors are independent directors, on average, and the mean for insider ownership is 8.72%. Furthermore, the average firm size (the log of the total assets in thousands of Euros) is 13.25, the average leverage is 52.34%, the average board size is 10.77 members and the average ROA is 3.55%. Finally, the transport sector accounts for 3.34% of firms, cement, glass and construction materials 2.94%, commerce and other services 10.61%, construction 7.95%, energy and water 7.76%, the financial and insurance sector 2.85%, the chemical industry 3.14%, real estate 11.59%, mass media 3.73%, basic metal industries 4.32%, other processing industries 2.41%, metal processing industries 9.82% and other sectors 7.76%.

TABLE 10. Main descriptive statistics

Panel A. Continuous variables

Variables	N	Mean	Std. Dev.	Perc. 25th	Perc. 50th	Perc. 75th
CSR_Index	1.018	0.382	0.439	0.000	0.000	0.833
INST	1.018	32.384	23.922	14.000	29.500	50.000
SENSIT	1.018	6.233	11.359	0.000	0.000	10.000
RESIST	1.018	26.151	23.983	0.000	20.000	44.000
BINDEP	1.018	31.913	17.984	21.000	30.884	42.857
LEV	1.018	52.344	23.583	34.352	54.852	70.150
ROA	1.018	3.550	14.820	-0.834	3.227	8.343
SIZE	1.018	13.249	1.803	11.897	13.089	14.476
BSIZE	1.018	10.767	3.801	8.000	10.000	13.000
INSOWN	1.018	8.719	17.274	0.000	0.103	8.452

Panel B. Dummies variables

	% of firms of the sample that do not operate in the sector analysed	% of firms of the sample that operate in the sector analysed
TR	96.66%	3.34%
CGCM	97.05%	2.94%
COMER	89.39%	10.61%
CONST	92.04%	7.95%
EW	92.24%	7.76%
FININS	97.15%	2.85%
CHIN	96.86%	3.14%
RE	88.41%	11.59%
MASSM	96.27%	3.73%
BMI	95.68%	4.32%
OPI	97.59%	24,06%
MPI	90.18%	9.82%
OTHR	92.24%	7.76%

Mean, standard deviation and percentiles 25th, 50th and 75th. Panel A and B show the continuous and dummy variables, respectively. CSR_Index is the dependent variable, measured as the sum of the score of the three areas analyzed divided by 3; INST is the proportion of institutional directors on board; SENSIT is the proportion of the board directors who are representative of pressure-sensitive institutional investors (i.e., banks and insurance companies); RESIST is the proportion of the board directors who are representative of pressure-resistant institutional investors (i.e., investment funds); INDEP is the proportion of independent directors on the board; BDSIZE is the number of directors on boards; LEV is the debt over total assets; ROA is the operate income before interests and taxes over total assets; SIZE is the log of total assets; BSIZE is the number of member on boards; INSOWN is the percentage of shares held by insiders (directors) on board and from TR to OTHR represent the sectors of the firms, measured as dummy variables that take the value 1 if the company belongs to the sector analyzed and 0, otherwise.

2.5.2 Multivariate analysis

The correlation matrix has been calculated to test for multicollinearity. The findings, unreported for the sake of brevity, show that all the coefficients are lower than 0.7, except for the pairs INST and RESIST, but this is not a problem because these variables do not interact together in any model. However, Hair et al. (2006:227) suggest that the correlation matrix is not sufficient to check the lack of high correlation values among variables to evaluate the presence of multicollinearity. Accordingly, as Hair et al. (2006) indicate, we have also calculated the variance inflation factor (VIF) and the tolerance (1/VIF), provided in Table 2, where the regression findings are presented. According to Haan (2002), VIFs higher than 10 show multicollinearity concerns. In this study, the highest VIF is 7.21 and, therefore multicollinearity is not a problem.

For estimating the models, we use a Tobit regression because this is designed to estimate linear relationships between variables when there is either left- or right-censoring in the dependent variable. In this paper, the dependent variable, CSR_Index, is either 0 or a positive number and ranges from 0 to 1. Thus, given that the variable is censored on two sides [0–1], a Tobit regression is most suitable for handling the data. All the assumptions for a Tobit regression are fulfilled. According to Wooldridge (2010), the Tobit model with panel data can be estimated as a pooled or a random effects regression. The likelihood-ratio test of rho=0 allows us to discriminate between pooled or random effects (Flanagan, 2004). Our findings of the likelihood-ratio test show that a random effects estimator is more appropriate than a pooled one. Furthermore, we have performed the likelihood-ratio test for heteroskedasticity and the Wooldridge test for autocorrelation in panel data models. While the likelihood-ratio test shows that heteroskedasticity is not a concern in our model, the Wooldridge test finds that autocorrelation is. Thus,

autocorrelation problems have been corrected by using the bootstrap standard errors method, which clusters residual standard errors (e.g., Gaynor et al., 2006).

Table 2 shows the results for Model 1, in which the effect of institutional directors on the CSR_Index is analyzed. As expected, the proportion of institutional directors exhibits a positive sign, and this is statistically significant. Thus, the first hypothesis cannot be rejected. Our results suggest that institutional directors on boards have a positive impact on CSR disclosure; this is consistent with the findings of authors such as Cox et al. (2004), Neubaum and Zahra (2006) and Zattoni (2011), who find a positive relationship between institutional directors and CSR matters. In this vein, our findings reinforce the argument that institutional directors have a long-term horizon, play an effective monitoring role in relation to managers and are concerned about their reputation; for these reasons, they press managers to disclose CSR information. This evidence supports the supervision hypothesis, because institutional directors will prefer companies that are more involved with CSR disclosure in order to monitor the managers more efficiently. Therefore, firms with more institutional directors on their boards are more likely to report CSR information.

TABLE 11. Results of the Tobit regression for institutional, pressure-sensitive and pressure-resistant directors sit on boards

Variables	Expected Sign	Model 1 Estimated coefficient (p.value)	VIF	Tolerance	Model 2 Estimated coefficient (p.value)	VIF	Tolerance	Model 3 Estimated coefficient (p.value)	VIF	Tolerance
INST	+	0.004* (0.096)	1.48	0.676						
SENSIT	-				-0.006 (0.388)	1.25	0.799			
RESIST	+							0.006* (0.091)	1.34	0.746
BINDEP	+	0.017*** (0.001)	1.47	0.678	0.013*** (0.005)	1.27	0.785	0.017*** (0.001)	1.39	0.719
LEV	+	0.001 (0.729)	1.44	0.697	0.001 (0.779)	1.44	0.695	0.001 (0.777)	1.44	0.695
ROA	+	0.006 (0.215)	1.16	0.859	0.006 (0.194)	1.17	0.857	0.006 (0.198)	1.17	0.857
SIZE	+	0.470*** (0.000)	2.76	0.362	0.471*** (0.000)	2.83	0.353	0.477*** (0.000)	2.78	0.359
BSIZE	+	0.026 (0.304)	1.87	0.5349	0.038 (0.132)	1.88	0.533	0.028 (0.255)	1.84	0.544
INSOWN	-	-0.008* (0.079)	1.26	0.792	-0.009* (0.075)	1.20	0.831	-0.008* (0.082)	1.24	0.803
CGCM	+/-	0.508 (0.395)	1.87	0.535	0.332 (0.579)	1.93	0.517	0.413 (0.477)	1.88	0.532
COMER	+/-	0.879* (0.061)	4.41	0.227	0.758 (0.127)	4.46	0.224	0.835* (0.078)	4.42	0.226
CONST	+/-	0.966** (0.011)	3.13	0.319	0.788* (0.058)	3.32	0.301	0.864** (0.016)	3.18	0.315
EW	+/-	0.783* (0.087)	3.06	0.327	0.631 (0.158)	3.14	0.301	0.703 (0.108)	3.06	0.326
FININS	+/-	-0.051 (0.947)	1.95	0.514	-0.187 (0.802)	1.96	0.509	-0.140 (0.851)	1.96	0.509
CHIN	+/-	0.849 (0.207)	2.09	0.477	0.641 (0.357)	2.11	0.474	0.795 (0.231)	2.08	0.480
RE	+/-	-1.313** (0.010)	4.48	0.223	-1.360*** (0.009)	4.53	0.220	-1.345*** (0.008)	4.53	0.220
MASSM	+/-	1.039** (0.028)	2.08	0.480	0.841 (0.104)	2.19	0.455	0.924* (0.051)	2.10	0.475
BMI	+/-	0.814** (0.038)	2.37	0.421	0.712* (0.091)	2.40	0.416	0.736* (0.066)	2.39	0.419
OPI	+/-	0.750* (0.068)	7.11	0.140	0.611 (0.147)	7.21	0.138	0.700* (0.081)	7.11	0.140
MPI	+/-	0.320 (0.471)	3.99	0.250	0.154 (0.746)	4.09	0.244	0.250 (0.569)	4.00	0.250
OTHR	+/-	0.697 (0.117)	3.35	0.298	0.552 (0.226)	3.39	0.294	0.649 (0.140)	3.34	0.299
Obs		1.018			1.018			1.018		
R^2		32.95%			32.87%			33.12%		

Significant at *** for 99 percent confidence level, ** for 95 percent and * for 90 percent.

Table 2 also reports the findings for Models 2 and 3, in which we analyze how pressure-sensitive institutional directors and pressure-resistant institutional directors, respectively, affect CSR reporting.

Model 2 in Table 2 shows that the percentage of pressure-sensitive institutional directors, as predicted, shows a negative sign; however, this result is insignificant. Thus, we reject the second hypothesis. Consequently, this finding suggests that pressure-sensitive institutional directors do not have an impact on CSR reporting, and this result is in line with the findings of Johnson and Greening (1999), who found that pressure-sensitive institutional directors did not have an effect on CSR disclosure. However, our results, contrary to our expectations, do not support the collusion hypothesis for this type of director. According to Johnson and Greening (1999), the fact that these directors frequently change their portfolios, and that the long-term profits derived from firms' CSR activities are not of interest to them, may explain the lack of impact of pressure-sensitive institutional directors on CSR disclosure.

