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The relationship between ethical leadership and corporate governance: study of a sample of Algerian senior managers

EZZINE Abdelmadjid
YAHIAOUI Nour el houda

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The Relationship Between Ethical Leadership and Corporate Governance: Study of a Sample of Algerian Senior Managers

العلاقة بين القيادة الأخلاقية وحوكمة الشركات: دراسة عينة من كبار المسيرين في مؤسسات جزائرية

Abdelmadjid EZZINE
lali Liabes University, Sidi Bel Abbes (Alg
abdelmadjid.ezzine@univ-sba.dz,

Nour El Houda YAHIAOUI (*)
Djillali Liabes University, Sidi Bel Abbes (Algeria)
nour_el_houda.yahiaoui@univ-sba.dz

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Abstract: This study aimed to examine the impact of ethical leadership on corporate governance in a sample of Algerian senior managers. The study used a quantitative methodology, it developed a conceptual model addressing the two variables' relationship. To measure variables and collect data, a designed questionnaire was sent to a purposive sample of senior managers and members of board of directors. Data analysis was done using partial least squares structural equation modelling (PLS-SEM) and linear regression. The study found that ethical leadership has a significant positive impact on corporate governance and it explains 52.5% of its variability in Algerian corporations and the variability of its four reflective factors, respectively, auditing function (39.60%) stakeholder rights (36.40%), transparency and information disclosure (33.40%) and the role of the board of directors (16.40%). The study concluded that Algerian senior managers exercise moral leadership implicitly relying on personal ethical leadership and that boards of directors can't provide codes of conduct to promote ethical behaviour.

Key words: Corporate Governance; Ethical Leadership; Ethical Behaviour; PLS-SEM; Algerian Senior Managers.

JEL classification : G34 ; D21 ; L20.

الملخص:

تهدف هذه الدراسة الى اختبار أثر القيادة الأخلاقية على حوكمة الشركات من خلال عينة من كبار المسيرين في مؤسسات جزائرية. اعتمدت الدراسة على المنهج الكمي؛ حيث قامت بتطوير نموذج نظري يفسر العلاقة بين المتغيرين. تم تصميم استبيان وإرساله الى عينة مستهدفة من كبار المسيرين وأعضاء

(*) *Corresponding authors*

مجلس الإدارة في مؤسسات جزائرية من أجل جمع البيانات وقياس المتغيرات. تم تحليل البيانات باستعمال طريقة النمذجة بالمعادلات البنائية باستخدام مقاربة المربعات الصغرى الجزئية (PLS-SEM) والانحدار الخطي. توصلت الدراسة إلى أن للقيادة الأخلاقية أثرا إيجابيا ذا دلالة إحصائية على حوكمة الشركات حيث تفسر 52.5% من تغيراتها، كما تفسر التغير في عواملها الانعكاسية الأربعة، على الترتيب، وظيفة المراجعة (39.60%)، حقوق أصحاب المصلحة (36.40%)، الإفصاح والشفافية (33.40%) ودور مجلس الإدارة (16.40%). خلصت الدراسة الى أن كبار المسيرين الجزائريين يمارسون قيادة أخلاقية ضمنية تعتمد على الاخلاق الشخصية وأن مجالس الإدارة غير قادرة على وضع مدونات قواعد السلوك لتعزيز السلوك الأخلاقي.

الكلمات المفتاحية: حوكمة الشركات؛ القيادة الأخلاقية؛ السلوك الأخلاقي؛ PLS-SEM؛ كبار المسيرين الجزائريين.

تصنيف جال: G34 ; D21 ; L20

INTRODUCTION

Corporate governance (CG) was developed to control unethical practices and to improve business performance; it builds trust and creates lasting value for stakeholders (Demise, 2005). (CG) systems and mechanisms were introduced to guide corporations toward best practices, to increase shareholders' wealth and corporate accountability to various stakeholders (Othman & Abdul Rahman, 2011).

