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Understanding board designs in Latin American firms: Insights from Brazil

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ABSTRACT

Firms are facing an increasing pressure to conform to a globally-accepted good governance norm that is largely based on developing economies in order to increase board monitoring. However, many Latin American firms deviate from a set of recommended corporate governance practices by adopting board designs with practices associated with low board monitoring. We attribute this deviation to the interplay of capacity and willingness to bear the high costs of board designs with few barriers to board monitoring. In this study, we use a configurational approach to inductively identify the board designs of publicly listed Brazilian firms. Our findings uncover a typology of board designs corresponding to particular levels of firms' capacity and willingness to bear the costs of board governance practices that conform to the good governance norm. We discuss our study's implications for strategic corporate governance.

1. Introduction

Researchers have long studied how boards oversee the managers and protect stakeholder interests, i.e., the monitoring role (e.g., Adams et al., 2011; Daily et al., 2003). However, boards are sometimes designed in a way that inhibits effective monitoring (Boivie et al., 2016). This phenomenon is even more evident in Latin America, whereby scholars find evidence of many firms with boards that are too small, inadequate, and/or powerless to monitor the top executives (Black et al., 2010, 2012), which can be attributed to dominant shareholders wanting to control corporate decisions and/or relatively weak minority shareholder protection from corporate law (Aguilera et al., 2019; La Porta et al., 1999).

Many Latin American firms adopt different board practices, resulting in diverse board designs due to discretion—i.e., whether firms yield to the demands of institutional pressure on firms to conform to the prevailing governance norm and influential owners who often actively participate in firm governance—which is in turn affected by the regulatory enforcement and the heterogenous capacity of firms to adopt a set of recommended governance practices (c.f., Aguilera et al., 2018; Witt et al., 2022). Since adopting board designs has related costs that vary across firms operating in different contexts (Aguilera et al., 2008; Ponomareva et al., 2022), we use a cost rationale to posit why Latin American firms have board designs that conform to or deviate from the globally legitimate good governance norm which is largely based on developed economies (Grosman et al., 2019). In particular, we are interested whether firms are capable and/or willing to bear the costs of board designs that can either facilitate or deter board monitoring. The capacity of firms to bear costs is the aggregate available capital enabling firms to intentionally increase their board monitoring, whereas the willingness to bear costs refers to a firm's conscious choice when considering to increase its board monitoring (Aguilera et al., 2018).

In this study, we theorize that the board designs of Latin American firms can be attributed to the interplay of capacity and willingness to bear the high costs of conformity to the good governance norm that recommends a set of board practices associated with high board monitoring. The costs are the "value of inputs to corporate governance," consisting of the systemic costs associated with compliance to government rules and regulations and opportunity costs (Aguilera et al., 2008: 476). As we focus on the board, the costs include the expenses in hiring and remunerating board directors, audit fees, and other incidentals for board activities (e.g., attendance in meetings and performance of tasks including the executive evaluation and compensation, audit assessment, and risk management), and the opportunity costs of choosing a board design associated with high board monitoring. This is particularly important for Latin American firms, since they generally have lower capacity to absorb board-design costs than their counterparts from developed economies which in turn may influence the strategic decision to bear such costs, and vice versa. However, we lack knowledge regarding the board designs of firms in the Latin American region. Thus, we aim to answer the research questions: what are the board designs of

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Latin American firms and why do these firms adopt board designs with high or low barriers to board monitoring?

To do so, we adopt a configurational approach (Misangyi et al., 2017) and use a theoretical model of board monitoring barriers (Boivie et al., 2016) to inductively identify the board designs associated with high and low board monitoring. Using a sample of publicly listed Brazilian firms, we perform a qualitative comparative analysis (QCA) to unpack a typology of board designs that correspond to the interplay of firms' capacity and willingness to bear costs, thus indicating different strategic motivations of firms.

We contribute to strategic corporate governance research in three ways. First, our study addresses several calls for research in Latin America and the Caribbean (Brenes, Camacho, et al., 2016; Carneiro & Brenes, 2014) to bring a fresh perspective on corporate governance (Aguilera et al., 2019). As we identify a typology of Brazilian firms' board designs, we offer empirical evidence demonstrating that firms in a large Latin American emerging economy are not only constrained on whether they are capable or incapable of adopting recommended board governance configurations according to the good governance norm, but they also face a choice whether to do so to ensure high board monitoring (c.f., Witt et al., 2022).

Second, we complement the growing corporate governance research that emphasizes board-design costs (e.g., Aguilera et al., 2008, Ponomareva et al., 2022). We propose how the interplay of capacity and willingness to bear board-design costs can explain the bundles of board monitoring barriers in Latin American firms' board designs. Our proposed framework extends prior research by using a configurational approach to understand Latin American firms' strategic behaviors that include board designs (e.g., Brenes, Ciravegna, et al., 2016; Brenes et al., 2020; Rodriguez & Torres, 2020), thus deviating from previous studies that argue the importance of formal boards but have mainly used net-effects approach to examine their structure (e.g., Cueto, 2013; Husted & de Sousa-Filho, 2019; Poletti-Hughes & Briano-Turrent, 2019).

Third, our findings suggest that the absence of some recommended practices according to a globally accepted good governance norm does not deter board monitoring. We thus support extant research dissuading a one-size-fits-all view of board designs (e.g., Boivie et al., 2016; Corbetta & Salvato, 2004; Federo & Saz-Carranza, 2018), given that some conditions that facilitate board monitoring in firms from developed economies may not necessarily be applicable to Latin American firms.

This paper is structured as follows. We first offer a glimpse of corporate governance in Latin America and theorize how the interplay of a firm's capacity and willingness to bear the high costs of conformity to the good governance norm may explain board designs that constitute several barriers to board monitoring. We then present our methodology and subsequently build theory using our findings from which we derive a typology of board designs. We conclude by discussing the implications of our study, its limitations, and suggested avenues for future research.

2. Theoretical background

2.1. Board designs in Latin America

Corporate governance concerns in Latin America are more likely to be different from those in developed markets (Black et al., 2010; Jara et al., 2019), which are ultimately reflected in firms' governance designs, including boards (Aguilera et al., 2019; Black et al., 2012; Brenes et al., 2011). Latin American countries primarily comprise emerging economies characterized by institutional voids (Brenes et al., 2020), resulting in an environment with little protection for minority shareholders (Brenes et al., 2019; Claessens & Yurtoglu, 2013). The institutional conditions in Latin America are dynamic, whereby the rules often change that often increase the monitoring costs to execute contracts and institutions are less likely to protect minority shareholders' rights (Fukumi & Nishijima, 2010). Thus, Latin American firms rely on dominant owners to control managerial opportunism (Santiago-Castro & Brown, 2007; Schneider, 2013). In fact, unlike their counterparts from developed economies, Latin American firms typically have high ownership concentration, in which the state, business groups, and family owners often do not want to relinquish their control of corporate decisions (Perkins, 2019; Sáenz González & García-Meca, 2014).

The owners' stronghold in Latin American firms emphasizes the reduced role and extent of board monitoring, resulting in increased barriers to board monitoring in the board designs of firms in the region. To attract investment and sustain growth, Latin American countries have initiated a series of corporate governance reforms to mitigate the potential macroeconomic, distributional, and long-term consequences of weak corporate governance systems (Aguilera et al., 2019; Claessens & Yurtoglu, 2013). Many of these reforms based on developed economies recommend the adoption of board designs with few barriers to board monitoring (Grosman et al., 2019).

However, despite the initiatives to align the institutional conditions in Latin America with those in developed economies (Carneiro & Brenes, 2014), several firms continue to have high ownership concentration that influences board designs (Cueto, 2013; Parente & Machado Filho, 2020), reinforcing that some practices according to the global, good governance norm are not perfectly transferable across the region (Grosman et al., 2019). For example, the boards of Latin American firms are typically under the controlling shareholders' influence, and their directors are not as independent as those in developed countries (Sargent, 2005), making them less effective in monitoring managerial decisions (Sáenz González & García-Meca, 2014). Moreover, blockholders can replace directors to perform the monitoring role (Cueto, 2013; Desender et al., 2013; Yoshikawa et al., 2014). Furthermore, the presence of dominant owners may imply high governance discretion, since the owners would be hesitant to share sensitive information with third parties and want to control organizational decisions while balancing conformity to the recommended board governance practices in minimizing barriers to board monitoring. Thus, good governance practices reflected in board designs are at most discretionary, leaving a variety of board designs in Latin American firms.