Model 3 in Table 2 reports that the proportion of pressure-resistant institutional directors exhibits a positive sign, as predicted. Moreover, this result is statistically significant. Hence, the third hypothesis cannot be rejected. Accordingly, our findings suggest that pressure-resistant institutional directors have a positive effect on CSR disclosure, which is in line with the findings of Johnson and Greening (1999) suggesting that pressure-resistant institutional directors are more likely to encourage the disclosure of social, stakeholder and environmental information. This evidence supports the idea that pressure-resistant institutional directors prefer firms that are more committed to CSR reporting because the costs associated with monitoring managers in such firms are lower. In addition, pressure-resistant directors are concerned with their reputation, have a long-

term perspective and prefer firms that are more involved with CSR matters. This result supports the thesis that pressure-resistant institutional directors have incentives to encourage managers to disclose information about CSR activities, which is consistent with the results of Sethi (2005) and with the monitoring hypothesis.

Concerning the control variables, board independence (BINDEP) and firm size (SIZE) are positive and statistically associated with CSR disclosure in all models displayed in Table 2. The control variable insider ownership (INSOWN) shows a negative sign, according to our expectations, and this is statistically significant in all models. Finally, our findings demonstrate which sectors disclose more or less CSR information compared to the transport sector (TR – the reference category). In particular, compared to TR, the construction (CONST) and basic metal industries (BMI) sectors show a positive sign on CSR disclosure, and the results are statistically significant. The commerce and other services (COMER), the energy and water (EW), the mass media (MASSM) and other processing industries (OPI) sectors also present a positive sign in comparison to the transport sector, but the findings show that the COMER, MASSM and OPI sectors are only statistically significant in Models 1 and 3 and for the EW sector in Model 1. Therefore, the aforementioned sectors positively affect CSR reporting, which is a logical consequence of the high environmental and social impact of their activities. Thus, compared to the transport sector, all these sectors disclose more CSR information. By contrast, compared to TR, the real estate (RE) sector is negatively associated with CSR reporting in a statistically significant way, which implies that the real sector reports less CSR information than the transport sector. The remaining variables are insignificant.

We also address the issue of possible endogeneity between our independent variables (INST, SENSIT and RESIST) and CSR disclosure. The direction of causality

between the independent variables and CSR reporting is more likely to go from the directors analyzed in the paper to CSR disclosure, although it is also likely that CSR disclosure has an effect on board composition. This matter is addressed by lagging the independent variables in our models. For the sake of brevity, these findings are not shown, but they are in line with the core results of our analysis.

2.5.3 Sensitivity analysis

We check the robustness of our models using, as the dependent variable, the ratio between the CSR_Index and the firm size (SIZE), since firm size is a factor that has a positive effect on CSR reporting, as our results show: bigger companies are more likely to disclose CSR information than smaller ones. The results, which for the sake of brevity are not provided, demonstrate that the proportions of institutional directors (INST) and pressure-resistant institutional directors (RESIST) exhibit a positive sign, as expected, and are statistically significant. Regarding pressure-sensitive institutional directors (SENSIT), the results are insignificant. Hence, this evidence corroborates our results and, accordingly, we can affirm that our findings do not depend on the measure of CSR reporting.

2.6. DISCUSSION AND CONCLUSIONS

Our paper tries to fill the gap in the literature concerning the role played by institutional directors in firms' decision-making processes in relation to CSR disclosure. To deepen the analysis of institutional directors and their impact on CSR disclosure, we also distinguish between institutional directors who represent institutional investors with business ties to the company and institutional directors who represent institutional investors that do not maintain such business links.

Our results reveal that institutional and pressure-resistant directors have a positive effect on CSR disclosure. This finding supports the monitoring hypothesis, stressing the importance of reputation for these directors, in line with their long-term perspective. Their preferences for long-term investments and for mitigating agency costs support the view that institutional and pressure-resistant directors may have sufficient power to supervise managers and activities, to reduce opportunistic behaviour, to influence company decisions in favor of stakeholders' interests, and to foster changes in companies such as the widening of CSR reporting to include not only economic matters, but also social and environmental ones. In this vein, it will be more complicated for managers to collude with institutional and pressure-resistant directors than with other directors since these institutional directors might be interested in sharing supervision costs, resulting in a more active and efficient supervisory role. Furthermore, institutional and pressure-resistant directors on boards may avoid the temptation to join other institutional and pressure-sensitive directors in taking part in tunneling activities (that is, expropriating wealth from minority owners), since managers might influence them to gain their support and, in return, these directors might meet their aims. The more active supervision of managers' activities by these directors might prevent tunneling activities and might challenge the boards of directors and managers to disclose CSR issues. This is because institutional and pressure-resistant directors may link the competitive advantages with the benefits provided by CSR; this will lead to the long-term sustainability of the company and an improvement in company performance. Provided that pressure-resistant directors represent institutional investors who do not maintain commercial ties with the firms, they do not face any conflicts of interest arising from such business relationships and, consequently, they can behave in a more independent way. The firms in which the investors have invested can exert less pressure on such directors.

Contrary to our expectations, pressure-sensitive institutional directors do not have an impact on CSR disclosure, suggesting that banks and insurance companies hold short-term positions and, thus, simply seek to enhance their own profit. This result may be explained by arguing that supervision costs are high and that pressure-sensitive directors would have to bear these costs if they engaged in supervision, while sharing the benefits of the supervision with all the other stakeholders. This will discourage pressure-sensitive directors from becoming involved with monitoring any activities that could increase the CSR reporting. Moreover, pressure-sensitive directors might influence the decision-making process for their own benefit, and in order to achieve their own aims they might prefer to align themselves with the company. Thus, it is reasonable to suggest that pressure-sensitive directors may be interested in taking part in tunneling activities rather than supervision activities. Consequently, pressure-sensitive directors might not be interested in promoting CSR reporting, even though CSR disclosure may increase firm value. Following this line of argument, pressure-sensitive directors will be more interested in obtaining private benefits for the investors they represent than in enhancing firm performance, and more interested in monitoring other pressure-sensitive directors in order to prevent them from achieving their own purposes. Pressure-sensitive directors will align themselves with managers and will be less willing to confront them with CSR reporting; this is a result of the conflicts of interest faced by pressure-sensitive institutional directors because of the business ties between the firm and the pressure-sensitive institutional investors they represent. If these directors do not align themselves with managers, they might compromise these commercial links. Hence, pressure-sensitive directors may collude with managers, aligning themselves with their views and decisions, such as decisions not to disclose CSR information, and in this way, pressure-sensitive directors may meet their own aims and preserve the commercial relationships.

Additionally, pressure-sensitive directors tend to be interested in short-term earnings and, consequently, may support activities that increase short-term profitability; CSR reporting is not one of these activities because its benefits are displayed across a long-term horizon. Thus, the supervision costs, the conflict of interest felt by pressure-sensitive directors and these directors' short-term orientation support the absence of influence of these directors on CSR disclosure.

This research has significant implications. Our results offer a new insight into the positive role played by institutional directors, particularly pressure-resistant directors, on CSR disclosure and may, therefore, help policymakers to promote CSR reporting in the Spanish context, where almost 40% of board members are institutional directors. Hence, this result has important implications for both public policy and the governance of firms. When there are differences between institutional directors, especially pressure-resistant directors, and other experienced directors, then the interests of the institutional directors would mainly become a public policy matter. Regulatory bodies may recommend board structures with institutional directors, particularly pressure-resistant directors, not only for listed firms, but also for non-listed firms, since institutional directorship might encourage firms to disclose CSR information, which may be of benefit to all the stakeholders. Non-compliance with these recommendations may be perceived negatively by the capital markets and other funding sources, which may encourage companies to disclose CSR information. Secondly, our results suggest that institutional directors and pressure-resistant directors may challenge boards and managers to report on CSR issues, in line with the monitoring hypothesis and, consequently, these directors focus not only on economic performance, but also on environmental and social matters. Accordingly, this evidence supports the view that institutional directors and pressure-

resistant directors might actively supervise managers and might abandon their conventional inactive role in the supervision of managers, which would have an effect on CSR reporting. Thirdly, our findings offer important evidence in relation to earlier literature by examining whether institutional investors, when they appoint board directors, have an effect on CSR reporting. As a result, when academics examine the role played by institutional investors, they should address not only the number of shares held by institutional investors, but also their contribution to other methods of corporate control such as board membership. Fourthly, our evidence demonstrates that institutional directors should be considered as a heterogeneous group, because pressure-resistant directors have a positive impact on CSR reporting, while pressure-sensitive directors do not have any effect. Fifthly, this paper provides new insights for NGOs, which may consider our evidence when they help companies to get a better understanding of the importance of institutional directors in firms' decisions to disclose CSR information; such disclosures are in the interests of the institutional investors and of society, and they are of special benefit to all stakeholders. Finally, further investigations into the role of institutional directors become essential to give a better understanding of how they engage in efficient corporate governance mechanisms. Although earlier and more recent evidence has shed some light on these matters, academics must go even more deeply into the implications and incentives of institutional directors in the governance of firms.

This research has several limitations. First, despite taking into account as many factors as possible on the basis of theory and the prior empirical evidence, it is likely that there are unknown factors affecting CSR disclosure that have not been considered. Second, our research is based on Spanish listed firms from 2004 to 2013 and, therefore, our findings should not be extended to other periods. Third, although a significant

percentage of directors on Spanish boards are institutional directors, within this category there are fewer pressure-sensitive directors than pressure-resistant directors. Finally, our CSR_Index, based on the prior literature, is composed of three areas and is measured using many factors, but it is possible that other characteristics having an impact on the three areas of our analysis have not been addressed.

Finally, this investigation leads to suggestions for future research. First, it may be interesting to analyze the role played by institutional directors in relation to CSR disclosure for Spanish financial entities, and for small to medium-sized enterprises (SMEs). Secondly, it would also be interesting to explore whether there are institutional directors appointed by NGOs on the boards of listed and non-listed firms, and the role that these directors perform in relation to CSR reporting, given the work in society undertaken by NGOs. Finally, the number of female directors of listed firms is increasing, particularly in Spain, and consequently, the role played by female institutional directors in relation to CSR disclosure is also a relevant topic.