However, in the early 2000s, despite the various regulations, systems and corporate governance best practice codes, a series of financial scandals and failures shook different corporations in different countries around the world (Enron, WorldCom, Parmalat, Vivendi-Universal …). These corporations were found guilty of fraud and abusive (CG) practices. These series of corporate failures seem to contradict the main purpose of the CG systems, giving reference to their shortcomings and impressions that its current practices are deficient (Othman & Abdul Rahman, 2011). Making this paradox a major problem in CG; several studies indicate that the main cause of these shortcomings in CG systems is due to the lack of ethics and moral values in its current practices (Coffee, 2003) and that the neglect of ethical values in its practices was one of the main factor in the failure of gigantic corporations such as Enon (Arjoon, 2005).

In many of these scandals, ethical failings at several corporate levels have been noted and high-level leaders were implicated, in particular, members of boards of directors inable to play their supervisory roles, the failure of the auditors to carry out their duties, the audit and risk management committees have failed to provide the last line of assurance to investors and the failure of the executives to carry out their stewardship tasks and responsibility. For Charléty & al (2013), the crossroads corporations have reached is due to the continued trust erosion, which makes (CG) a central subject of leadership; ethical leadership (EL) is the only way for corporations to regain the trust they need to operate successfully. Remarkably, despite this inferential link that good (CG) is the product of morally strong leadership, abundant literature has examined the importance of ethical leadership (EL) in different aspects of business management, still, there is no clear link between (EL) and (CG) good practices, especially, in the context of developing economies in general and the Algerian business environment in particular.

By reflecting on the Algerian context, based on Algeria's ranking on The World Bank Good Governance Index and the quality of state institutions, Algeria experiences a problem of weak (CG) at the corporation micro-level and weak good governance at the macro level. Economists consider this issue as the major cause of the failure of the development efforts in Algeria. over the past decade, Algeria witnessed many corporate scandals and bankruptcies, which have affected vital economic sectors such as oil and energy, infrastructure and public finance. These scandals revealed many non-ethical practices, engaged the responsibility of high-level officials and had serious effects on the business climate in Algeria. These practices shook national and international investors' confidence in Algerian corporations' senior managers. This confidence is a very important capital hard to regain.

What is concluded from the above is that an ethical perspective is needed in (CG) and that the issue of (EL) in (CG) should be explored in depth, to develop a deeper understanding of how (EL) can improve (CG) practices. Thus, the main purpose of this study is to determine the impact of (EL) on (CG) practices in a sample of Algerian senior managers. Our main question is: *Does ethical leadership impact corporate governance in Algerian corporations and lead it to better practices?* This question gives branch to the following sub-question: *Which factors of (CG) are the most affected by (EL)?*

This study adds to the body of knowledge in four ways. First, it uses a different theoretical framework in (CG) presented in the stewardship theory and the stakeholder theory rather than the disciplinary approach based on the agency theory that has been the dominant theory in the field of (CG) for many years. Second, it offers a structural conceptual theoretical framework of the relationship between (EL) and (CG) based on a varied literature review. Third, to our knowledge this is the first study that uses partial least squares structural equation modelling approach (PLS-SEM) in (CG) and (EL) literature as a statistical framework, this approach is recently gaining popularity in many fields and disciplines of social sciences since is used to estimate models including latent variables, observed variables, or a combination of both. Finally, we consider this study as important in the Algerian context, it offers a good perspective on (CG) in the Algerian corporation based on an ethical framework in a possibility of strengthening (CG) practices with (EL) and contributing to its development in the Algerian context.

The rest of this article proceeds as follows: in section 1 we describe the theoretical foundations and summarize the literature review on (CG) and (EL) relationship to develop a conceptual model of this relationship and put forward our hypothesis. Methodology section explains our sample selection procedures, measurements of each variable and the data collection and statistical treatment. Results and discussion section presents and discusses our results. We conclude in the conclusion section.

1. Theoretical foundations and hypotheses development

1.1 Theoretical foundations

For many years, agency theory has been the dominant theory in the field of (CG) studies; based on the hypothesis of the leader as an agent is likely to act opportunistically to take advantage of asymmetry of information or selfish personal interests (Daily, Rajagopalan, & Dalton, 2003). The stewardship theory and the stakeholder theory have been proposed based on different behavioural hypotheses from which this study finds its theoretical foundations as follows:

1.1.1 Stakeholder theory

This theory holds that corporations have a social responsibility that requires them to consider the interests of all involved parties (Freeman, 1984). According to Freeman, Wicks, & Parmar (2004), this theory begins with the assumption that values are necessarily and explicitly part of management. it recognizes that leaders must ensure that the ethical rights of no stakeholder are violated when making decisions (Smith, 2003).