2.2. Theoretical model of board designs

To identify the board designs of Latin American firms, we use a theoretical model comprising several board monitoring barriers, as proposed by Boivie et al. (2016). The model has three conditions: individual, group, and firm. At the individual level, job demands become a barrier because board directors generate cognitive challenges to process information if they face high pressure to carry out duties for multiple assignments such as being board members to several organizations. Directors are considered busy if they have multiple posts, which can often be observed in their lack of attendance in board meetings. Due to their lack of presence, busy directors are less likely to perform the monitoring function than those directors that spend more time in board meetings. In Latin America, many blockholders hold significant stakes in several firms and appoint their representatives to those firms, which can result in multiple and interlocking directorships that make directors busy (Ayyagari et al., 2015).

At the group level, board size, meeting frequency, composition, norm of deference, and CEO power are among those characteristics that influence board monitoring. Large boards and low meeting frequency can inhibit group cohesion. A highly diverse board may undermine consensus in decision-making. Powerful CEOs and norm of deference may deter directors from expressing their opinions, which make information-sharing difficult. In Latin America, boards are relatively smaller in size than in developed economies and usually have directors who are affiliated with the controlling shareholders (De Abreu et al., 2023). Thus, they are characterized by low independence and diversity but high in norm of deference (Ararat et al., 2015). Moreover, CEOs in Latin America have high power because they are often family members or representatives of influential shareholders (Céspedes et al., 2010).

Collectively, these group characteristics contribute to the constraints for boards to monitor.

At the firm level, large and complex companies are often "too big to monitor" (Boivie et al., 2016: 26). In Latin America, some firms are large business groups or conglomerates operating in several industries and geographic locations and have controlling shareholders—mainly families and business groups—whose considerable part of their wealth is invested into the business (Aguilera et al., 2023; Brenes, Camacho, et al., 2016). Since board directors are part-time employees subject to a high cognitive load to gain thorough knowledge and understanding of all firm activities (Federo & Saz-Carranza, 2018), large firm size and high complexity can become a barrier to board monitoring.

Overall, Boivie et al. (2016) posit that the effects of the barriers to board monitoring are not mutually exclusive. Instead, these barriers should be collectively analyzed to identify their combined effects on board monitoring. Thus, the board-barriers model implies the neo-configurational perspective, which assumes complex relationships between an outcome (i.e., board monitoring) and conditions (i.e. set of barriers) related to such outcome. An essential aspect of the board-barriers model involves complementarity and substitution (c.f., Misangyi & Acharya, 2014). Complementarity means that each barrier may enhance the effect of another barrier, while substitution refers to one of the barriers having the possibility to replace the effect of other barriers in a configuration. For instance, busy directors and high meeting attendance of such directors are complementary in jointly generating low board monitoring (Elyasiani & Zhang, 2015). Similarly, large and complex organizations may require a diverse board with more directors to have the necessary board capital to increase monitoring. Meanwhile, the high similarity and complexity of a director's outside job demands may substitute functional diversity in the boardroom, since the required broad knowledge and experience are already present and sufficient for board monitoring (Hambrick et al., 2015).

2.3. The interplay of capacity and willingness

To understand board designs, we draw on the literature that emphasizes the costs of governance practices. We contend that considering costs is useful, since governance structures can be costly (Aguilera et al., 2008), particularly those board designs with few board monitoring barriers (Ponomareva et al., 2022). From an intention-based perspective, Aguilera et al. (2018) argue that an important driver of governance structure is a firm's *capacity* to absorb costs. These scholars define capacity as the "aggregate financial, human, social, and moral capital available to a firm to intentionally adopt […] governance practices" (p. 97). In this study, we focus on the total capital that enables firms to bear board-design costs so that their boards perform the monitoring role effectively.

Firms typically differ in their capacity to absorb board-design costs. Large firms have the resources to hire external and/or well-connected directors, employ highly-reputable external auditors who charge high professional fees, and pay directors expected to perform multiple tasks and attend board-committee meetings. In contrast, young entrepreneurial firms such as start-ups and international new ventures have different financial constraints compared to well-established corporations (Brush et al., 2001). Since board designs with few barriers to board monitoring are costly (Ponomareva et al., 2022), it is not surprising that some newly-established firms have many barriers to board monitoring in their board designs. Although firm-level conditions (i.e., size and complexity) are construed as barriers to board monitoring, these firm characteristics also indicate the capacity to bear board-design costs. Size shows the extent of available capital, while complexity may suggest the capability to access and use prospective resources from the markets where the firm operates.

However, firms do not necessarily have board practices just because of their capacity. In some cases, firms have a board design with many barriers to board monitoring due to reluctance to bear the costs of recommended governance practices. We refer to this behavioral tendency as *willingness*, defined as the "disposition […] to engage in a distinctive behavior" (De Massis et al., 2014: 347). Willingness involves the "calculation of advantages and disadvantages" influencing a decision (Siverson & Starr, 1990: 49). In this study, we associate willingness with a firm's disposition to intentionally absorb the board-design costs, given their respective perceived and/or substantive benefits.

Although willingness is a cognitive aspect that may be challenging to observe, it can manifest through managerial decisions concerning corporate governance practices. For example, firms that hire independent or foreign directors demonstrate a certain degree of willingness to maintain or signal good corporate governance (Kang et al., 2007; Oxelheim & Randøy, 2003). Similarly, owners who want to dilute firm control show willingness by having low shareholding concentration (Keasey et al., 2015). We follow the same thought, as we contend that a firm's willingness to absorb costs can be observed in the practices constituting its board design. Both the individual and group-level conditions in the board barriers model have costs, and they are discretionary, meaning that firms may choose which practices will form part of their board designs. Since board designs with few barriers to board monitoring are costly, we assume that their adoption implies the firms' willingness to absorb such board designs' high costs. Thus, we group the individual- and group-level conditions as factors indicating the firms' willingness to bear board-design costs.

More importantly, capacity and willingness are not mutually exclusive and should be viewed as mutually reinforcing constructs to understand strategic decisions (De Massis et al., 2014). Chrisman et al. (2012) argue that both constructs are required to understand the motivation of family firms in pursuing non-economic goals. Likewise, Veider and Matzler (2016) demonstrate how integrating the constructs helps to understand organizational ambidexterity. Thus, we integrate capacity and willingness as two dimensions of our framework for understanding board designs.

Nevertheless, scholars argue that board designs conducive to high board monitoring vary across firms (Desender et al., 2016; Federo & Saz-Carranza, 2020). It is hard to assume a one-size-fits-all bundle of conditions, especially in firms from Latin American countries with different institutional pressure and settings compared to developed countries (Aguilera et al., 2019; Brenes et al., 2020). Given that we cannot theoretically establish the bundles of conditions associated with either high or low board monitoring in Latin American firms, we do not advance any propositions or hypotheses. Instead, we inductively explore the board designs and subsequently use our empirical findings to theorize how the interplay of capacity and willingness is associated with the resulting board designs.

3. Methods

3.1. Sample and data

Our initial sample included all 338 listed Brazilian firms that filled out the report on the Brazilian Code of Corporate Governance - Listed Companies (Code) as of July 31, 2019, the submission deadline set by the CVM (Brazil's Securities and Exchange Commission). The Code is based on a "comply or explain" approach and requires all listed firms to inform their compliance on 54 practices. We extracted the firms' fiscal details, financial information, and board data (including the director records) from: (1) the Code reports and the supplementary annual reference forms filed by each firm and compiled by the Brazilian Institute of Corporate Governance (IBGC, 2019), (2) COMDINHEIRO, a platform that aggregates data of Brazilian companies, and (3) the CVM website (see Appendix A for more details). We dropped 27 firms from the sample due to delisting, lack of information, and mergers and acquisitions, resulting in a final sample of 311 firms.