CHAPTER 3
THE EFFECT OF BOARD COMPOSITION ON ENVIRONMENTAL DISCLOSURE POLICIES OF SPANISH LISTED FIRMS

3.1. INTRODUCTION

In recent decades, firms have taken a greater interest in disclosing environmental information due to the multiple benefits associated with doing so. In this sense, environmental issues have been a matter of concern for society and governments, pressurising firms into decreasing their environmental impact, which is related to, among other things, social responsibility. In addition, more and more firms now recognise that if they want their business to be a success, they must be seen to be environmentally committed (Hassan and Ibrahim, 2012). For this reason, firms are more likely to voluntarily disclose information about environmental matters.

In this context, firms must have highly efficient governance systems in order to promote responsible and ethical business management, which is demanded by the stakeholders of the corporations, principally to prevent fraud. In line with this, authors such as Goodstein et al. (1994), Sánchez-Ballesta and García-Meca (2007), Cuadrado-Ballesteros et al. (2015) and Dias et al. (2017) discuss the relation between corporate governance and CSR disclosure. Furthermore, most of the attention of prior literature has been focused on board size and composition.

The role played by the board of directors is crucial (Goodstein et al., 1994; Pfeffer, 1972) because directors drive the decisions of the company such as reporting environmental information. In this sense, disclosing environmental issues drives firms to increase firm value (Blacconiere and Patten, 1994; Botosan, 1997) and reputation (Dhaliwal et al., 2012) and to affect board structure (Cuadrado-Ballesteros et al., 2015) and profitability (Aupperle et al., 1985), among other things. However, there exists a gap in the prior literature regarding the relation between a firm's board composition and its environmental disclosure.

Institutional directors have access to boards as they have shares or represent institutional investors. Prior literature (Zahra and Stanton, 1988; Almazán et al., 2005; Lopez-Iturriaga et al., 2015) suggests that these directors demonstrate active behaviour by playing a monitoring role over managers, and they have an interest in promoting environmental disclosure due to their concern for their reputation, among other things. Furthermore, institutional directors are dominant shareholders, or their representatives, and are characterised by a long-term orientation. Therefore, they may press managers to act in favour of stakeholders' interests, performing not only a supervisory role over the management team, but also disciplining and influencing it (Cornett et al., 2007). In this regard, institutional directors have an impact on several of a firm's characteristics, such as corporate value (García-Meca and Pucheta-Martínez, 2017), dividend policy (Pucheta-Martínez and López Zamora, 2016) and quality of financial information (Ajinkya et al., 2005).

However, within the group of institutional directors, it is also important to differentiate between pressure-sensitive institutional directors and pressure-resistant institutional directors, since they may play different roles in a firm's business decisions

given their different orientations and motivations (Ferreira and Matos, 2008; Ramalingegowda and Yu, 2012). In this sense, pressure-sensitive institutional directors (banks and insurance companies) are those who have commercial and investment relations with the firm, while pressure-resistant institutional directors (mutual funds, investment funds, pension funds and venture capital firms) are those who do not have any business links with the company, but rather an investment relationship.

Hence, given the relevance for stakeholders of disclosing environmental information and the role performed by institutional directors in companies, we aim to examine how these directors on boards affect firms' environmental reporting, filling the gap on this topic found in the previous literature. Additionally, we also analyse whether pressure-sensitive and pressure-resistant institutional directors demonstrate similar behaviour, or not, when it comes to environmental disclosure.

This study contributes to prior literature in several aspects. First, our findings help to understand how board composition moves firms to disclose environmental information. In this respect, we show how institutional directors will positively influence firm's decisions, and we therefore reinforce the hypothesis that institutional directors have incentives to press managers to report environmental issues. Second, we provide a new insight into the kind of role played by institutional directors in firms' decisions to disclose environmental information. We have demonstrated that institutional directors cannot be analysed as a whole due to pressure-resistant and pressure-sensitive institutional directors having different characteristics and incentives, which affect decisions to voluntarily report information such as that relating to the environment. Third, we strengthen the idea that those board directors with long-term orientations and concerns regarding their reputation and that of the firm are more active in promoting ethical

behaviour and, hence, are more likely to encourage environmental disclosure. Finally, the findings of this research may be useful for practitioners aiming to improve their environmental communication with stakeholders. Incorporating long-term horizon directors on boards may help in this respect.

This paper is structured as follows. The second section offers the institutional setting. The third section explains the theoretical background and the hypotheses. The fourth section shows the sample, methodology and variables used in the study. The fifth section analyses the findings, and the sixth section discusses the findings, conclusions and limitations.

3.2. INSTITUTIONAL SETTING

In Spain, only a small number of researchers focus on environmental disclosure matters, and most of this research has been developed in the accounting area. In this sense, the papers of Carmona and Carrasco (1988), Moneva and Llena (1996, 2000), Larrinaga et al. (2002) and Garcia-Ayuso and Larrinaga (2003) suggest that there has been a gradual rise in environmental disclosure among Spanish firms. This rise could be explained by firms' response to the pressure exerted by stakeholders in order to prolong their stay in the market.

In order to guide and promote companies in being transparent and ethical, the Spanish Conthe Code (2015) integrates some recommendations about CSR, such as CSR reporting and environmental matters. Moreover, there is a law that regulates public disclosure and access to environmental information (Law 27/2006, of July 18). The aim of this law is to guarantee free access to information, thus promoting transparency. In addition, Law 27/2006, modified in January of 2008, establishes the minimum contents

to be published (article 7) and includes some previsions in case of an imminent threat to the environment or human health produced by "human activities or natural causes" (article 9) (Casado, 2013). Furthermore, the law of Environmental Responsibility (Law 26/2007, of October 23) is based on the principle of preventing damage and the notion that the "polluter pays". It is important to mention that this law does not protect every single natural resource, but rather those included in the concept of environmental damage, i.e. damage to the sea, water, soil, riverbanks and to Spanish flora and fauna.

According to Sánchez-Ballesta and García-Meca (2005), the characteristics of Spanish corporate governance are as follows: large shareholders on boards, elevated family ownership and ownership concentration, capital markets that are insufficiently developed, one-tier board systems, low legal protection for investors, pyramidal groups, and inactive market control. In this sense, institutional investors, represented by institutional directors, have a high ownership concentration and, therefore, have very strong influence on corporate governance. Furthermore, Spain has the highest percentage of institutional directors (40%) on boards among European countries (Heidrick and Struggles, 2011). As a result, institutional directors are of great importance in the Spanish context.

3.3. THEORETICAL BACKGROUND AND HYPOTHESES

The disclosure of corporate social and environmental information has received a lot of attention in prior literature (Gray et al., 1995, 1996; Mathews, 2004; Beck and Laan, 2008; Brammer and Pavelin, 2008). Authors such as Gray et al. (1995) posit that stakeholder theory and legitimacy theory, among other social-political theories, have the greatest influence on corporate social responsibility reporting research, such as that

relating to environmental information.

Thus, in line with most of the previous research focused on environmental disclosure, our analysis is based on stakeholder theory (Kolk and Pinkse, 2007; Prado-Lorenzo et al., 2009; Sarkis et al., 2010; Husted and Allen, 2011; Lee, 2011; Perez-Batres et al., 2012; Yamahaki, 2013; Montiel and Delgado-Ceballos, 2014) and legitimacy theory (Patten, 1991, 1992; Lindblom, 1993; Gray et al., 1995; Walden and Schwartz, 1997; Milne and Patten, 2002; Llena et al., 2007; Ahmad and Mohamad, 2014). Additionally, the paper is also based on agency theory (Ness and Mirza, 1991; Mak, 1991; Haniffa and Cooke, 2002; Akhtaruddin et al., 2009).

Stakeholder theory, developed by Freeman (1984), argues that organisations' responsibilities go beyond the shareholders due to firms having to take into account all stakeholders, not only shareholders. Furthermore, Heath and Norman (2004) affirm that the scandals of recent years have necessitated a revision of the classic statement arguing that shareholders have sufficient power to guarantee their interests because firms' managers are protecting their interests. Shareholders represent just one element of a firm's stakeholders.

Donaldson and Preston (1995) argue that the stakeholder approach goes hand in hand with the creation of governance structures and, therefore, the board of directors becomes a relevant mechanism since it must be able to face stakeholders' demands (Luoma and Goodstein, 1999). Roberts (1992) and Deegan and Blomquist, (2006), among others, state that the pressure exerted by firms' stakeholders acts as a mechanism forcing managers to report environmental information. Furthermore, if a firm's environmental disclosure is confused, the organisation's stakeholders may think that managers are hiding something and, consequently, they might doubt the firm's environmental policies

(Depoers et al., 2016). Additionally, Hooghiemstra (2000) posits that environmental disclosure is a very good tool for improving a company's reputation, legitimacy and identity.

In this regard, the board of directors becomes an important instrument in a firm's decision to disclose environmental information, since it is responsible for defending the interests of all stakeholders. For this reason, boards have changed their composition in order to adapt to the new demands of company stakeholders. Moreover, Luoma and Goodstein (1999), Siebens (2002), Matsumura and Shin (2005) and Arjoon (2005) argue that directors have to promote ethical behaviour in business as they represent all stakeholders of the company, not just the shareholders.

Based on this argument, institutional directors are capable of monitoring managers (Brickley et al., 1988; Pucheta-Martínez and López-Zamora, 2016) and disciplining them (Lee and Roberts, 2015). Furthermore, they are also concerned about their reputation (Zahra et al., 1993; Johnson and Greening, 1999; Webb, 2004; Harjoto and Jo, 2011) and have a long-term perspective (Graves and Waddock, 1994), so they will defend stakeholders' interests and, consequently, may encourage managers to disclose environmental information. This view is supported by Lim et al. (2007), who show that external directors on boards, such as institutional directors, are positively correlated with firms' voluntary disclosure due to their interest in preserving their reputation.