1.1.2 Stewardship theory

According to this theory, a leader must maximize long-term value creation for the benefit of the company and all stakeholders. The manager has the role of the steward as an "integrator of shared interests" with the responsibility to help the organization and its members (Caldwell & Karri, 2005). Great leaders practice "ethical stewardship" by creating relationships that maximized stakeholders' ownership and engagement (Caldwell, Hayes, Karri, & Bernal, 2008).

1.2 The relationship between Ethical Leadership and Corporate Governance

It can be inferred from the literature review that there is a lot of empirical research that focuses on the relationship between business ethics and (CG) (Donaldson & Fafaliou, 2003; Tayşir & Pazarcık, 2013). Several studies have theoretically assessed the effect of business ethics on CG, but little research has empirically assessed this effect.

Ethics in governance is defined by (Wieland, 2001) as the integration of morals necessary to corporate management, the behaviour of the leaders is imitated by the entire organization, thus, setting ethical values into the behaviour of leaders is the cornerstone of integrating it into the all managing system of any corporation. Business ethics is defined by Francis & Armstrong (2003) as an institute where leaders set an example as role models for the entire organization, their behaviour is consistent with ethical standards and values and is well aware of the significant effects their decisions have on the entire organization.

In (CG) practices, ethical leaders avoid abusing their power or use inappropriate actions that could result in questionable behaviours and practices within organizations (Mercier, 2004). Ethical leaders not only care about the profitability of the company but also achieve it within legal and ethical frameworks (Carroll, 1991) because ethics requires better behaviours than mere legal compliance.

For Charléty & al (2013), (EL) is the only way for corporations to regain the trust they need to operate successfully, the crossroads we have reached - due to the continued erosion of trust - makes the (CG) a central subject of leadership. In his study, Wajiha (2014) tried to find the relationship between organizational performance, (EL) and (CG) practices in Pakistani corporations. The results show that (EL) influences organizational performance through the mediator effect of CG, in both Pakistani public and private sector corporations. The results demonstrate that good (CG) is the product of morally strong leadership.

Agbim (2018) examined the effect of (EL) on (CG), performance and corporate social responsibility (CSR) in Nigerian deposit money banks. The results reveal that (EL) has significant positive effects on (CG), (CSR) and performance. In Nigeria, corporate corruption and the scandal involving senior management of depository banks has resulted in mergers, acquisition and failure of some banks.

H1: Ethical leadership has a positive impact on corporate governance

1.2.1 Ethical leadership and stakeholders' rights

Ethical leaders impact organizational resources equitable allocation positively. Leaders who have values of fairness and equity are more likely to allocate available resources among different stakeholder groups fairly; since corporations are often required to explain how their activities are fair and equitable to internal and external stakeholders (Logsdon, Thomas, & Van Buren, 2006). Leaders' long-term vision and concerns for the well-being of the society and the environment are rooted in their ethical sense of responsibility and can be expressed through a focus on the long-term interests of future generations as well as on the natural environment (Kalshoven, Den Hartog, & De Hoogh, 2011). The King Report's philosophy on (CG) consists of the three key elements of sustainability leadership and good corporate citizenship, views (CG) as essentially effective and ethical leadership (King3, 2012).

H1.1: Ethical leadership has a positive impact on protecting stakeholders' rights.

1.2.2 Ethical leadership, transparency and information disclosure

Ethical leaders are not only concerned with the company's sound processes but also enforce social responsibility policies. Leaders concerned with ethical values are less likely to force accountants to manage financial results or earnings. Therefore, they are more likely to employ external auditors to audit their financial and accounting reports and to provide information to the public (Mihalek, & Smith, 2005).

H1.2: Ethical leadership has a positive impact on transparency and disclosure of information.