Brazil is a suitable context for our study because of three reasons. First, Brazil exemplifies the idiosyncrasy of corporate governance in

Latin America. Its Corporations Law was reformed to protect minority shareholders, and the Brazilian CG Code was formalized to align locally listed firms with the global good governance norm. In parallel, many traditionally localized firms have internationalized and become listed in foreign stock exchanges such as the New York Stock Exchange. These developments in the regulatory environment exert multiple pressures to adopt board designs that emphasize board monitoring (Black et al., 2014; Parente & Machado Filho, 2020). However, several publicly listed Brazilian firms continue to have board designs with many barriers to board monitoring (Black et al., 2010). Thus, it is a fruitful context to understand the heterogeneity of board designs in these firms.

Second, the Brazilian Stock Exchange's multiple segments offer several options for firms to adopt board designs recommended at each segment. The discretion assumed on the choice among the multiple segments results in a broad spectrum of board designs, including conditions that indicate barriers to board monitoring. We contend that looking at Brazilian firms' decision to be listed in a stock-exchange segment may allow us to decipher the intention of their board designs, thus helping us to infer whether board designs can be attributed to their willingness and/or capacity to bear costs.

Third, scholars argue that focusing on the Latin American region can provide novel insights into the recommended corporate governance practices that are heavily based on developed economies (Aguilera et al., 2019; Grosman et al., 2019). Brazil is the largest market in Latin America, and many firms established here heavily operate in the neighboring countries, making it influential in the diffusion of practices across the region (2012; Black et al., 2010; Brenes et al., 2020). Therefore, exploring the Brazilian context helps overview the experience of firms based and operating in Latin America.

3.2. Fuzzy sets qualitative comparative analysis

We employ an inductive set-theoretic approach using QCA for our empirical exploration. QCA draws on set theory and Boolean algebra to identify how different conditions would combine and consistently be associated with an outcome (Ragin, 2008). Extant research has already recognized QCA as the widely accepted research technique for the empirical examination of complex interrelationships among multiple attributes (Furnari et al., 2021; Misangyi et al., 2017; Parente & Federo, 2019; Wagemann et al., 2016). We employed the fsQCA software to perform the analysis.

To proceed with our analysis, we performed three steps. First, we calibrated the outcome and conditions into crisp (for binary variables) and fuzzy (for continuous variables) sets (see Appendix A for the descriptive statistics). Set calibration entails theoretical and substantive knowledge of the cases. Therefore, we calibrated the conditions using thresholds informed by the literature and our qualitative knowledge of our cases (Parente & Federo, 2019). However, for those items that do not have existing qualitative anchors, we relied on the sample properties by considering the data distribution (Greckhamer, 2016). Second, we built the truth tables, which show the logically possible combinations of conditions. In the current study, we used nine conditions that produce 512 logically possible configurations, of which 117 were observed to have at least one case. We set a frequency threshold—the minimum number of case observations per configuration—of two in order to capture at least 80 percent of the cases (Ragin, 2008), thus yielding 58 relevant configurations (representing 94 percent of cases) for the analysis (See Appendices B & C). Third, we minimized the truth tables to identify the solutions. We adopted the consistency threshold of 0.85, which amply meets the recommended minimum consistency score (i.e., the measure of fit among different conditions forming the configurations) of 0.80 when conducting QCA (Ragin, 2006).

3.3. Calibration of set memberships

Table 1 below outlines the calibration of the outcome and conditions.

3.3.1. Outcome: Low board monitoring

We captured board monitoring through 12 indicators from the Brazilian CG Code that suggests what the boards are expected to oversee, which include executive evaluation and compensation policies, review of audit committees (internal and external), and assessment of risk management (see Appendix D for the list of indicators). Fulfillment of each indicator yields a score of one, thereby resulting in a maximum

Table 1
Calibration of outcome and conditions.

Variables	Condition	Type	Calibration		
			Membership degree	Criteria	Threshold/Code
Outcome	Low board monitoring	Fuzzy	Fully in	Complying to up to 50 % of the total indicators	6
			Crossover	Midpoint	7.5
			Fully Out	Complying to at least 75 % of the total indicators	9
Willingness to bear the governance costs					
Individual conditions	High director busyness	Fuzzy	Fully in	75th percentile	2
			Crossover	50th percentile	1.39
			Fully Out	25th percentile	1
	Low meeting attendance	Fuzzy	Fully in	Attended up to 33 % of board meetings	0.33
			Crossover	Attended 50 % of board meetings	0.50
			Fully Out	Attended at least 75 % of board meetings	0.75
Group conditions	Large board	Fuzzy	Fully in	≥17	1
			More in	9–16	0.67
			More out	6–8	0.33
			Fully out	0–5	0
	Not recommended meeting frequency	Crisp	Fully in	Below 6	1
			Fully out	At least 6	0
	Not recommended composition	Crisp	Fully in	Not complying with the recommendation	1
			Fully out	Complying with the recommendation	0
	High norm of deference	Crisp	Fully in	≥2/3 of directors elected by majority shareholders	1
			Fully out	<2/3 of directors elected by majority shareholders	0
	High CEO power	Crisp	Fully in	CEO duality	1
			Fully out	No CEO duality	0
Capacity to bear the governance costs					
Firm conditions	Large Firm	Fuzzy	Fully in	Not SME (per OECD)	1
			More in	SME (per OECD)	0
	Complex firm	Crisp	Fully in	2–4 of the items	1
			Fully Out	0–1 of the items	0

score of 12. The aggregate score corresponds to the extent to which a firm has low/high board monitoring. For the sake of this study, those values that do not fall under "low" board monitoring are referred to as "high" board monitoring, which suggests the absence of low board monitoring. We converted the score into a fuzzy set. Firms complying with up to half (6) of the indicators are considered as low board monitoring and fully in, while those complying with at least three-quarters (9) of the indicators are considered as high board monitoring and fully out. The midpoint of the two thresholds is the cross-over point (7.5).

3.3.2. Conditions: Barriers to board monitoring

Following the theoretical model of board-monitoring barriers (Boivie et al., 2016), we considered three groups of conditions: individual (2), group (5), and firm (2).

Individual conditions. Job demands are a critical individual-level barrier for board monitoring. In this study, we used director busyness and meeting attendance as two measures of job demands. Director busyness was operationalized using the number of directorships that a director serves. For comparability, we used the average number of directorships on the board and converted it into fuzzy set. Since no theoretical basis can be used, we considered the distribution of the data for the thresholds. We considered *high board busyness* as a condition, since the barriers view implies that busy boards are less likely to monitor because of high outside job demands. Boards with directors averaging two directorships (75th percentile) are considered fully in, while those with one directorship are considered fully out. The 50th percentile (1.39) is considered the cross-over point.

Meeting attendance is measured using the number of board meetings that a director has attended. We used the average number of directors' board meeting attendance and converted it into a fuzzy set. *Low meeting attendance* is used as a condition, since directors who seldom participate in board meetings are less likely to monitor. Boards with 50 % attendance are considered neither fully in nor fully out; thus, we used this as the cross-over point. Boards with directors that attended at least 75 % of meetings are considered fully out, corresponding to the 50th percentile of the cases. In contrast, boards with directors that attended up to 33 % of meetings are considered as fully in, corresponding to the 25th percentile of the cases.

Group conditions. The five group barriers are board size, meeting frequency, composition, norm of deference, and CEO power. Board size is measured using the number of directors. We identified *large board size* as a barrier, since having many directors reduces the directors' incentive to monitor. The condition is converted into a fuzzy set. Given that six to eight directors would be an ideal board size (Eisenberg et al., 1998; Ponomareva et al., 2022), we considered this range as more out and coded it as 0.33. Boards with fewer than the lower limit of the ideal board size (<6) are considered fully out and coded as 0. Boards with greater than twice the upper limit of an ideal board size (>16) are considered fully in and coded as 1, while those that fall within 9–16 directors are considered as more in and coded as 0.67.