According to legitimacy theory, firms' and society's interests are joined not only by financial issues, but also by contracts (Deegan, 2002). Consequently, if companies want to survive and grow in the market, they should behave in a responsible way (Lindblom, 1993; Archel et al., 2009). Deegan and Blomquist (2006) posit that legitimacy is built on corporate perceptions and, thus, companies have to inform society about their

activities, including those involving environmental matters. Prior literature about non-financial disclosure (Deegan, 2002; O'Donovan, 2002; Belal and Momin, 2009; Campbell et al., 2003; Islam and Deegan, 2008, 2010) shows that legitimacy theory is helpful to explain firms' motivations for reporting environmental matters. In this line of thinking, Henderson et al. (2004) posit that the action of reporting environmental information "plays a significant role in maintaining and establishing legitimacy, given that entities need to convey an image that they are operating in alignment with the expectations of the society" (Nurhayat et al., 2016). O'Donovan's (2002) paper is focused on legitimacy theory and gives an insight into how managers behave with respect to environmental information. More concretely, the paper argues that managers are concerned about legitimacy when a firm changes its actions, which explains why managers have incentives to disclose environmental information and social activities. O'Dwyer (2002) supports the perspective that firms' environmental disclosure is just a tactic to influence opinion, thus explaining why organisations are interested in reporting environmental matters. In addition, Cormier and Magnan (2015) find that increased environmental disclosure improves firms' legitimacy.

Brown (2007) argues that "stakeholder and legitimacy theories fall under the umbrella of bourgeois political economy theory, which hypothesizes that disclosure is linked to an interconnection of economic, political and social influences".

Authors such as Worthy and Neuschel (1983) posit that "issues of governance include the legitimacy of corporate power and corporate accountability, to whom and for what the corporation is responsible, and by what standards it is to be governed and by whom" (Haniffa and Cooke, 2005). Given that firms' corporate governance is reflective of their moral character, it is logical to think that board composition will affect the

legitimacy of an enterprise.

Regarding board composition, non-executive directors are recommended to supervise firms' overall business management as they are seen as impartial. Institutional directors are more likely to avoid or palliate environmental issues related to an organisation's activities in order to preserve organisational legitimacy (Haniffa and Cooke, 2005). Hence, institutional directors may be interested in establishing and maintaining legitimacy in order to promote ethical behaviour and, as a consequence, they will be more likely to support environmental reporting.

Finally, the agency approach argues that voluntary environmental reporting can be considered a mechanism for reducing agency costs. Boards have a responsibility to monitor managers to ensure that their interests are aligned with the shareholders and, therefore, no conflict of interests will arise (Fligstein and Freeland, 1995). In general terms, external directors on boards, such as institutional directors, might have incentives to reduce litigation risk and the problems associated with asymmetric information (García-Sánchez and Martínez Ferrero, 2017). Furthermore, Ness and Mirza (1991) suggest that "managers will disclose social information only if it increases their welfare, that is, when the benefits of disclosing this information outweigh the associated costs". Consequently, given that managers want to act in line with stakeholders' interests, they will be more likely to disclose environmental information. Thus, institutional directors, due to their above-mentioned characteristics, will press managers to behave in line with stakeholders' interest and, therefore, to increase environmental reporting.

Taking into account the above perspectives, institutional directors may help to prevent boycotts and protect a firm's reputation and, as a result, they may promote voluntary reporting such as that of environmental information (Hill and Snell, 1988),

given their long-term orientation (Graves and Waddock, 1994) and their interest in maintaining a good reputation (Johnson and Greening, 1999; Webb, 2004; Harjoto and Jo, 2011). Accordingly, we pose the following hypothesis:

H₁: Institutional directors have a positive influence on environmental disclosure

Prior literature has emphasised that, due to the links that their representatives maintain with firms, institutional directors do not all behave in the same way (Almazan et al., 2005; Borokhovich et al., 2006; Ferreira and Matos, 2008; Ramalingegowda and Yu, 2012). There are two types of institutional directors: pressure-sensitive and pressure-resistant (Bhattacharya and Graham, 2007; Dong and Ozkan, 2008; Pucheta-Martínez and López-Zamora, 2016). Pressure-sensitive institutional directors represent institutional investors who maintain two relations with the firms in which they have invested: commercial and investment (banks and insurance firms). In contrast, pressure-resistant institutional directors represent institutional investors who only maintain an investment tie with the organisation, but not a commercial relation (mutual funds, investment funds, pension funds and venture capital firms).

Previous research (Finkelstein, 1992; David et al., 1998; Almazán et al., 2005) has shown that in order to safeguard business links with the firms they represent, pressure-sensitive institutional directors may prefer not to challenge managers' decisions (Finkelstein, 1992). In this sense, authors such as Eng (1999) and Johnson Greening (1999) highlight the short-term perspective that this type of director has, given their interest in short-term profitability. For this reason, these directors may not act as an effective monitoring mechanism over managers (Brickley et al., 1988), thus not pressing managers to disclose information about environmental matters.

In addition, Hambrick and D'Abeni (1992) and Daily and Dalton (1994) point out

that the importance of a board is "strictly related to its ability to establish linkages with the external environment, through which it may represent the firm in the community, enhancing organizational legitimacy and reputation" (Arena et al., 2015). In this sense, banks and insurance companies may be less concerned about organisational legitimacy and firms' reputations, as they have incentives to be aligned with managers and, thus, have no interest in pressuring managers to disclose environmental information to satisfy stakeholders' demands.

Furthermore, the paper by Arena et al. (2015) suggests that those firms with strong stakeholder orientation will be more proactive in disclosing environmental information in order to "signal future environmental performance". In other words, the stronger a director's stakeholder orientation is, the more likely they are to disclose environmental information. Firms with more pressure-sensitive institutional directors might disclose less environmental information because these firms will have a short-term orientation. Pressure-sensitive institutional directors have a short-term perspective and do not have a strong stakeholder orientation; thus, they will not want managers to spend money on environmental or social aspects because they consider such actions a waste of resources as they return no results in the short term.

In this sense, Ryan and Schneider (2002) found that the short-term perspective of this type of director is the cause of their lack of concern for the firm's reputation and, thus, they have no incentive to influence managers' business decisions related to disclosure of environmental information. Therefore, investors with a short-term perspective will not be associated with the disclosure of environmental information. Rupley et al. (2012, p. 616) argue that "if short-horizon investors believe firm managers are spending costly resources in creating environmental disclosures that will not benefit

them in the short-run, they may act by selling off shares".

In contrast, pressure-resistant institutional directors play a disciplinary and monitoring role over managers (Lopez-Iturriaga et al., 2015), since they represent institutional investors who do not have any commercial ties with the companies in which they have invested and, hence, they are not worried about losing any business links with the company. In this sense, mutual funds, investment funds, pension funds and venture capital firms will be concerned about managers' behaviour because their own reputation is at stake. Thus, given the long-term perspective of pressure-resistant institutional directors (Sethi, 2005), they will pressure managers to behave according to the interests of the stakeholders of the firm and, therefore, there is an increased likelihood of environmental information being disclosed. In addition, Finseth (2010) and Cotter and Najah (2012) report that some pressure-resistant institutional directors push firms to take into account environmental matters, and Johnson and Greening (1999) show that pension funds are positively correlated with matters related with environmental concerns, such as product quality.

Consequently, based on the above arguments, we expect that pressure-sensitive institutional directors and pressure-resistant institutional directors, given their different incentives, will affect a firm's environmental disclosure in different ways.

Thus, we posit the following two hypotheses:

H_{2a}: Pressure-sensitive institutional directors have a negative influence on environmental disclosure.

H_{2b}: Pressure-resistant institutional directors have a positive influence on environmental disclosure.

3.4. EMPIRICAL DESIGN

3.4.1 Sample

We use a sample that takes into account the Spanish non-financial listed firms from 2004 to 2013. Financial entities have been removed from the sample because they comply with different accounting rules and their financial statements are not analogous to those of non-financial firms and, as a consequence, they are not comparable (La Porta et al., 2000). Thus, we use an unbalanced panel dataset of 1,092 firm-year observations. Following Arellano (2003), balanced and unbalanced panels are equal in terms of consistency.

To collect the data relative to corporate governance, we used the information contained in the annual corporate governance reports published by the Spanish Securities Market Commission (CNMV). Also, financial information was taken from financial statements published in the CNMV. Finally, to construct the index for measuring environmental disclosure, we obtained information from the Global Reporting Initiative (GRI) web page and from the sustainability reports that firms voluntary disclose on their websites.

3.4.2 Variables

Based on prior literature (Moneva and Llena, 1996; Llena et al., 2007; Cuadrado-Ballesteros et al., 2015), the dependent variable of environmental disclosure has been measured in two different ways. Firstly, a dichotomy variable (DISC_SUSTAI) takes the value 1 if the firm discloses the sustainability report, where environmental matters are reported and, 0 otherwise. Secondly, we have constructed, based on past research

(Moneva and Llena, 1996; Llena et al., 2007; Cuadrado-Ballesteros et al., 2015), an environmental disclosure index denoted by EN_Index. This index will range between 0 and 1. For each firm, the EN_Index takes into account six items: (1) information about a firm's objectives on environmental matters, (2) its environmental compromise, (3) its environmental policy, (4) its environmental management systems, (5) its environmental impact, and (6) improvements related with that environmental impact. Hence, if the company discloses all six items, it is given 1 point. If the disclosure is partial – i.e., the firm discloses between 1 and 5 items – it is given 0.5 points. If the firm´s information disclosure is null (0 items), it is given 0 points. Accordingly, a firm with 1 point has complete disclosure of environmental information, a firm with 0.5 points has partial disclosure of environmental information, and a firm with 0 points has no disclosure of environmental information. In this sense, our aim is to analyse the environmental information that listed firms have reported in their sustainability reports and how they are improving, or not, their environmental management systems and their environmental impact.

We consider the following independent variables. First, we take into account the percentage of institutional directors on boards (INST), which is calculated as the ratio between the number of institutional directors and the total number of directors. Second, we consider two different kinds of institutional directors. Accordingly, we take into account the variable SENSIT that represents the percentage of pressure-sensitive institutional directors, calculated as the ratio between the number of pressure-sensitive directors and the total number of board members. Furthermore, the variable RESIST represents the percentage of pressure-resistant institutional directors on boards and is

calculated as the ratio between the number of pressure-resistant directors and the total number of board members.