1.2.3 Ethical leadership and the audit function

As a result of recent high-profile business failures, the role of internal audit and auditors has changed historically in the organizational status, function and responsibility. Porter (2004) identifies internal auditors as one of the components of the "Trinity of Audit" with external auditors and the audit committee in an organization's governance system. Audit responsibility has expanded from traditional compliance testing to operational effectiveness, risk management and assurance. Internal auditors often face ethical dilemmas unique to their profession or they must make moral decisions that arise from the conflict of interests of different parties. Given the massive liability and rising expectations, internal auditors decisions can have a critical impact on (CG) practices.

H1.3: Ethical leadership has a positive impact on the audit function

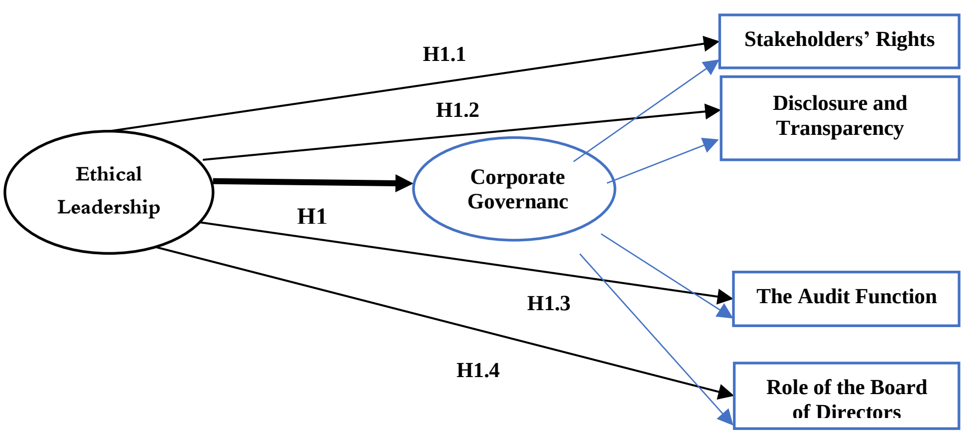
1.2.4 Ethical leadership and the role of the board of directors

In their study Othman & Abdul Rahman (2014) explored the concept of EL in Malaysian corporations' CG. They used a qualitative methodology to collect experts' points of view and leaders of corporations recognized for their good (CG) practices. Content analysis revealed that (EL) signifies a leader who does not compromise on ethics and has a strong moral code. (EL) is a moral compass that reinforces good corporate governance practices.

H1.4: Ethical leadership has a positive impact on the role of the board of directors

After consulting the literature review mentioned above, we develop a conceptual framework (Fig 1), that summarizes and explains the relationship between corporate governance (CG) as an endogenous latent variable and ethical leadership (EL) as an exogenous latent variable.

Fig 1. Conceptual Framework of the Relationship Between Ethical Leadership and Corporate Governance



Source: authors' conception based on the literature review

2. Methodology

2.1 Research Instrument and Measurements

The questionnaire is considered one of the main and most common tools used for collecting data related to managerial studies (Al-Hawary & Al-Namlan, 2018; Saunders, Lewis, & Thornhill, 2019). The questionnaire used for the current study consisted of three sections. The first section was devoted to collect data on personal characteristics (e.g., gender, job experience, education level, age group). The other two sections were used to measure research variables.

The second and the third section was devoted to our two main variables: corporate governance (CG) as an endogenous latent variable and ethical leadership (EL) as an exogenous latent variable. Corporate governance is divided into four first-order reflective factors: stakeholder rights were measured using 13 items, disclosure and transparency were assessed using 8 items, the role of the board of directors was measured using 11 items and audit function was measured using 8 items, with a total of 40 items on a five-point Likert scale ranging from "strongly disagree" to "strongly agree".

The Ethical leadership variable is measured using the Ethical Leadership Scale (ELS) developed by (Brown et al, 2005) to measure (EL) subordinates' perception. They defined (EL) as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, and decision-making" (Brown et al. 2005, p. 120), according to this definition (El) can be divided to availability of ethical behaviour, the practice of ethical behaviour and promotion of ethical behaviour, with a total of 10 items, on a five-point Likert scale ranging from "strongly disagree" to "strongly agree". with a total of 10 items, on a five-point Likert scale ranging from "strongly disagree" to "strongly agree".