Meeting frequency is measured using the number of times a board convenes in a year. *Low meeting frequency* is a barrier, since boards that rarely or never meet are less likely to have the forum to perform monitoring. The Brazilian CG Code stipulates that board meetings should be held between 6 and 12 times annually. Although the number is continuous, the condition is converted into a crisp set following the Code's recommended number of meetings. Boards with fewer than six annual meetings have low meeting frequency and are coded as 1, while those with at least six have high meeting frequency and are coded as 0.

According to the Brazilian CG Code, board composition is also important for board monitoring, recommending that firms have boards with diverse and independent directors. Boards are expected to have at least 20 % independent directors, while considering the knowledge and skills of such directors. Brazilian firms report whether they meet (or not) the Code's requirements. Those firms with boards that *do not meet the recommended composition* are coded as 1, while those with the recommended board composition are coded as 0.

Norm of deference restricts the board's monitoring role because directors typically refrain from challenging certain directors' dominance in the boardroom, that is, directors who are not selected by majority shareholders tend to avoid confrontation. Thus, we measured whether the board has a *high norm of deference* by identifying the percentage of directors chosen by major shareholders. The condition is converted into a crisp set. Boards with at least two-thirds (i.e., supermajority) of directors selected by major shareholders are considered with high norm of deference and coded as 1. In contrast, fewer than two-thirds of directors not selected by major shareholders are considered as boards with low norm of deference and coded as 0.

The CEO can also dominate the board, thereby restricting the monitoring role. We measured *high CEO power* using the presence of CEO duality, in which a CEO who simultaneously serves as board chair is more likely to have greater power than those who do not. Firms with CEO duality are coded as 1, while firms that separate the CEO and board chair functions are coded as 0.

Firm conditions. Firm size reflects the volume of job demands for board monitoring. *Large firms* have greater job demands than small firms because of more complex structures and factors to consider when monitoring. We distinguished firms, whether large or SMEs, using the OECD definition of SMEs. We used total revenues to measure firm size and converted the condition into a crisp set. According to the OECD, SMEs have a maximum total revenue of €50 million; thus, we coded such firms as 0, while those with more than €50 million in total revenues are coded as 1. Although the number of employees can also be a measure of firm size, using this variable increases the number of resulting logically-equivalent configurations. For parsimony in interpreting the configurations, we used total revenues to operationalize firm size.

Firm complexity determines a firm's monitoring requirements. The more complex a firm is, the greater is its monitoring requirements (Coles et al., 2008; Federo & Saz-Carranza, 2020). To measure firm complexity, we used an index of four items: listing in Ibovespa (the leading performance indicator in the Brazilian Stock Exchange) and foreign exchanges (the New York Stock Exchange), foreign ownership/control, and state ownership. *Complex firms* are those that meet at least two of the items. Our case knowledge supported that those firms categorized as highly complex using this measure are indeed geographically and functionally diversified, thus coded as 1. Those firms that do not meet any of the items or meet just one of the items are categorized as less complex and coded as 0.

4. Findings

Following best practices in conducting QCA, we first performed necessity and sufficiency analyses of individual conditions to identify the necessary and/or sufficient conditions associated with low or high board monitoring. Necessary conditions are required in any configuration to yield an outcome and should meet a consistency score of 0.90, while sufficient conditions produce the outcome solely by itself and should have a minimum consistency score of 0.80 (Ragin, 2008). Our necessity analyses show that low-complexity firm is a necessary condition for low board monitoring and low CEO power is a necessary for high board monitoring (See Appendix E). Meanwhile, in line with the conjunction principle, we found no sufficient condition resulting in either low or high board monitoring.

We present in Table 2 the intermediate solutions that emerged from the sufficiency analysis of multiple conditions (Ragin & Sonnet, 2005). The solutions are presented with their corresponding coverage scores in a configuration table. Coverage refers to the empirical relevance of the configurations, as it displays the percentage of cases showing the configuration (Ragin, 2006). The solutions are displayed using the format suggested by Ragin and Fiss (2008): "●" for the presence of the condition, "⊗" for the absence of the condition, and blank spaces for "don't care" conditions which are not relevant in the configurations. The

Table 2
Configurations associated with low and high board monitoring.

	Managing shareholder			Professional managers		Professional board		Traditional board		Active board	
Configurations / **Conditions**	**L1**	**L2**	**L3**	**L4**	**L5**	**L6**	**L7**	**H8**	**H9**	**H10**	**H11**
	Low	Low	Low	Low	Low	Low	Low	High	High	High	High
Willingness to bear the governance costs											
High busyness	⊗	⊗			●	⊗	⊗	●	●	⊗	⊗
Low meetings attendance	⊗		⊗	●		⊗	●		●	⊗	⊗
Low number of board meetings		●	●	●	●		⊗	⊗	⊗	⊗	⊗
High norm of deference	●	●	●	●			●	●		●	⊗
High CEO power	●	●	●	⊗	⊗	⊗	⊗	⊠	⊠	⊠	⊠
Not recommended composition	●	●	●	●	●	●	⊗	●	●	⊗	⊗
Large board	⊗	⊗	⊗	⊗	⊗	⊗	⊗	●	●	●	⊗
Capacity to bear the governance costs											
Large firm	●	●	⊗		●	⊗	⊗	●	●	●	●
Complex firm	⊠	⊠	⊠	⊠	⊠	⊠	⊠	●	●		⊗
Predominant listing	Bovespa+, Basic			New Market, Level 2		Bovespa+, Basic		New Market, Level 2		Basic, Level 1	
Consistency	1.00	1.00	1.00	0.98	0.94	0.98	0.99	0.95	0.95	0.87	1.00
Coverage	0.03	0.03	0.03	0.06	0.11	0.08	0.01	0.04	0.05	0.05	0.02
Unique coverage	0.01	0.01	0.03	0.05	0.11	0.07	0.01	0.01	0.02	0.05	0.02
Overall solution consistency	0.97							0.91			
Overall solution coverage	0.31							0.13			

Notes: a. Outcome - level of board monitoring.
b. ●- presence of condition; ⊗- absence of condition; blank space - "don't care" condition; ⊠ - necessary condition (absence).
c. Large circles - core conditions; small circles - peripheral conditions.
d. The requirements to adopt recommended board practices vary in the different segments of the Brazilian Stock Exchange. The number of requirements increases between levels: Basic (lowest), Level 1, Level 2, and New Market (highest). Bovespa+ is a unique segment for firms who want gradual access to the New Market and take advantage of the visibility among investors without the need to immediately comply with all the required governance practices.

necessary conditions are shown in the configuration table as "⊠" to show absence of the condition (Greckhamer, 2016). We also indicate the core (large circles) or peripheral (small circles) conditions (Fiss, 2011). Core conditions can be derived from the parsimonious solutions, and they are considered as definitive ingredients in the final solutions, while peripheral conditions are those conditions added in the intermediate solutions and they are considered as contributing ingredients in the final solutions (Ragin & Fiss, 2008).

4.1. Configurations associated with low board monitoring

Table 2 shows seven configurations associated with low board monitoring. Even though the overall coverage score is roughly one-third of the cases (0.31), the high overall consistency score (0.97) of the solutions suggests that the set-subset connections in Table 2 are supported by data, thus providing evidence that the configurations explain the phenomenon in the reduced number of firms. Our intimate knowledge of the firms allowed us to divide the configurations into three groups.

Configurations L1, L2, and L3 belong to the first group and are neutral permutations, which have the same core conditions and differ only on peripheral conditions. High norm of deference and high CEO power are the core conditions. L1 is exemplified by BRQ and Smartfit, both listed in Bovespa + which is a special segment established for firms wanting gradual access to the stock exchange. L2 is adopted by Conservas Oderich and Battistella, both listed in the Basic Segment requiring to comply only with the Brazilian legislation recommending the increase of board independence and resources. L3 is observed in Monteiro Aranha and Hercules, which like the firms showing L2 do not have additional governance requirements other than those enforced by Brazilian law.