Concerning control variables, we consider those factors that may influence our dependent variables. First, we consider the return on assets (ROA) to control for profitability. ROA is calculated as a ratio of earnings before interest and taxation (EBIT) to book assets. We predict a positive sign for this variable in line with Kim et al. (2012), who find a positive association between high financial resources and high levels of social practices. Second, leverage (LEV) is calculated as the ratio of the book value of debt to the total assets, and we expect a positive sign, according to Jensen and Meckling (1976), who report that leverage is positively associated with CSR reporting and, hence, environmental disclosure, since companies with high levels of leverage will be more likely to disclose voluntary information to reduce agency costs. Third, firm size (FIRMSIZE) is calculated as the logarithm of the total assets in thousands of euro, and we expect a positive relation between this variable and our dependent variables in line with Jenkins (2006) and Bies et al. (2007). Fourth, we control for board size (BDSIZE), which is calculated as the total number of board members. We expect a positive sign for this variable according to prior literature (Gallego et al., 2009) that shows a positive relationship between board size and CSR disclosure such as environmental information. Fifth, we consider the number of board meetings (BMEETING), and we expect a positive sign for this variable in line with Prado-Lorenzo and Garcia-Sanchez (2010). Sixth, we control for board independence (INDEP), which is calculated as the ratio between the number of independent directors sitting on boards and the total number of board members, predicting a positive sign between INDEP and our dependent variables. Authors such as Zahra and Stanton (1988) and Ibrahim and Angelidis (1995) report that independent

directors, due to their characteristics, are concerned about their reputation and, consequently, are more interested in CSR disclosure, which includes environmental matters. Additionally, we control the sector by a dummy variable that takes the value 1 if the firm belongs to the analysed sector, with 0 otherwise. We classify the sectors according to categorisation used by the supervisory body of stock exchanges (CNMV). In this regards, we consider the transport sector (TR); the cement, glass and construction materials sector (CGCM); the commerce and other services sector (COMER); the construction sector (CONST); the energy and water sector (EW); the insurance sector (FININ); the real estate sector (RE); the chemical industry sector (CHIN); the basic metal industries sector (BMI); the new technologies sector (NT); the other processing industries sector (OPI); the metal processing industries sector (MPI); and, finally, the other sectors (OTHERS – the reference category), which considers the remaining sectors that only have a few companies. According to previous research (Deegan and Gordon, 1996; Archel-Domenech, 2003; García-Ayuso and Larrinaga, 2003), some sectors are more likely to voluntarily report information, such as environmental data, than others, as their activities have a greater impact on society. Finally, we also control for firm and year fixed effects. Table 1 shows a summary of the variables used in this research.

TABLE 12. Variable description

Variables	Description	Expected Sign
Dependent		
DISC_SUSTAI	Dummy variable that takes the value 1 the firm discloses the sustainability report, where environmental matters are reported, and 0, otherwise	
EN_Index	Index that ranges between 0 and 1 and takes into account the items explained in section 4.2	
Independent		
INST	Ratio between the total number of institutional directors on board and the total number of directors on board	+
RESIST	Ratio between the total number of pressure-resistant institutional directors on board and the total number of directors on board	+
SENSIT	Ratio between the total number of pressure-sensitive institutional directors on board and the total number of directors on board	-
Control		
ROA	Ratio of earnings before interest and taxation (EBIT)/ Total book assets	+
LEV	Ratio of book value of debt over total assets	+
FIRMSIZE	Log of total assets	+
BDSIZE	Number of board members	+
BMEETING	Number of board meetings	+
INDEP	Ratio between the number of independent directors sitting on board and the number of board members	+
TR	Transport sector	
CGCM	Cement, glass and construction materials sector	
COMER	Commerce and other services sector	
CONST	Construction sector	
EW	Energy and water sector	
FININ	Insurance sector	
RE	Real estate sector	
CHIN	Chemical industry sector	
BMI	Basic metal industries sector	
NT	New technologies sector	
OPI	Other processing industries sector	
MPI	Processing industries sector	
OTHERS	Others sectors	

3.5. RESULTS

3.5.1 Descriptive statistics

The descriptive statistics for the variables are provided in Table 2. Our results show, on average, that the EN_Index is 0.364, which means that Spanish listed firms partially disclose on environmental matters. Concerning the variable DISC_SUSTAI, our results show that, on average, 43.97% of Spanish listed firms disclose sustainable reports containing environmental information. In other words, less than half of the Spanish listed firms disclose sustainable reports. In addition, on average, 31.12% of board members are institutional directors, with pressure-sensitive directors accounting for 6.99% and pressure-resistant directors accounting for 24.13%. Furthermore, ROA, on average, is 4.45%, and FIRMSIZE is 13.191 (log of total assets expressed in euro). Board size (BDSIZE) and board meetings (BDMEETING) are, on average, 10.67 and 9.56, respectively. Leverage, LEV, is 50.63%, and board independence, INDEP, is 31.84%, on average. Finally, the transport sector (TR) accounts for 3.33% of firms; cement, glass and construction materials sector (CGCM) 2.85%; commerce and other services sector (COMER) 10.88%; construction sector (CONST) 7.71%; energy and water sector (EW) 7.61%; insurance sector (FININ) 3.80%; real estate sector (RE) 11.94%; chemical industry sector (CHIN) 3.17%; basic metal industries sector (BMI) 4.22%; new technologies sector (NT) 6.55%; other processing industries sector (OPI) 23.78%; processing industries sector (MPI) 9.83%' and other sectors (OTHERS) 4.22%.

TABLE 13. Main descriptive statistics

Panel A. Continuous variables

Variables	N	Mean	Std. Dev.	Perc. 25th	Perc. 50th	Perc. 75th
EN_Index	1092	0.364	0.446	0.000	0.000	1.000
INST	1092	31.107	23.917	13.000	27.888	50.000
SENSIT	1092	6.981	12.231	0.000	0.000	11.000
RESIST	1092	24.125	23.649	0.000	18.181	40.000
ROA	1092	4.450	12.771	-0.434	3.346	8.400
FIRMSIZE	1092	13.191	1.890	11.810	13.030	14.460
BDSIZE	1092	10.668	3.773	8.000	10.000	12.000
BMEETING	1092	9.557	3.70	7.000	10.000	12.000
LEV	1092	50.625	40.63	32.546	54.293	70.160
INDEP	1092	31.842	18.081	20.000	30.769	42.000

Panel B. Dummies variables

	1(%)	0(%)
DISC_SUSTAI	43.97%	56.03%
TR	3.33%	96.67%
CGCM	2.85%	97.15%
COMER	10.88%	89.12%
CONST	7.71%	92.29%
EW	7.61%	92.39%
FININ	3.80%	96.20%
RE	11.94%	88.06%
CHIN	3.17%	96.83%
BMI	4.22%	95.78%
NT	6.55%	93.45%
OPI	23.78%	76.22%
MPI	9.83%	90.17%
OTHERS	4.22%	95.78%

3.5.2 Multivariate analysis

With the purpose of testing for multicollinearity, we calculate the correlation matrix provided in Table 3. Our results show that all pairs of coefficients are lower than 0.8 and, hence, it can be concluded that multicollinearity is not a concern.