2.2 Population and sample

Senior managers and board members of Algerian corporations represent the current study population. The sample included 100 senior managers and board of directors' members. Data were collected using the questionnaire established the way described above. The questionnaire was sent to a purposive sample of senior managers and board of directors' members. The number of questionnaires answered by the sample reached

35 questionnaires; out of these, 30 questionnaires were valid for statistical analysis, with a response rate of 30.00%.

Data descriptive analysis shows that senior managers accounted for about 85.4% of the total respondents, while board members comprised 14.6% of respondents. Most of the senior managers were males (80.00%) compared to females (20.00%). Moreover, most of the sample members had from 20 to 25 years of job experience within the category (66.66%), while the last rank percentage was for the category with less than 10 years of job experience (16.66%). Most of the senior managers were holders of a graduate degree (83.33%), and most of them belonged to the age group from 40 to 45 years (73.33%).

2.3 Data Analysis Procedures

For data analysis, the current study uses the partial least squares path modeling or partial least squares structural equation modeling (PLS-PM, PLS-SEM). "This method makes no assumptions about the distribution of variables and develops a very flexible technique for handling a huge data set characterized by the existence of missing data, strong correlations between variables and a small sample size in comparison to a large number of variables" (Droesbeke, Saporta, & C. Thomas-Agnan, 2013).

The PLS approach goes through two steps, the first one, the evaluation of the measurement model (external) aims to verify the reliability, the convergent validity and the discriminant validity of the constructs. The second step, evaluation of the structural model or internal model (internal) is used to verify the multicollinearity problem (in the case of multiple regression), calculate the R2 (coefficient of determination), f2 (Effect size of each link), Geisser 's Q^2 - Stone (obtained through a blindfolding procedure) and GOF (Goodness of Fit index). Finally, it tests the significance of the links using the Bootstrap method (Latan & Ramli, 2013).

2.3.1 Evaluation of the measurement model (external)

The ethical leadership variable was modelled as a first-order construct measured by reflective indicators, while the corporate governance variable was modelled as a second-order construct measured by four first-order reflective factors: Rights of Stakeholders (Rights), Transparency and dissemination of information (Transparency) The audit (Audit) and Role of Board of Directors (Role). These four constructs are measured by reflective indicators (a reflective-reflective second-order model).

In order to estimate the parameters of a higher-order model by the PLS-PM method, two approaches are suggested (Sarstedt, Hair Jr, Cheah, Becker, & Ringle, 2019): the two-stage approach and the repeated indicators approach. In this study, we use the repeated indicators approach.

In our evaluation of the measurement model, the average variance extracted (AVE) of the constructs, including the second-order construct (Governance) were above the threshold of 0.50. In addition, the loadings of the indicators on their constructs (Loadings) are greater than 0.70 and statistically significant at the level of significance (5%). These results, shown in Table (1), provide evidence of convergent validity. The composite reliability (CR) for each of the constructs in Table (1) are greater than the value of 0.70, which confirms the reliability of the measurements. The square root of the AVE of each construct is greater than the correlations between this construct and all the other constructs (Table 2), which proves the discriminant validity of our constructs.

Table 01: Reliability and convergent validity statistics

Built	Items	loadings	AVE	CR
Ethical Leadership	LEDETH 3	0.825	0.626	0.834
	LEDETH 4	0.734		
	LEDETH 5	0.813		
Corporate Governance	DROIPP	0.929	0.606	0.857
	TRANSINF	0.822		
	AUDIT	0.717		
	ROLECA	0.608		
Stakeholder Rights	DROPPI 1	0.763	0.620	0.830
	DROPPI 6	0.801		
	DROPPI 7	0.797		
Transparency and dissemination	TRANSINF 1	0.745	0.624	0.833
	TRANSINF 4	0.780		
	TRANSINF 8	0.843		
The audit Function	AUDITING1	0.761	0.598	0.817
	AUDITING2	0.735		
	AUDITING3	0.823		
Role of the Board of Directors	ROLECA 4	0.794	0.630	0.773
	ROLECA 6	0.793		

Source: authors' conception based on SmartPLS3

Table 02: Evaluation of the discriminant validity (criterion of Fornell Larcker)