We collectively label the first group of configurations as *managing shareholder*. Managing shareholder is the most common configuration in Brazil, and possibly in Latin America, where firms are typically family businesses with a large portion of ownership on the hands of founders or heirs. These firms usually make an IPO to finance some large-scale projects, but there is no intention to share decisions with new investors. An owner often continues to be the CEO and chair, and the firm adopts the minimum governance practices to remain in the stock exchange. The owners could be disinterested in board monitoring, since the board is perceived as an obstacle for controlling shareholders to enjoy the private benefits that they can obtain from the firm. We thus assume that the boards are ultimately rubber stamps of owners' decisions and a way to comply with regulatory requirements.

The second group of configurations include L4 and L5. L4 is found in General Shopping e Outlets do Brasil and Unicasa, both listed in the New Market which is a segment for firms that voluntarily adopt additional

corporate governance practices beyond those required by Brazilian legislation. Whereas, L5 is shown by firms listed in either the New Market or Level 2 segments and operating at various sectors such as energy (e.g., Ampla Energia, Companhia Energetica de Brasilia, and Renova Energia), real estate (e.g., BR Properties, Cyrela Commercial Properties, and Sao Carlos Empreendimentos e Participação), and raw materials producers or manufacturing firms (e.g., Eucatex and Mahle Metal Leve).

We label the second group of configurations as *professional managers*, found in firms with boards dominated by affiliated or insider directors who drive the overall strategic directions of the organization. Although the firms have independent directors with more experience, such directors are intended for the service role of providing advice and resources, instead of the monitoring role. Interestingly, the firms have already gone through the succession process whereby the owner is no longer the CEO.

Configurations L6 and L7 belong to the third group. L6 is seen at construction firms (e.g., CR2 and Rossi Residencial) and food processors and pharmaceuticals (e.g. Excelsior and Biomm). Meanwhile, L7 is exemplified by suppliers of firms in the health sector (e.g., Advanced Digital Health Medicina Preventiva) and utilities industry (e.g., Proman).

We label the third group as *professional board*, which is observed in firms controlled by other firms or belonging to business groups. These firms usually have two or three shareholders who constitute blockholding ownership. Board membership on the firms is tied to the percentage stake of the shareholders wanting to represent their interests on the board. Thus, board monitoring is blurred between the board and the blockholding shareholders. The firms are listed on either Bovespa + or Basic segments, suggesting that the pressure to adopt the governance practices may come from the business groups rather than the stock-exchange segment in which they are listed.

4.2. Configurations associated with high board monitoring

Table 2 also shows the four configurations associated with high board monitoring. We divided these configurations into two stylized groups. Configurations H8 and H9 belong to the first group and are neutral permutations, sharing three core conditions: not having the recommended board composition, large board, and highly complex firm. Aside from the necessary condition for high board monitoring (i.e., low CEO power), the configurations share three peripheral conditions: high busyness, high number of board meetings, and large firms. Ambev and Klabin are firms with H8 configuration, while Braskem and CEMIG have the H9 configuration.

We label configurations H8 and H9 as *traditional board*, which reflects the Anglo-Saxon board model exhibited by some of the largest and prominent Brazilian multinationals and some large domestic firms. The boards are large, comprising directors who are independent and/or representatives of institutional investors. Although traditional boards appear to have many barriers for board monitoring, the directors are experienced and recognized in the market, and they are often hired not only to ensure proper monitoring but also to give prestige and legitimacy.

The other set of configurations associated with high board monitoring includes H10 and H11. H10 is exemplified by large banks (e.g., Banco Bradesco, Banco Patagonia, and Banco Santander-Brasil) and utilities providers (e.g., SANEPAR and Engie Brasil), while H11 is seen at firms operating in various industries such as retail (e.g., Via Varejo), banking (e.g., Banco do Estado do Para), and steel and metallurgy (e.g., Paranapanema).

We label H10 and H11 as *active board*, which has a composition that considers not only independence, but also the availability of time, diversity of knowledge and experience, behavior, age, and gender. Interestingly, despite that these firms are listed at the lower segments of the stock exchange, the adopted board designs show very few barriers to board monitoring, resulting in the directors to be highly engaged in monitoring.

4.3. A typology of board designs of Brazilian firms

As we further examined the exemplar cases of the resulting configurations, we have identified how the board designs that emerged from our analysis fit into our framework. This analytical step allowed us to build a typology of board designs and theorize from the empirics (Furnari et al., 2021). Our further analysis uncovers the levels of capacity and willingness characterizing each board design (see Fig. 1).

The first archetype pertains to *conformity governance*, exhibited in the active boards of large multinationals firms that are both capable and willing to bear the costs of conformity to the good governance norm. Despite being listed in the stock exchange segments with low requirements for corporate governance (i.e., Basic), the firms continuously adopt the recommended practices in the higher segments (i.e., New Market).

The direct inverse of conformity governance is *inertia governance*, exemplified by the professional board configuration (see Table 2: column L6) and managing shareholder configuration (see Table 2: column L3) of SMEs that are less capable and less willing to bear the costs of good governance. Because of their relatively smaller and less-complex characteristics, they have lower capacity to absorb costly board designs. Moreover, this archetype shows high percentage of directors who represent large shareholders and/or business groups with significant control of the organization. Thus, the disposition to configure the board to facilitate board monitoring is low. The firms with this board design are listed in the stock exchange's Basic and Bovespa+ segments with low corporate governance requirements, thereby implying a conscious decision to deviate from ideal board designs. Although the firms seem to adopt some recommended practices, it may be due to ownership pressure rather than the push to conform to the good governance norm.

Another archetype is *resistant governance* of firms that are capable but less willing to bear costs. The board design is displayed by the managing shareholder configuration (see Table 2: columns L1 and L2) of founder-controlled and family-owned firms that typically have close affiliates as managers. Despite these firms having the resources to absorb high costs of board designs, they continue to be listed in the stock exchange's Basic and Bovespa+ segments and adopt under-conforming practices with low governance costs. The firms do not conform because the powerful owners already assume responsibility for the organization's governance needs and they do not have strong external pressure from other shareholders to follow the good governance norm.

Meanwhile, for firms that are less capable but willing to absorb the governance costs, we name this pattern as *optimistic governance*. The firms are barely at the early growth stage and may need more time and resources to afford the costs of having low barriers for board monitoring. Although some firms with professional managers configuration have taken the initial step to have a non-affiliated CEO and getting listed to the stock exchange's upper segment (i.e., New Market) which indicate strong willingness to bear the governance costs, they continue to have high barriers because of their inability to absorb high costs. Similarly, although firms with a professional board configuration may not have the capacity to have costly board designs, they demonstrate willingness to conform by adopting many of the recommended practices (see Table 2: column L7).

Finally, we consider the archetype shown in traditional boards of some of the largest Brazilian multinational firms and some relatively smaller—but still large—domestic firms as *stuck-in-the-middle governance*. The firms have the capacity to absorb the board-design costs because of their ample resources. However, despite being listed on the stock exchange's upper segments, the firms do not conform to the recommended board practices. Instead, they configure the boards to show a design that can appease several competing internal and external pressure from stakeholders. For example, firms have large boards with