TABLE 14. Correlation matrix

	DISC_SUSTAI	EN_Index	INST	SENSIT	RESIST	ROA	LEV	FIRMSIZE	BDSIZE	BMEETING	INDEP	TR	CGCM	COMER	CONST	EW	FININ	RE	CHIN	BMI	NT	OPI	MPI	OTHERS
DISC_SUSTAI	1																							
EN_Index	0.946*** (0.000)	1																						
INST	0.051 (0.115)	0.036 (0.271)	1																					
SENSIT	0.030 (0.354)	0.048 (0.137)	0.233*** (0.000)	1																				
RESIST	0.040 (0.218)	0.011 (0.732)	0.848*** (0.000)	-0.232*** (0.000)	1																			
ROA	0.109*** (0.001)	0.107*** (0.001)	-0.052 (0.108)	-0.012 (0.709)	-0.083** (0.010)	1																		
LEV	0.126*** (0.000)	0.099*** (0.002)	0.146*** (0.000)	-0.003 (0.927)	0.162*** (0.000)	-0.210*** (0.000)	1																	
FIRMSIZE	0.524*** (0.000)	0.563*** (0.000)	0.170*** (0.000)	0.231*** (0.000)	0.057* (0.076)	0.084*** (0.009)	0.361*** (0.000)	1																
BDSIZE	0.311*** (0.000)	0.356*** (0.000)	0.278*** (0.000)	0.347*** (0.000)	0.110*** (0.000)	0.102*** (0.001)	0.144*** (0.000)	0.602*** (0.000)	1															
BMEETING	0.135*** (0.000)	0.159*** (0.000)	0.043 (0.179)	0.064** (0.047)	-0.004 (0.905)	-0.042 (0.191)	0.131*** (0.000)	0.259*** (0.000)	0.278*** (0.000)	1														
INDEP	0.161*** (0.000)	0.217*** (0.000)	-0.417*** (0.000)	-0.115*** (0.000)	-0.354*** (0.000)	0.022 (0.487)	-0.188*** (0.000)	0.084*** (0.009)	0.103*** (0.001)	0.103*** (0.001)	1													
TR	0.136*** (0.000)	0.128*** (0.000)	0.083** (0.010)	0.225*** (0.000)	-0.024*** (0.631)	0.015 (0.631)	-0.188*** (0.000)	0.218*** (0.000)	0.190*** (0.000)	0.091*** (0.004)	0.035 (0.274)	1												
CGCM	0.002 (0.9603)	0.024 (0.449)	0.029 (0.362)	-0.044 (0.167)	0.065** (0.043)	0.050 (0.124)	0.023 (0.467)	0.062* (0.055)	0.077 (0.016)	-0.086*** (0.008)	-0.031 (0.329)	-0.031 (0.332)	1											
COMER	-0.015 (0.630)	-0.021 (0.502)	-0.069** (0.033)	-0.044 (0.169)	-0.081 (0.012)	-0.100*** (0.002)	-0.028 (0.374)	-0.180*** (0.000)	-0.124*** (0.000)	-0.058 (0.074)	0.071** (0.027)	-0.064** (0.047)	-0.059* (0.065)	1										
CONST	0.206*** (0.000)	0.248*** (0.000)	0.077** (0.017)	-0.115*** (0.000)	0.137*** (0.000)	0.003 (0.910)	0.132*** (0.000)	0.233*** (0.000)	0.158*** (0.000)	0.018 (0.573)	-0.018 (0.562)	-0.053 (0.101)	-0.049 (0.127)	-0.101*** (0.002)	1									
EW	0.211*** (0.000)	0.270*** (0.000)	-0.039 (0.226)	0.152*** (0.000)	-0.112*** (0.000)	0.113*** (0.000)	-0.038 (0.231)	0.335*** (0.000)	0.276*** (0.000)	0.238*** (0.000)	0.150*** (0.000)	-0.052 (0.104)	-0.049 (0.130)	-0.100*** (0.002)	-0.083 (0.010)	1								
FININ	-0.087 (0.007)	-0.069** (0.033)	0.051 (0.115)	0.027 (0.392)	-0.006 (0.851)	0.146*** (0.000)	-0.239*** (0.000)	-0.038 (0.240)	0.040 (0.216)	-0.125*** (0.000)	0.006 (0.833)	-0.036 (0.260)	-0.034 (0.294)	-0.069** (0.032)	-0.057* (0.077)	-0.057* (0.079)	1							
RE	-0.273*** (0.000)	-0.265*** (0.000)	0.163*** (0.000)	-0.051 (0.113)	0.154*** (0.000)	-0.222*** (0.000)	0.138*** (0.000)	-0.017 (0.601)	-0.101*** (0.000)	0.064** (0.037)	-0.139*** (0.000)	-0.067** (0.037)	-0.063 (0.052)	-0.128*** (0.001)	-0.106*** (0.001)	-0.105*** (0.001)	-0.073* (0.024)	1						
CHIN	0.009 (0.763)	0.004 (0.889)	-0.171*** (0.000)	-0.072** (0.027)	-0.140*** (0.000)	0.033 (0.313)	-0.062* (0.056)	-0.048 (0.140)	-0.146*** (0.000)	-0.136*** (0.000)	0.093*** (0.003)	-0.033 (0.306)	-0.031 (0.340)	-0.063* (0.052)	-0.052 (0.107)	-0.051 (0.110)	-0.036 (0.268)	-0.066** (0.040)	1					
BMI	0.0361 (0.267)	0.001 (0.962)	0.121*** (0.000)	0.051 (0.113)	0.089*** (0.006)	0.013 (0.684)	0.040 (0.216)	-0.045 (0.160)	0.057* (0.075)	-0.147*** (0.000)	-0.212*** (0.000)	-0.038 (0.234)	-0.036 (0.268)	-0.073** (0.024)	-0.061 (0.061)	-0.060 (0.063)	-0.041 (0.199)	-0.077** (0.017)	-0.038 (0.242)	1				
NT	0.015 (0.646)	0.005 (0.875)	-0.059* (0.067)	0.076 (0.0198)	-0.062* (0.003)	-0.095*** (0.055)	-0.017 (0.595)	-0.028 (0.378)	0.009 (0.761)	0.124*** (0.000)	0.138*** (0.000)	-0.048 (0.134)	-0.045 (0.163)	-0.092*** (0.004)	-0.076** (0.018)	-0.076 (-0.076)	-0.052 (0.105)	-0.097*** (0.002)	-0.047 (0.140)	-0.055* (0.087)	1			
OPI	-0.059* (0.066)	-0.076** (0.018)	-0.104*** (0.001)	0.045 (0.163)	-0.084*** (0.000)	0.072** (0.027)	-0.195*** (0.000)	-0.200*** (0.000)	-0.213*** (0.000)	-0.043 (0.180)	-0.022 (0.483)	-0.102*** (0.001)	-0.095*** (0.003)	-0.195*** (0.000)	-0.161*** (0.000)	-0.160*** (0.000)	-0.111*** (0.000)	-0.205*** (0.000)	-0.101*** (0.001)	-0.117*** (0.000)	-0.147*** (0.000)	1		
MPI	-0.077 (0.016)	-0.155*** (0.000)	-0.034 (0.286)	-0.087*** (0.007)	0.009 (0.771)	0.026 (0.417)	0.137*** (0.000)	0.104 (0.001)	-0.055* (0.090)	-0.009 (0.782)	0.017 (0.584)	-0.061* (0.062)	-0.056* (0.082)	-0.115*** (0.000)	-0.095*** (0.003)	-0.094*** (0.003)	-0.065** (0.043)	-0.121*** (0.000)	-0.059* (0.066)	-0.069** (0.032)	-0.087*** (0.007)	-0.184*** (0.000)	1	
OTHERS	0.057* (0.078)	0.090*** (0.005)	0.026 (0.412)	0.128*** (0.000)	0.097*** (0.002)	0.044 (0.171)	0.068** (0.036)	0.055* (0.090)	0.105*** (0.001)	-0.023 (0.472)	-0.084*** (0.009)	-0.038 (0.234)	-0.036 (0.268)	-0.073** (0.024)	-0.060 (0.061)	-0.060* (0.063)	-0.041 (0.199)	-0.077** (0.017)	-0.038 (0.242)	-0.044 (0.174)	0.009 (0.761)	-0.117*** (0.000)	-0.069** (0.032)	1

In order to estimate the model where the dependent variable is DISC_SUSTAI, a dummy variable, we use a logistic regression because it is the most appropriate for handling the data. In contrast, we use a Tobit regression for the model where the dependent variable is the environmental index disclosure, EN_index, because this variable ranges between 0–1. This variable is also left- or right-censored and, that is why a Tobit regression is the most suitable regression in this case.

In Tables 4 and 5, we provide the findings for the regression models where the dependent variable is DISC_SUSTAI and EN_Index, respectively. In Model 1 in Table 4, and Model 4 in Table 5, we have analysed the effect of institutional directors on the DISC_SUSTAI and EN_Index variables, respectively. As predicted, the sign of the proportion of institutional directors is positive and statistically significant in both models; hence, the first hypothesis cannot be rejected.

Models 2, 3, 5 and 6 in Tables 4 and 5 make a distinction between pressure-sensitive institutional directors and pressure-resistant institutional directors. As can be seen in Model 2 in Table 4, and Model 5 in Table 5, pressure-sensitive institutional directors have a negative effect on a firm's decision to disclose sustainability reports and on the EN_Index, but they are not statistically significant. In contrast, pressure-resistant institutional directors have a positive impact on the disclosure of sustainability reports containing information on environmental issues and on the EN_Index, with this being statistically significant. According to these findings, the second hypothesis has to be rejected, whilst the third cannot be rejected.

TABLE 15. Regression models where the dependent variable is DISC_SUSTAI

Variables	Expected Sign	Model 1 Estimated coefficient (p.value)	Model 2 Estimated coefficient (p.value)	Model 3 Estimated coefficient (p.value)
INST	+	0.001* (0.091)		
SENSIT	+		-0.005 (0.631)	
RESIST	-			0.014* (0.051)
ROA	+	-0.015 (0.212)	-0.013 (0.267)	-0.015 (0.205)
LEV	+	0.003 (0.063)*	0.001* (0.070)	0.002* (0.065)
FIRMSIZE	+	0.459*** (0.002)	0.454*** (0.003)	0.473*** (0.002)
BDSIZE	+	0.055 (0.243)	0.063 (0.169)	0.055 (0.239)
BMEETING	+	0.018 (0.677)	0.020 (0.642)	0.025 (0.559)
INDEP	+	0.043*** (0.000)	0.035*** (0.002)	0.042*** (0.000)
TR		1.533 (0.536)	1.900 (0.447)	1.816 (0.469)
CGCM		-1.774 (0.496)	-1.820 (0.484)	-1.769 (0.501)
COMER		-1.118 (0.582)	-1.048 (0.611)	-0.990 (0.635)
CONST		2.334 (0.262)	2.482 (0.234)	2.359 (0.263)
EW		0.969 (0.665)	1.147 (0.606)	1.102 (0.630)
FININ		-3.359 (0.125)	-3.21 (0.144)	-3.302 (0.140)
RE		-5.818*** (0.002)	-5.635*** (0.003)	-5.802*** (0.003)
CHIN		-0.608 (0.901)	-0.766 (0.836)	-0.492 (0.934)
BMI		-0.339 (0.893)	-0.258 (0.920)	-0.276 (0.915)
NT		-0.629 (0.781)	-0.529 (0.816)	-0.517 (0.824)
OPI		-1.315 (0.461)	-1.268 (0.477)	-1.228 (0.501)
MPI		-2.543 (0.193)	-2.551 (0.193)	-2.543 (0.202)

Significant at *** for 99 percent confidence level, ** for 95 percent and * for 90 percent.

TABLE 16. Regression models where the dependent variable is EN_Index

Variables	Expected Sign	Model 4 Estimated coefficient (p.value)	Model 5 Estimated coefficient (p.value)	Model 6 Estimated coefficient (p.value)
INST	+	0.006* (0.063)		
SENSIT	+		-0.005 (0.357)	
RESIST	-			0.008** (0.015)
ROA	+	-0.006 (0.227)	-0.006 (0.231)	-0.005 (0.276)
LEV	+	0.001** (0.013)	0.001** (0.014)	0.001** (0.027)
FIRMSIZE	+	0.289*** (0.001)	0.294*** (0.001)	0.275*** (0.002)
BDSIZE	+	0.008 (0.683)	0.006 (0.771)	0.016 (0.443)
BMEETING	+	0.013 (0.529)	0.016 (0.433)	0.016 (0.449)
INDEP	+	0.017*** (0.002)	0.016*** (0.002)	0.012** (0.014)
TR		0.314 (0.838)	0.485 (0.755)	0.624 (0.700)
CGCM		-0.691 (0.668)	-0.684 (0.675)	-0.669 (0.682)
COMER		-0.766 (0.484)	-0.694 (0.532)	-0.691 (0.536)
CONST		1.112 (0.363)	1.121 (0.366)	1.240 (0.322)
EW		1.181 (0.341)	1.276 (0.311)	1.378 (0.274)
FININ		-1.946 (0.140)	-1.919 (0.149)	-1.825 (0.165)
RE		-3.617*** (0.000)	-3.577*** (0.001)	-3.467*** (0.001)
CHIN		-0.881 (0.566)	-0.837 (0.591)	-0.902 (0.561)
BMI		-0.897 (0.487)	-0.880 (0.498)	-0.794 (0.547)
NT		-0.511 (0.675)	-0.448 (0.717)	-0.420 (0.736)
OPI		-0.892 (0.304)	-0.844 (0.336)	-0.822 (0.347)
MPI		-2.254** (0.028)	-2.247** (0.030)	-2.242** (0.031)

Significant at *** for 99 percent confidence level, ** for 95 percent and * for 90 percent.