	1	2	3	4	5	6
1.Ethical leadership	**0.791**					
2. Corporate governance	0.725	**0.778**				
3. Rights of stakeholders	0.603	**-**	**0.787**			
4. Transparency and dissemination	0.578	-	0.691	**0.790**		
5. The audit	0.629	-	0.550	0.431	**0.773**	
6. Role of Board of Directors	0.405	-	0.607	0.301	0.206	**0.794**

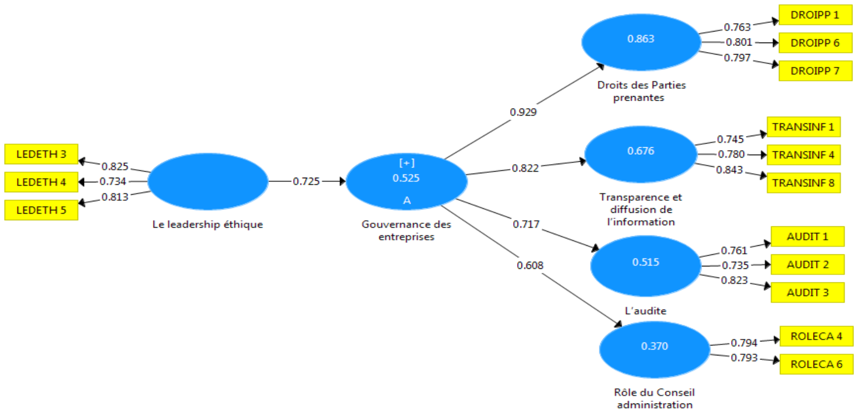
Note: The diagonal bold fonts in the table indicate the root square of average variance extracted from the AVEs for each construct. The other values concern the correlations between the different constructs.

Source: authors' conception based on SmartPLS3

2.3.2 Evaluation of the structural model (Internal)

The estimates of the model parameters (repeated indicators approach) are represented in Figure 2.

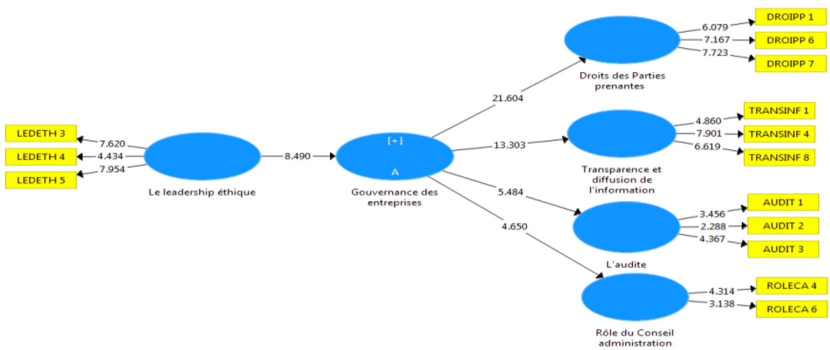
Fig 2. Representation of PLS-SEM results for the repeated indicators approach



Source: SmartPLS3

To test the significance of the links, we use the Bootstrap procedure (sample = 500; n = 30), the results are displayed in Figure 3.

Fig 3. Representation of Bootstrap results for the repeated indicators approach



Source: SmartPLS3

3. Results and Discussion

Student's T can be noticed on the links (arrows) between exogenous latent variables and endogenous latent variables (T>2 indicates a statistically significant relationship), therefore Ethical leadership has a significant positive influence on corporate governance (β=0.725; T =8.490>2) which confirms our main hypothesis H1. In addition, to test other hypotheses H1.1-H1.4, we use the scores of the latent variables estimated by the Smart PLS3 software (Ringle, Wende, & Becker, 2015) to carry out four regressions using the SPSS 25 software (IBM Corp, 2017). The results are presented in table (3).