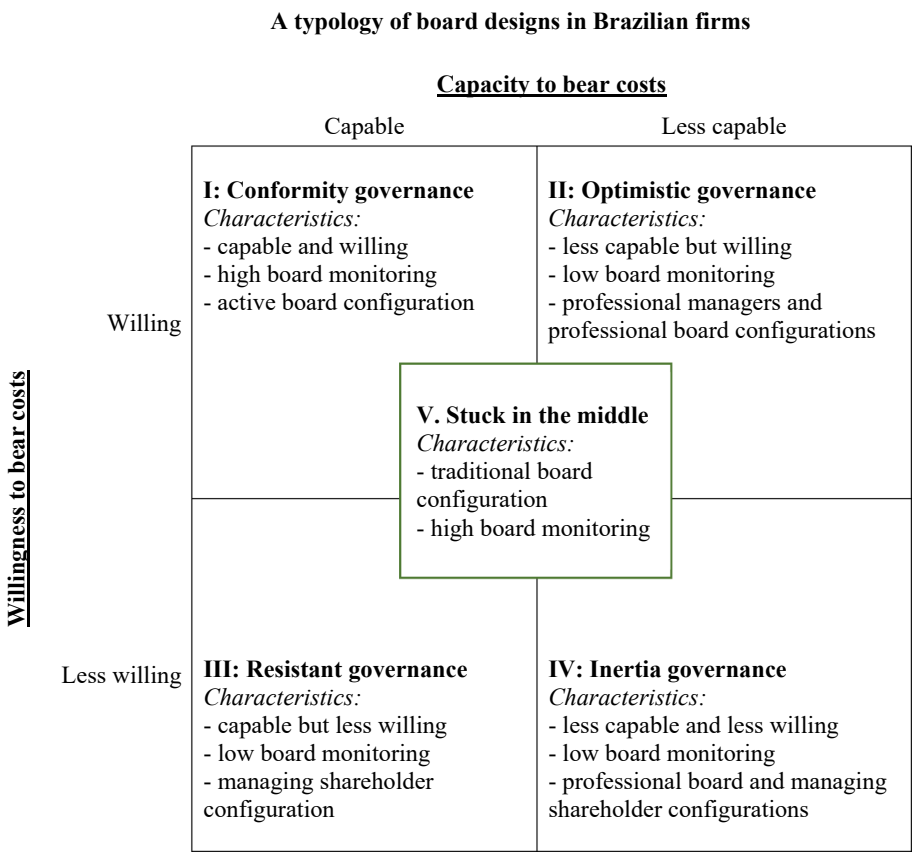

Fig. 1. A typology of board designs in Brazilian firms.

directors representing strong owners and professional directors chosen by institutional owners.

In sum, as we explore the configurations of board monitoring barriers in Brazilian firms, we uncovered how such configurations fall under each stylized board-design archetype corresponding to the interplay of the firm's capacity and willingness to bear costs. Thus, we have presented how we can explain the board designs of firms in a country with the largest economy in Latin America.

5. Discussion and conclusion

In this study, we set out to identify the board designs in Latin America. We do so by first identifying the bundles of board monitoring barriers associated with high or low board monitoring in publicly-listed Brazilian firms. We then inductively analyzed the resulting configurations using the interplay of capacity and willingness to bear governance costs, ultimately unpacking a typology of board designs in Brazilian firms. We now elucidate our study's contributions and discuss its limitations to offer prospective avenues for future research.

Our study primarily contributes to strategic corporate governance research by shedding light on the corporate governance in Latin America, particularly the Brazilian context, which serves as a "natural laboratory" for building new theories and testing existing ones (Aguinis et al., 2020). In doing so, we unpack a boundary condition of the board-barriers model reflecting the conditions according to the globally legitimate good governance norm that is largely based on developed economies. Our findings show that some practices included in the model (e.g., failure to have the recommended board composition, high busyness, and large board size) do not automatically lower board monitoring in Latin American firms. Instead, the inclusion of these practices into a board design is also associated with high board monitoring. These findings offer empirical evidence suggesting that some recommended conditions to facilitate board monitoring in firms from developed economies may not necessarily be applicable to Latin American firms.

Moreover, our focus on Brazil contributes to the increasing attention toward understanding the intricacies of corporate governance in Latin America (Aguilera et al., 2019; Cueto, 2013; Husted & de Sousa-Filho, 2019). We propose a framework to better understand board designs in this region. In that, our framework advances an organizational agency approach by incorporating a cost rationale, instead of focusing on a firm's entrepreneurial identity as the key trigger of governance behavior (Aguilera et al., 2018) or the relative power among actors to influence governance choices (Witt et al., 2022). The surprisingly less attention in corporate governance research regarding the costs of conformity to the global norms emphasizes the need for our proposed concept to offer a plausible, alternative explanation to board designs in Latin America.

In this paper, we emphasize the importance of the interplay between capacity and willingness to bear the costs of board designs. This is because many Latin American firms do not necessarily have the essential resources to absorb costly board designs. Moreover, their ownership structures and weak institutional framework to protect minority shareholders influence the firms' willingness to assume board-design costs. Our empirical context fits with our framework, given that the Brazilian Stock Exchange is distinctive with its multiple segments having different sets of corporate governance requirements. Thus, the firms' listing in a particular stock-exchange segment can be construed as a strategic decision that likely accounts for both the capacity and willingness to bear the costs associated with the recommended board designs for the respective segment.

Another implication of our study concerns the board-barriers model that we used for exploring the board design of firms. The model is limited to discussing why certain conditions become barriers to board monitoring and does not explain why firms adopt board designs with many of those barriers. Our two proposed constructs (i.e., capacity and

willingness) organize the three-levels of the board-barriers model and link them with costs to better explain board designs. Our framework assumes that the individual- and group-level barriers in Boivie et al. (2016) model show a firm's willingness, while the firm-level barriers indicate a firm's capacity to bear board-design costs.

Given that much of the literature calls for firms to adopt board designs with few barriers to board monitoring, such designs are costly that may deter firms from having them. Our theorizing emphasizes that considering solely the costs is insufficient to understand the decision to have board designs. We contend that it is not only about whether the board design is expensive for firms but it should also be whether firms are capable and/or willing to bear the costs associated with the desired board designs.

Our study also has important implications for managers and policymakers. On the one hand, our framework can be useful for strategic governance designs. As firms face an increasing pressure to have governance designs with few barriers to board monitoring, focusing on costs can help in justifying why firms have a board design that shows many barriers to board monitoring. Firms largely differ in their capacity and willingness to bear costs, resulting in the observed heterogeneity of board designs among firms, especially those in Latin America. Thus, firms can use costs as a way to assess a wide spectrum of board-design choices during strategy-making and to defend their subsequent board-design decisions that may appear irrational in the view of stakeholders outside the region.

On the other hand, because of the possible high costs of practices that conform to the good governance norm, policymakers should also consider developing mechanisms to incentivize firms to have recommended board designs with few barriers to board monitoring. A prevailing rhetoric to persuade firms to reduce barriers to board monitoring focuses on the performance benefits that can outweigh the high costs of board designs with few barriers to board monitoring. However, although the willingness to bear the high cost may be important, our theory suggests that we cannot rule out the firms' ability or inability to bear such costs. Considering the interplay of capacity and willingness to bear costs, policy makers should also include capacity-building programs for firms that do not have the capacity to have costly board designs but are willing to do so. Another possibility that seems to be effective in the Brazilian context is for regulators to allow stock exchanges to create listing segments that can encourage firms to gradually adopt board designs associated with high monitoring.

Like other studies, our research has several limitations. First, although we use the term "outcome" as the research of interest that we wanted to explain, our empirical exploration does not imply causality. Our data is cross-sectional and does not account temporality. We urge future research to unpack the causal relationships between the sets of barriers that we identified in this study and the levels of board monitoring, and how the relationships between them change over time. Moreover, we do not measure the effectiveness of board monitoring. In our analysis, we cannot identify the effect of low or high board monitoring on various firm outcomes such as financial and social performance and implications on other board roles. In a similar vein, our analysis does not fully determine the effects of board designs. It may also be possible that board monitoring and the barriers constituting board designs can jointly influence firm outcomes. We thus encourage future research to build on our study to explore such combinatory effects.

Second, our empirical focus on Brazil raises a threat of external validity. However, we believe that our sampling approach allows us to strengthen our findings' internal validity by mitigating other contextual factors including different institutional forces that may influence our findings. The Brazilian context is argued to have strong similarities with its neighbors, potentially increasing the applicability of our findings to the Latin American region. Needless to say, researchers should conduct a comparative cross-country analysis to determine how our framework may also explain the board designs of firms from other Latin American countries.

Third, we have not measured the costs in our analysis. Instead, we only assumed that board designs associated with low board monitoring are costly. We urge future research to measure the actual board-design costs, analyze whether it is in fact the capacity and/or willingness to bear costs determine board designs, and how the changes in the costs alter board designs over time.