These results reinforce the idea promoted by prior literature (Hill and Snell, 1988; Graves and Waddock, 1994; Johnson and Greening, 1999; Webb, 2004; Harjoto and Jo, 2011) suggesting that institutional directors could help to prevent reputational crisis and boycotts by reporting CSR information such as environmental issues, given their long-term orientation and their concern for their reputation. Additionally, this type of outside director is more likely to monitor managers not only out of concern for their reputation, but also because they may be worried about their capital or maybe they intend to "improve their external labor market" (Kaplan and Reishus, 1990). Moreover, Rupley et al. (2012) found that institutional investors have influence over managers in terms of environmental disclosure, with the purpose of handling media coverage of an environmental crisis.

In addition, when we separate institutional directors into pressure-resistant institutional directors and pressure-sensitive institutional directors, our findings show that the former play a disciplinary and monitoring role over managers (Lopez-Iturriaga et al., 2015) due to their long-term orientation. In this sense, prior literature (Bushee, 1998; Ryan and Schneider, 2002) supports this hypothesis, since pressure-resistant institutional directors have long-term investment horizons and, therefore, will monitor management in pursuit of satisfying the demands of a firm's stakeholders. The disclosure of environmental information can be considered one of the mechanisms for satisfying these demands. Additionally, their concerns about their reputation will pressure managers into behaving according to the interests of the stakeholders of the company, thus supporting the disclosure of environmental information.

In contrast, pressure-sensitive institutional directors will prefer not to be in conflict with managers' decisions due to their business links with the company (Finkelstein, 1992; David et al., 1998; Almazán et al., 2005) and their short-term perspective (Eng, 1999; Johnson Greening, 1999). Regarding their short-term horizon, authors such as Ryan and Schneider (2002) and Rupley et al. (2012) highlight the idea that this type of director is less concerned about a firm's reputation and will not encourage managers to disclose environmental information, since there is no benefit in the short term.

We have taken into account the possible endogeneity between INST, SENSIT and RESIST (the independent variables) and DISC_SUSTAI and EN_Index (dependent variables). The endogeneity has been handled by lagging the independent variables by one year. The main results, which, for the sake of brevity, are not provided here, remain unchanged and, therefore, the endogeneity is not a concern.

3.6. DISCUSSION AND CONCLUSIONS

This paper provides new evidence regarding the role played by institutional directors in firms' decisions to disclose environmental information and on the incentives that move them to report, or not report, these matters. Additionally, based on prior literature about institutional directors (Almazan et al., 2005; Borokhovich et al., 2006; Ferreira and Matos, 2008; Ramalingegowda and Yu, 2012), we also distinguish between banks and insurance firms (pressure-sensitive institutional directors), institutional investors who have two links with firms (investment and commercial), and mutual funds, investment funds, pension funds and venture capital firms (pressure-resistant institutional directors), who only have the link of the investment.

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Our findings report that institutional directors, as a whole, are positively associated with the firms' environmental disclosure, supporting the idea that these directors play a monitoring role, have a long-term perspective and are concerned about their reputation. Thus, the reputational concerns of institutional directors may reduce agency costs, since they will be interested in disciplining and supervising managers, guiding them toward decisions that strengthen their ties with their stakeholders and making business decisions that keep stakeholders informed on different matters, such as environmental ones. Additionally, institutional directors may pressure managers to disclose environmental information as a tactic to influence the opinion of society in order to improve a firm's reputation and, hence, their reputation. Moreover, since corporate governance affects a firm's legitimacy, institutional directors will try to preserve high moral standards, which directly affect environmental disclosure. In this sense, it is easy to think that firms with high moral standards will be more likely to disclose voluntary information, such as environmental matters, in order to promote an ethical attitude.

Pressure-sensitive and pressure-resistant institutional directors have also been examined. On one hand, our results find that pressure-sensitive institutional directors exert a negative influence on a firm's decision to disclose environmental information, but this effect is not statistically significant and, therefore, these institutional directors do not have an impact on a firm's decision to disclose environmental information, contrary to our expectations. This finding suggests that banks and insurance companies have a short-term horizon and will influence managers towards short-term decisions that increase their profit. For this reason, pressure-sensitive institutional directors have no intention to supervise managers and press them to disclose environmental information, as there is no profit associated with the reporting of information about environmental matters in the

short-term. Thus, it is reasonable to think that these directors seek their own profit and, consequently, given the business ties they have with the firms where they sit on boards and the conflict of interests among the institutional investors represented by them, pressure-sensitive institutional directors will align with firms' managers. Finally, our results also support the theory that these directors do not have a strong stakeholder orientation and will thus be less proactive at the time of disclosing environmental issues.

In contrast, our results show that pressure-resistant institutional directors play a disciplinary and monitoring role over managers due to their long-term perspective. In this sense, they will pressure managers to engage with business decisions that may improve their reputation (such as disclosure of environmental information) and the relationship among firms' stakeholders in order to reduce opportunistic behaviour by managers. These directors will try to preserve a firm's legitimacy, reduce agency costs and enhance a firm's relation with stakeholders in order to improve (or maintain) their reputation, which goes hand in hand with a firm's decisions such as environmental disclosure.

Our research has several important implications. First, our findings suggest that board composition is a very important matter to take into account if we aim to analyse environmental disclosure, since certain directors, such as institutional directors and pressure-resistant directors, will promote the voluntary disclosure of this information. Second, prior literature focused on the Spanish context by analysing the impact of board composition on financial variables, but little attention has been paid to the consequences of board composition on environmental disclosure. Our research fills this gap. Third, our results suggest that firms with more institutional directors are more likely to report environmental information and, therefore, regulatory bodies may use this evidence in order to promote institutional directors in public and non-public organisations. Fourth,

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our research sheds some light on the role played by board composition with regard to environmental disclosure, but more research is needed on this matter with the aim of extending the analysis to other types of firms, such as non-listed ones. Finally, ONGs and other firms or organisations that promote business ethics can use our findings to inform other companies about how to promote environmental disclosure using board composition.

This research is not free of limitations. First, based on prior literature, we have taken into account many variables that affect environmental disclosure, but there could be other factors that impact on our dependent variables. Finally, our sample covers 2004 to 2013 and, hence, our analysis is limited to those years.

Finally, our research has opened a new field for future research in the Spanish context, since this investigation could be applied to small and medium-sized enterprises (SMEs), non-listed firms and financial entities.

DISCUSSION AND CONCLUSIONS

This thesis examines the impact of the composition of the CA's of Spanish non-financial listed companies on (1) the dividend policy, (2) CSR disclosure and (3) environmental disclosure. In the three chapters, the role of institutional directors is studied, considering that they are not a homogeneous group. For this reason, it has been differentiated between pressure-resistant institutional directors (who do not have business ties with the firm) and pressure-sensitive institutional directors (they maintain business relations with the firm). In addition, in the case of chapter 1, it was also studied how foreign directors affect the dividend policies of the companies considered in the sample.

Our results show that institutional directors have a positive effect on the dividend policy. However, when we differentiate between pressure-resistant institutional directors and pressure-sensitive institutional directors, we found that just pressure-sensitive institutional directors have an effect on dividend policy and this effect is positive. In this sense, our results support the idea that when pressure-sensitive institutional directors are on boards, the likelihood of pay dividends is larger. Concerning to foreign directors, we have shown that they positively affect the dividend policy of the companies in the sample, reinforcing the idea that, for example, these directors reduce the problems associated with asymmetric information.

On the other hand, when we analyse the relationship between institutional directors and CSR disclosure, we found that these directors have a positive impact on CSR disclosure. However, when we distinguish between pressure-sensitive institutional

directors and pressure-resistant institutional directors, we found that only pressure-resistant institutional directors have an effect on this decision, and it is positive. Therefore, our results suggest that institutional directors, have a long-term orientation and because their concerning about their reputation and the firm's reputation, will exercise a monitoring role over managers reducing the opportunistic behaviours that managers might have. In this regard, managers will have more difficult collude with institutional directors, as they are interested in making business decisions oriented to satisfy stakeholder's demands. When we distinguish between pressure-resistant and pressure-sensitive institutional directors, we found that pressure-resistant institutional directors have the same behaviour as institutional directors and therefore, they will influence directors' decisions to disclose information about CSR. In contrast, pressure-sensitive institutional directors, in order to do not threat their business relationships with the firm, will not have incentives to monitor managers, suggesting that they can support them in business decisions (collusion) that do not benefit the company, but themselves, and then they will favor the managers' opportunistic behaviour.

Lastly, in line with the previous results, institutional directors have a positive impact on the environmental disclosure for the same reasons we mentioned above (long-term orientation, they exercise a monitoring role over managers and reduce agency costs, among others). When we distinguish between pressure-sensitive and pressure-resistant institutional directors, we see once again that only pressure-sensitive institutional directors have a positive effect on environmental disclosure, suggesting that the positive effect exercised by institutional directors is provided by investment funds and pension funds.