The coefficients of determination obtained "R^2" are all greater than 0.1, which means that the model has sufficient explanatory power. The R^2 of the ethical leadership variable is equal to 0 because it has no predictive variables. Ethical leadership explains 52.50% (R^2 is substantial) of the variability of corporate governance. The "Blindfolding" procedure under Smart PLS 3 provides us with a Q^2 index equal to 0.158 (>0) showing that our model has a good predictive validity. We also calculate the GOF to measure the overall quality of the model. Applying the formula bellow, we get a value of 0.60 (>0.50). Thus, the predictive capacity of the ethical leadership variable of our model is good.

$$GoF = \sqrt{\overline{Com} \times \overline{R^2}}$$

Table 3. Significance of the relationships linked to hypotheses H1 and H1.1-H1.4

Low	Relationship	Beta Std	Std Error	T	Sig	R^2 %	Decision
H1	Leadership/ Corporate Governance	0.725	0.082	8.490	.000	52.50	Confirmed
H1.1	Leadership/ stakeholders	0.603	0.151	3.999	.000	36.40	Confirmed
H1.2	Leadership/ Transparency	0.578	0.154	3.749	.000	33.40	Confirmed
H1.3	Leadership/ Auditing	0.629	0.147	4.285	.000	39.60	Confirmed
H1.4	Leadership/ Board	0.405	0.173	2.345	.026	16.40	Confirmed

Source: Authors' conception based on SPSS 25

Table (3) shows that ethical leadership (EL) has a significant positive influence on corporate governance (CG) (β=0.725; T =8.490>2) which confirms our main hypothesis H1 and is consistent with the findings of other previous studies Agbim (2018). Ethical leadership explains 52.50% (R^2 is substantial) of the variability of corporate governance.

Based on the averages of the questionnaire items, we argue that senior leaders in Algerian corporations believe that is important to care about the profitability of the corporation and to achieve it within legal framework but it is difficult to always do that in an ethical framework; law doesn't cover every possible situation in every day-to-day company management, it is sometimes hard to know if the made decision is ethical because ethics requires better behaviours than mere legal compliance. They also believe that business management decisions should be based on economic realism and not on moral philosophy. It seems that the concept of ethics in general and ethical leadership in specific is still new to the Algerian business sphere. From the above, it seems that Algerian corporations' leaders are intuitively aware of the meaning of an ethical situation (dilemma) or grey ear when in it, but in the same time don't know how to name it or more importantly relate it to the corporation management or deal with it.

Most of the managers believes that the behaviour of leaders is imitated by the entire organization, they set an example and are they role models for the entire organization and are responsible for the standards and codes of conduct that guide the behaviour of subordinates. What is also remarked is that the majority of them do not use ethical frameworks to judge morality, instead, they use personal and cultural values, religious and ideological beliefs, organizational norms, family upbringing and own behavioural experience and intuition. They exercise moral leadership implicitly, based on certain ethical rules and values derived mainly from Islamic religious teachings, individual ethics and Algerian society morals for example: they discuss ethical issues with their subordinators informally. They are well aware of the significant effects that their decisions have on the entire organization; thus, they avoid abusing power or use inappropriate actions that could result in questionable behaviours and practices within the organization.

Table (3) shows that ethical leadership has a significant positive influence on stakeholder rights (β=0.603; T =3.999>2) which confirms our first sub-hypothesis H1.1, it explains 36.40% of the variability in stakeholder rights, this law impact rate is due to most senior managers believes that stakeholders rights respect is a legal obligation mandated by law when few others think it is voluntary or kind of charity. They acknowledge that values are necessarily and explicitly part of management, but they consider it difficult to ensure that the ethical rights of no stakeholder are violated when making decisions. They also acknowledge that good relationships with all stakeholders maximized their engagement and protect their rights. For the long-term vision that concerns the society well-being and the natural environment protections, it seems not rooted in the leaders' ethical sense of responsibility although their awareness of the long-term interests of future generations as well as on the natural environment.

Ethical leadership has a positive influence on transparency and information disclosure (β=0.578; T =3.749>2), which confirms our second sub-hypothesis H1.2, it explains 33.40% in the transparency and information disclosure variability. We argue that this moderate impact is due to the focus of leaders on the company's legal sound processes in accounting practices and reporting methods relates to the technical application of IAS/IFRS. Whereas, ethical leaders concerned with ethical values focus on more that simple legal compliance for example: optional disclosure, expected profit, risk management methods, electronic disclosure and using social networks to guarantee transparency and provide different stakeholders with information, these practices remain strange in the Algerian corporations. In contrast, the most sensitive elements of disclosure and transparency and the mainly related to the ethical aspect are absent; such as disclosure of important information in the right time and without delay, disclosure of expected risks, the changes in assets and liabilities, changes in ownership structure, and finally the disclosure of board members and executives' qualifications in a transparent manner.