Finally, the use of QCA restricts us from including all the possible conditions in our analysis. Since we draw on a theoretically-grounded model, we believe that we have covered the most salient barriers to board monitoring in our analysis. Notwithstanding, we hope future research to explore how several corporate governance mechanisms—including external forces (e.g., media and regulations), ownership mechanisms (e.g., shareholder activism), and other board practices (e.g., committee structure and membership)—can affect the relationship that we wanted to study here.

In conclusion, despite the assumed benefits of board designs that conform to the global good governance norm, many Latin American firms continue to adopt board designs with many barriers to board monitoring. Extant research has largely assumed that this strategic decision is due to both institutional and organizational conditions exerting pressure on firms. We offer a complementary explanation based on a cost rationale, as we argue that the interplay of capacity and willingness to bear the high costs of the recommended practices by the good governance norm can also elucidate the board designs of firms. In doing so, we hope that our study may help researchers, managers, and policymakers to better understand the board designs of Latin American firms.

CRediT authorship contribution statement

Ryan Federo: Conceptualization, Funding acquisition, Data curation, Writing - original draft, Writing - review & editing, Visualization, Investigation, Validation, Formal analysis, Methodology. **Tobias Coutinho Parente:** Conceptualization, Data curation, Writing - original draft, Writing - review & editing, Investigation, Validation.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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Appendix A. Descriptive statistics and source of variables

	mean	s.d.	min	max	Source
Board monitoring index	5.88	3.44	0	12	Brazilian CG code report - Sections: Executive Management; Supervisory and Control Bodies
Average number of directorship	1.68	0.93	1	6	Annual reference forms
Average meeting attendance	0.64	0.38	0	1	Annual reference forms
Board size	6.50	2.56	1	16	COMDINHEIRO
Number of meetings	0.57	0.50	0	1	Brazilian CG code report - Section: Board of Directors
With the recommended composition	0.21	0.41	0	1	Brazilian CG code report - Section: Board of Directors
Percentage of directors elected by majority shareholders	0.71	0.35	0	1	COMDINHEIRO
CEO is not the board chair	0.89	0.31	0	1	Brazilian CG code report - Section: Board of Directors
Total revenues in millions of €	1,590.42	4,098.21	−27.26	40,729.10	COMDINHEIRO
Firm complexity index	0.33	0.52	0	2	Annual reference forms and Brazilian Stock Exchange website

Appendix B. Truth Table – Low Board Monitoring

Conditions									Outcome		Consistency		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	Low	N	Raw	PRI	
1	0	0	0	0	0	1	0	0	1	7	1.00	1.00	
0	1	0	0	0	0	1	0	0	1	7	1.00	1.00	Notes:
0	0	0	0	0	0	1	0	0	1	6	1.00	1.00	(1) High busyness
0	1	0	0	0	0	0	0	0	1	4	1.00	1.00	(2) Low meetings attendance
1	1	0	0	0	0	0	0	0	1	4	1.00	1.00	(3) Not recommended composition
0	0	0	0	0	0	0	1	0	1	3	1.00	1.00	(4) Large board
0	1	0	0	0	0	0	1	0	1	3	1.00	1.00	(5) Low board meetings
0	1	0	0	1	0	0	1	0	1	2	1.00	1.00	(6) High norm of deference
0	1	0	0	1	0	1	0	0	1	2	1.00	1.00	(7) High CEO power
0	0	1	0	1	0	1	0	0	1	2	0.99	0.99	(8) Large firm
0	1	0	0	0	1	1	0	0	1	2	0.98	0.98	(9) Complex firm
1	0	0	0	0	1	1	1	0	1	5	0.97	0.97	
1	1	0	0	0	1	1	1	0	1	5	0.97	0.97	
1	1	0	0	0	0	1	1	0	1	7	0.95	0.95	
0	1	0	0	1	1	1	0	0	1	2	0.94	0.93	
1	0	0	0	0	0	1	1	0	1	8	0.87	0.86	
1	0	0	0	1	1	1	0	0	0	4	0.84	0.82	
1	1	0	0	1	1	1	0	0	0	3	0.83	0.80	
0	0	0	1	1	0	1	1	0	0	2	0.83	0.79	
0	0	0	0	1	0	1	1	0	0	13	0.81	0.77	
1	0	0	0	1	0	1	1	0	0	12	0.80	0.74	
0	1	0	0	0	0	1	1	0	0	7	0.80	0.79	
0	1	0	0	0	1	0	0	0	0	5	0.79	0.79	
0	0	0	0	1	1	1	1	0	0	3	0.78	0.71	
1	1	0	0	1	0	1	1	0	0	12	0.76	0.73	
0	1	0	0	1	0	1	1	0	0	9	0.76	0.73	
1	1	0	0	0	0	1	0	0	0	3	0.74	0.74	
1	0	0	1	0	0	1	1	0	0	3	0.72	0.68	
1	0	0	0	1	1	1	1	0	0	8	0.70	0.67	
1	1	0	1	1	0	1	1	0	0	2	0.70	0.65	
0	0	0	0	0	1	1	0	0	0	3	0.68	0.62	
0	1	0	0	1	1	1	1	0	0	10	0.66	0.59	
0	0	1	0	1	0	1	1	0	0	2	0.66	0.45	
0	1	0	1	1	0	1	1	0	0	5	0.65	0.60	
1	0	0	0	0	1	1	0	0	0	2	0.65	0.56	
1	1	0	0	1	1	1	1	0	0	4	0.64	0.55	
0	0	0	0	1	0	1	0	0	0	2	0.62	0.62	
0	0	0	1	0	0	1	1	0	0	3	0.62	0.61	
1	1	1	0	1	0	1	1	0	0	5	0.61	0.54	
0	0	0	0	0	1	1	1	0	0	5	0.59	0.54	
1	1	0	1	1	1	1	1	0	0	5	0.56	0.43	
1	0	0	1	1	1	1	1	0	0	3	0.54	0.44	
0	0	0	0	0	0	1	1	0	0	7	0.54	0.50	
1	1	0	0	0	1	1	0	0	0	3	0.53	0.45	
0	0	1	0	0	0	1	1	0	0	2	0.52	0.35	
0	1	1	0	0	0	1	1	0	0	3	0.51	0.34	
1	1	1	0	0	0	1	1	0	0	2	0.51	0.26	
0	1	1	0	1	0	1	1	0	0	3	0.51	0.33	
0	0	0	0	1	1	1	1	1	0	2	0.50	0.41	
1	1	1	1	1	0	1	1	0	0	2	0.45	0.25	
1	1	1	1	1	0	1	1	1	0	5	0.43	0.32	
0	1	1	1	1	0	1	1	0	0	2	0.43	0.17	
0	1	1	1	1	0	1	1	1	0	4	0.33	0.18	

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Conditions									Outcome		Consistency	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	Low	N	Raw	PRI
1	1	1	0	1	1	1	1	0	0	4	0.32	0.29
1	0	0	1	1	1	1	1	1	0	2	0.27	0.16
1	1	0	1	1	0	1	1	1	0	2	0.21	0.00
1	0	0	1	1	0	1	1	1	0	3	0.15	0.00
0	1	1	0	1	1	1	1	0	0	3	0.07	0.00