This thesis sheds light on the current academic debate board composition of Spanish listed companies and their influence on dividend policies and the environmental disclosure, as the Spanish context has been little studied in these respects. Therefore, this research has multiple implications. First, policy-makers are paying more attention to board composition and, for this reason, they should encourage the incorporation of institutional directors, since they play a very important role reducing agency costs. In this sense, we should distinguish between pressure-sensitive and pressure-sensitive institutional directors, because their characteristics and incentives are different. In this sense, depending on the business decision to be taken, one type or another of institutional directors should be included, due to we have shown that pressure-resistant institutional directors favor the disclosure of CSR information and environmental information in a positive way, but have no effect on the dividends policies of Spanish listed companies. Meanwhile, pressure-sensitive institutional directors exert a positive influence on the dividends' payment and have no impact on the decision to disclose CSR and environmental information. Secondly, the incorporation of foreign directors should also be taken into account, as they have a positive influence on the distribution of dividends. Therefore, policy-makers should promote strategies to incorporate foreign directors into boards reaching a fair and appropriate percentage. Third, our results provide important evidence in relation to previous literature in examining whether institutional investors, appointed by institutional directors, have any effect on (1) the dividend policy, (2) CSR disclosure and (3) environmental disclosure. Fourth, this thesis can help non-governmental organizations (NGOs) to better understand the importance of institutional directors in companies' decisions to disclosure information on CSR and environment. Finally, further research on the role of institutional directors is essential to a better understanding of how they engage in effective corporate governance mechanisms.

Although earlier and recent empirical evidence sheds some light on these issues, scholars should study deeper the implications and incentives of institutional directors in corporate governance.

This analysis is not free of limitations. First, it is possible that unknown factors have an impact on our dependent variables. In this sense, although many factors have been controlled based on previous empirical studies, there could be others that could affect the variables explained and that have not been contemplated. Second, this analysis is limited to the range of years already mentioned (From 2004 to 2012 for the first chapter and from 2004 to 2013 for the second and third chapter). Therefore, our results could not be applied to other periods. In the same way, since our sample only includes companies listed in Spain, the results cannot be extrapolated to other countries. Third, although Spain has a large percentage of institutional directors, the vast majority of them are pressure-resistant. Finally, the index created to measure the level of CSR disclosure is composed of three areas and measured using many factors, but it is possible that other characteristics not considered can have an impact in it. The same limitation can be applied to the index created to measure environmental disclosure.

This thesis has opened a new field for future research. First, future research could analyse the role of institutional and foreign directors in Spanish family companies, financial institutions and small and medium-sized enterprises (SMEs) in the three business decisions that have been analysed. Finally, the analysis of the effect of gender diversity on the variables analysed is also a relevant topic that needs further investigation.

DISCUSIÓN Y CONCLUSIONES

Esta tesis examina el impacto de la composición de los CA's de las empresas cotizadas españolas no financieras en (1) la política de dividendos, (2) la información publicada sobre RSC y (3) la información publicada sobre medioambiente. En los tres capítulos se estudia el papel de los consejeros dominicales, teniendo en cuenta que no son un grupo homogéneo. Por este motivo, se ha diferenciado entre consejeros dominicales resistentes a la presión (los cuales no mantienen relaciones empresariales con la firma) y consejeros dominicales sensibles a la presión (mantienen relaciones empresariales con la firma). Además, en el caso del capítulo 1, también se estudió cómo los consejeros extranjeros afectan a las políticas de dividendos de las empresas consideradas en la muestra.

Nuestros resultados revelan que los consejeros dominicales afectan positivamente a la política de dividendos. Sin embargo, cuando estudiamos por separado a los consejeros dominicales dividiéndolos entre consejeros dominicales sensibles a la presión y dominicales resistentes a la presión, observamos que tan solo los consejeros sensibles a la presión tienen efecto sobre la política de dividendos y además, este efecto es positivo. En este sentido, nuestros resultados apoyan la idea de que cuando los consejeros dominicales sensibles a la presión forman parte de los CA's, la probabilidad de que se repartan dividendos es mayor. En lo que respecta a los directores extranjeros, hemos demostrado que afectan positivamente a la política de dividendos de las empresas

de la muestra, reforzando la idea de que, por ejemplo, este tipo de directores reducen los problemas asociados a la información asimétrica.

Por otra parte, al analizar la relación entre los consejeros dominicales y la publicación de información concerniente a RSC, vemos que estos directores afectan positivamente a la publicación de información de RSC. Sin embargo, cuando distinguimos entre consejeros dominicales sensibles a la presión y consejeros dominicales resistentes a la presión, vemos que tan solo los consejeros resistentes a la presión tienen efecto en esta decisión, siendo el mismo positivo. Por tanto, nuestros resultados sugieren que los consejeros dominicales, al tener una orientación a largo plazo y preocuparse por su reputación y la reputación de la empresa, ejercerán una función de monitoreo sobre los gerentes de las empresas reduciendo de esta forma los posibles comportamientos oportunistas que los gerentes pudieran tener. En este aspecto, los gerentes tendrán mucho más complicado coludir con los consejeros dominicales, ya que ellos están interesados en la toma de decisiones empresariales orientadas a satisfacer las demandas de los grupos de interés. Cuando distinguimos entre consejeros dominicales resistentes y sensibles a la presión, confirmamos que los consejeros dominicales resistentes a la presión tienen el mismo comportamiento que los consejeros dominicales y, por tanto, influenciarán la toma de decisiones de los directores para que revelen información sobre RSC. En contraste, los consejeros dominicales sensibles a la presión, para no poner en peligro las relaciones empresariales que mantienen con la firma, no van a tener incentivos de monitorear a los gerentes, lo que sugiere que puedan apoyarles en decisiones empresariales (colusión) que no benefician a la empresa, sino a ellos mismos, favoreciendo de esta manera su comportamiento oportunista.

Finalmente, acorde con los resultados anteriores, los consejeros dominicales ejercen un impacto positivo en la decisión de revelar información medioambiental por el mismo razonamiento que se han mencionado anteriormente (orientación a largo plazo, ejercen función de monitoreo sobre los managers y reducen costes de agencia, entre otros). Cuando distinguimos entre directores sensibles a la presión y resistentes a la presión, vemos una vez más que únicamente los consejeros dominicales resistentes a la presión afectan de manera positiva a la revelación de información medioambiental, lo cual sugiere que el efecto positivo que ejercen los consejeros dominicales viene dado por fondos de inversión y fondos de pensiones.

Esta tesis arroja luz al debate académico actual sobre la composición de los CA's de las empresas cotizadas españolas y su influencia en las políticas de dividendos y la revelación de información de RSC y medioambiental, ya que el contexto español ha sido poco estudiado en estos respectos. Por ello, esta investigación tiene múltiples implicaciones. En primer lugar, los políticos están prestando cada vez más atención a la composición de los CA's y, por este motivo, deberían incentivar la incorporación de consejeros dominicales, dado que juegan un papel muy importante a la hora de reducir costes de agencia. En este sentido, se debería distinguir entre consejeros dominicales sensibles a la presión y resistentes a la presión, debido a que sus características e incentivos son diferentes. En este sentido, dependiendo de la decisión empresarial que se quiera tomar, se deberán incorporar un tipo u otro de consejeros dominicales, ya que hemos demostrado que los consejeros dominicales resistentes a la presión favorecen la revelación de información de RSC e información medioambiental de forma positiva, pero no tienen efecto en la política de dividendos de las empresas cotizadas españolas. Mientras, los conejeros dominicales sensibles a la presión ejercen una influencia positiva

en el reparto de dividendos y, sin embargo, no afectan a la decisión de revelar información de RSC y medioambiental. En segundo lugar, la incorporación de consejeros extranjeros también debería ser tenida en cuenta, ya que influyen positivamente en el reparto de dividendos. Por tanto, los políticos deben promover estrategias para incorporar consejeros extranjeros en los CA's, alcanzando un porcentaje justo y apropiado. En tercer lugar, nuestros resultados ofrecen evidencia importante en relación con la literatura anterior al examinar si los inversores institucionales, cuando nombran a los consejeros, tienen algún efecto sobre (1) la política de reparto de dividendos, (2) sobre la revelación de información de RSE y (3) sobre la información medioambiental. En cuarto lugar, esta tesis puede ayudar a las Organizaciones no Gubernamentales (ONG) a comprender mejor la importancia de los consejeros institucionales en las decisiones de las empresas de divulgar información sobre RSE y medioambiente. Por último, las investigaciones ulteriores sobre el papel de los consejeros dominicales resultan esenciales para dar una mejor comprensión de cómo se involucran en mecanismos eficaces de gobierno corporativo. Aunque la evidencia empírica anterior y más reciente arroja alguna luz sobre estos asuntos, los académicos deben profundizar aún más en las implicaciones e incentivos de los consejeros dominicales en la gobernanza de las empresas.

Este análisis no está exento de limitaciones. Primero, es posible que factores no conocidos tengan algún impacto en nuestras variables dependientes. En este sentido, aunque se han controlado muchos factores basándonos en estudios empíricos anteriores, podrían existir otros que pudieran afectar a las variables explicadas y que no hayan sido contemplados. Segundo, este análisis está limitado al rango de años ya mencionado (De 2004 a 2012 para el primer capítulo y de 2004 a 2013 para el segundo y el tercer capítulo). Por tanto, nuestros resultados no podrían aplicarse a otros periodos. De la misma forma,

ya que nuestra muestra contempla únicamente empresas cotizadas en España, los resultados no pueden extrapolarse a otros países. Tercero, aunque España presenta un gran porcentaje de consejeros dominicales, la gran mayoría de ellos son resistentes a la presión. Finalmente, el índice creado para medir el nivel de revelación de información en materia de RSE se compone de tres áreas y se mide utilizando muchos factores, pero es posible que otras características no consideradas puedan tener impacto. Lo mismo sucede con el índice creado para medir el nivel de divulgación de información medioambiental.

Esta tesis ha abierto un nuevo campo para investigaciones futuras. Primero, futuras investigaciones podrían analizar el papel de los consejeros dominicales y extranjeros en las empresas familiares españolas, entidades financieras y en pequeñas y medianas empresas (PYME) en las tres decisiones empresariales que se han analizado. Finalmente, el análisis del efecto de la diversidad de género sobre las variables analizadas también es un tema relevante que necesita más estudio.

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