Ethical leadership has a positive influence on the audit function (β=0.629; T =4.285>2), which confirms our third sub-hypothesis H1.3, it explains 39.60% of the auditing function. We due this weak impact to the absence of the trinity of Audit identified by Porter (2004) that consists of the relationships and mutual responsibilities between internal auditors, external auditors and the audit committee members in an organization's governance system. What is also remarked is that moral dimensions linked to the external auditor's moral responsibility are weak especially its neutrality. Another factor is that audit committees in the majority of Algerian corporations are absent and the internal auditing practices in Algerian corporations remain far from international practices; internal auditors do no influence the implementation of any of his recommendations and they are responsible for internal control system evaluation and managing risks making them often face ethical dilemmas unique to their profession where they must make moral decisions that arise from the conflict of interests of different parties, this mission is can be more complex when the internal auditor is independent, which is the case in the majority of Algerian corporations.

Ethical leadership has a weak positive influence on the role of the board of directors (β =0.405; T =2.345>2), which confirms our fourth sub-hypothesis H1.4 it explains only 16.40% of the variations in the role of the board of directors, this weak positive influence is due to the large differences between the characteristics of the Algerian boards and what is recommended in the rules of the CG: first, in most corporations, there is a combination between Chairman of Board of Directors position and the Chief Executive Officer position (CEO). Second, the number of independent members is considered as atomic. Finally, no clear board members' remuneration policy. From another hand, ethical behaviour is developed by the board of directors, but it seems that codes of conduct are still a strange practice in Algerian corporations, although it provides guidelines for the board to deal with ethical issues. The lack of ethical training that helps leaders deal with moral issues and ethical dilemmas they face in their day-to-day tasks and decision-making. There is a large reservation on the whistleblowing policy; Algerian corporations do not have clear lines to be followed to report violations or any unethical behaviour or abuse.

6 CONCLUSIONS

The main objective of this study was to examine the impact of (EL) on (CG) practices in a sample of Algerian senior managers. The study found that ethical leadership has a significant positive influence on corporate governance and it explains 52.50% of its variability in Algerian corporations and the variability of each of its four reflective factors, respectively, auditing function (39.60%), stakeholder rights (36.40%), transparency and information disclosure (33.40%) and the role of the board of directors (16.40%).

The study concluded that Algerian senior managers exercise moral leadership implicitly relying on personal ethical leadership and based on certain ethical rules and values derived mainly from Islamic religious teachings, individual ethics and Algerian society morals. The study concluded that board of directors are no aware that ethical behaviour can be developed not only by relying on personal ethical leadership, but it is important to provide guides that direct and promote ethical behaviour. Also, not aware of the importance of strengthening ethical culture; they believe that business management decisions should be based on economic realism and not on moral philosophy.

The limits of this study lie mainly in its sample limited to 30 Algerian senior managers, where the purposive sampling technique was used; hence the results of the study remain confined to the sample.

This study contributes to the literature on corporate governance and ethical leadership in several ways. First, empirical studies on the link between (EL) and (CG) are lacking. Second, it explores the Algerian managerial and academic context using a new theoretical framework represented in stakeholder theory and stewardship theory. For the managerial implications, this study concludes ethical behaviour can be developed and that for an organization to maintain a good ethical behaviour, it is important to provide guides that promote ethical behaviour as the most important characteristic of ethical leadership.

This study gives rise to many future studies in (CG) literature in a multidisciplinary approach and mainly in the Algerian context where the (CG) and (EL) relationship is a fertile ground for further studies and the development of future hypotheses. First, there is a need to use qualitative methods e.g., grounded theory that can provide in-depth explorations without being restricted to predetermined dimensions. Second, there is a need to expand the study by using behavioural economics as the new paradigm in economics to understand senior leaders and board members behaviour in (CG) practices and find the necessary incentives to promote it. Finally, relying on business economics, it is important to study (EL) as an asset to invest in, in order to, regain trust needed to Algerian corporations to operate successfully and reach high performance.

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