Appendix C. Truth Table – High Board Monitoring

Conditions									Outcome		Consistency		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	High	N	Raw	PRI	
0	1	1	0	1	1	1	1	0	1	3	1.00	1.00	
1	0	0	1	1	0	1	1	1	1	3	1.00	1.00	Notes:
1	1	0	1	1	0	1	1	1	1	2	1.00	1.00	(1) High busyness
0	1	1	1	1	0	1	1	0	1	2	0.88	0.83	(2) Low meetings attendance
1	0	0	1	1	1	1	1	1	1	2	0.86	0.84	(3) Not recommended composition
0	1	1	1	1	0	1	1	1	1	4	0.85	0.82	(4) Large board
1	1	1	1	1	0	1	1	0	0	2	0.82	0.75	(5) Low board meetings
0	1	1	0	1	0	1	1	0	0	3	0.76	0.67	(6) High norm of deference
0	1	1	0	0	0	1	1	0	0	3	0.74	0.66	(7) High CEO power
0	0	1	0	0	0	1	1	0	0	2	0.74	0.65	(8) Large firm
1	1	1	1	1	0	1	1	1	0	5	0.74	0.68	(9) Complex firm
1	1	1	0	0	0	1	1	0	0	2	0.73	0.60	
1	1	1	0	1	1	1	1	0	0	4	0.72	0.71	
1	1	0	1	1	1	1	1	0	0	5	0.66	0.56	
0	0	1	0	1	0	1	1	0	0	2	0.66	0.45	
0	0	0	0	1	1	1	1	1	0	2	0.65	0.59	
1	0	0	1	1	1	1	1	0	0	3	0.64	0.56	
1	1	0	0	0	1	1	0	0	0	3	0.61	0.55	
1	1	0	0	1	1	1	1	0	0	4	0.56	0.45	
1	0	0	0	0	1	1	0	0	0	2	0.56	0.44	
1	1	1	0	1	0	1	1	0	0	5	0.54	0.46	
0	0	0	0	0	0	1	1	0	0	7	0.52	0.48	
0	1	0	0	1	1	1	1	0	0	10	0.51	0.41	
0	0	0	0	0	1	1	0	0	0	3	0.49	0.38	
0	0	0	0	0	1	1	1	0	0	5	0.48	0.43	
0	1	0	1	1	0	1	1	0	0	5	0.48	0.40	
0	0	0	0	1	1	1	1	0	0	3	0.46	0.29	
1	1	0	1	1	0	1	1	0	0	2	0.45	0.35	
1	0	0	0	1	0	1	1	0	0	12	0.42	0.25	
0	0	0	1	0	0	1	1	0	0	3	0.42	0.39	
1	0	0	1	0	0	1	1	0	0	3	0.40	0.32	
1	0	0	0	1	1	1	1	0	0	8	0.40	0.33	
0	0	0	0	1	0	1	0	0	0	2	0.39	0.38	
0	0	0	1	1	0	1	1	0	0	2	0.37	0.21	
0	0	0	0	1	0	1	1	0	0	13	0.36	0.23	
0	1	0	0	1	0	1	1	0	0	9	0.34	0.27	
1	1	0	0	1	0	1	1	0	0	12	0.32	0.25	
1	1	0	0	1	1	1	0	0	0	3	0.32	0.20	
1	0	0	0	1	1	1	0	0	0	4	0.29	0.18	
1	1	0	0	0	0	1	0	0	0	3	0.28	0.26	
0	1	0	0	0	0	1	1	0	0	7	0.26	0.21	
0	0	1	0	1	0	1	0	0	0	2	0.22	0.01	
1	0	0	0	0	0	1	1	0	0	8	0.22	0.14	
0	1	0	0	0	1	0	0	0	0	5	0.21	0.21	
0	1	0	0	1	1	1	0	0	0	2	0.19	0.00	
1	1	0	0	0	0	1	1	0	0	7	0.10	0.05	
0	1	0	0	0	1	1	0	0	0	2	0.10	0.02	
1	0	0	0	0	1	1	1	0	0	5	0.09	0.03	
1	1	0	0	0	1	1	1	0	0	5	0.06	0.03	
0	0	0	0	0	0	1	0	0	0	6	0.05	0.00	
1	0	0	0	0	0	1	0	0	0	7	0.04	0.00	
0	1	0	0	1	0	0	1	0	0	2	0.04	0.00	
0	1	0	0	1	0	1	0	0	0	2	0.01	0.00	
0	1	0	0	0	0	1	0	0	0	7	0.01	0.00	
1	1	0	0	0	0	0	0	0	0	4	0.00	0.00	
0	1	0	0	0	0	0	0	0	0	4	0.00	0.00	
0	0	0	0	0	0	0	1	0	0	3	0.00	0.00	
0	1	0	0	0	0	0	1	0	0	3	0.00	0.00	

Appendix D. Indicators of board monitoring according to the Brazilian CG Code

Number	Item
Evaluation of the CEO and executive management	
1	The CEO should be evaluated, on an annual basis, in a formal process conducted by the board of directors, based on achievement of financial and non-financial performance goals established by the board of directors for the company.
2	The results of the evaluation of the other officers, including the CEO's propositions regarding the goals to be agreed and the permanence, promotion or dismissal of the executives in relation to their respective positions, should be submitted to, reviewed, discussed and approved by the board of directors.
Executive management compensation	
3	The executive management's compensation should be established by means of a compensation policy approved by the board of directors through a formal and transparent process that takes into consideration the costs and risks involved.
4	The executive managements compensation should be tied to results, with medium and long-term goals clearly and objectively related to creation of long-term economic value for the company.
5	The incentive structure should be in line with the risk limits established by the board of directors and should prohibit a single person from controlling the decision-making process and its respective inspection. Nobody should decide his or her own compensation.
Review of audit committees (internal and external)	
6	As regards the audit committee: (i) its attributions shall include assisting the board of directors in monitoring and controlling the quality of the financial statements, internal controls, risk management, and compliance; (ii) it shall be formed mostly of independent members and be coordinated by an independent member of the board; (iii) at least one of its independent members shall have proven experience in the accounting – corporate field1., in internal controls, finance, and audit, cumulatively; and (iv) it shall have a dedicated budget for procurement of advisors for accounting, legal or other matters, when the opinion of an external expert is necessary.
7	The company should establish a policy for procurement of extra-audit services from its independent auditors, approved by the board of directors that prevents hiring of extra-audit services that could compromise the independence of the auditors. The company should not hire as independent auditor any party that has provided internal audit services to the company in the previous three years.
8	The independent audit team should report to the board of directors, through the audit committee, if applicable. The audit committee should monitor the effectiveness of the independent auditors' work, as well as their independence. It should also evaluate and discuss the independent auditors' annual work plan and submit it to review by the board of directors.
9	The company should have an internal audit department tied directly to the board of directors.
Assessment of risk management	
10	The company should adopt a risk management policy, approved by the board of directors, that includes definition of the risks from which it seeks protection, instruments used for such purpose, organizational structure for risk management, assessment of the suitability of the operating structure and internal controls in verifying the effectiveness thereof, as well definition of guidelines for establishment of the acceptable limits for exposure of the company to such risks.
11	The board of directors is responsible for ensuring that the executive management has mechanisms and internal controls to acknowledge, assess and control the risks, in order to keep them at levels compatible with the established limits, including an integrity/compliance program that seeks compliance with laws, regulations, internal and external standards.
12	The executive management should assess, at least once per year, the effectiveness of the risk management policies and systems, as well as of the integrity/compliance program, and report such assessment to the board of directors.

Appendix E. Necessity analysis

	Consistency	Coverage
Low board monitoring		
High busyness	0.52	0.65
~High busyness	0.53	0.67
Low meetings attendance	0.51	0.66
~Low meetings attendance	0.53	0.64
Not recommended composition	0.89	0.71
~Not recommended composition	0.11	0.32
Large board	0.24	0.52
~Large board	0.82	0.72
Low board meetings	0.52	0.75
~Low board meetings	0.48	0.53
High norm of deference	0.69	0.65
~High norm of deference	0.31	0.58
High CEO power	0.16	0.96
~High CEO power	0.84	0.59
Large firm	0.68	0.56
~Large firm	0.32	0.82
Complex firm	0.05	0.24
~Complex firm	0.95*	0.69
High board monitoring		
High busyness	0.56	0.42
~High busyness	0.53	0.40
Low meetings attendance	0.50	0.39
~Low meetings attendance	0.57	0.41
Not recommended composition	0.62	0.29
~Not recommended composition	0.38	0.68
Large board	0.46	0.61
~Large board	0.64	0.33
Low board meetings	0.28	0.25
~Low board meetings	0.72	0.47
High norm of deference	0.62	0.35
~High norm of deference	0.38	0.42

(*continued on next page*)

(*continued*)

	Consistency	Coverage
High CEO power	0.01	0.04
~High CEO power	0.99*	0.41
Large firm	0.88	0.44
~Large firm	0.12	0.18
Complex firm	0.28	0.76
~Complex firm	0.72	0.31

* Necessary condition.

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