CORPORATE GOVERNANCE AND BUSINESS ETHICS: EVIDENCE FROM A SAMPLE OF ALGERIAN CORPORATIONS

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Abstract

Corporate governance systems are developed to govern corporations, build trust and create sustainable value for all stakeholders. Paradoxically, in spite of massive efforts in developing governance systems, corporate scandals are persisting. Different studies have strongly recommended business ethics as a solution to this paradox. Thus, this study explores if business ethics supports corporate governance practices in a sample of Algerian corporations. The study used a mixed methodology; qualitative: since this subject is poorly addressed in the Algerian context that requires an exploratory study. Quantitative by developing a structural model demonstrating the relationship between business ethics and corporate governance, Data for the study were collected by means of a questionnaire distributed on an anonymous basis to corporations' senior managers in Sidi Bel Abbes district. Treatment of collected data is done using two types of analysis: the structural equations modeling approach by using the PLS Path approach (PLS Path Modeling) and linear regression. The study finds out that business ethics leads to better levels of corporate governance and supports its practices; and the reason is mainly due to an implicit involuntary commitment to laws as a minimum required level of compliance, and that the protection of stakeholders' rights are the most important corporate governance's dimension affected by business ethics.

Keywords: Business Ethics, Corporate Governance, Structural Equations Modeling, Algerian Corporations

Authors' individual contribution: Conceptualization – N.E.H.Y.; Methodology – N.E.H.Y. and A.E.; Formal Analysis – A.E.; Investigation – N.E.H.Y.; Writing-Original Draft –N.E.H.Y.; Writing-Review & Editing – N.E.H.Y.; Supervision – N.E.H.Y. and A.E.

1. INTRODUCTION

Corporate governance (CG) builds trust and creates a sustainable stakeholder's value (Demise, 2005). The CG guidelines, rules, and regulations were introduced to guide corporations towards good governance practices. CG systems are developed to manage business corporations to enhance shareholder wealth and corporate accountability (Othman & Abdul Rahman, 2011).

However, at the start of the new millennium, a series of corporate and financial scandals rocked corporations in different countries all over the world (Enron, WorldCom, Parmalat, Vivendi-Universal etc.). These firms were found guilty of accounting fraud, corruption, and governance malpractices; referring directly to flaws and shortfalls in the existing systems and structures of governance; highlighting the possible relationship between the corporations' failures and the poor governance.

These series of corporate scandals and failures seem to be contradicting the main objective of CG systems, making this paradox a major governance issue and giving the impression that there is something lacking in the present CG practices

(Othman & Abdul Rahman, 2011) and an inadequacy in the governance structure and process in building corporate sustainability.

Thus, CG practices became the center of concerns, public interest and debates revived on CG and business ethics (BE). Several opinions, Empirical evidence, and the many gathered views indicate that the major cause of this lacuna seems to be the lack of moral elements in the present CG practices (Coffee, 2003). Several studies confirmed that a major factor in the failure of giant corporations such as Enron (Arjoon, 2005), was due to the ignorance of values in governance practices. Because the development of CG principles commonly focuses on its practices that generally refer to governance structures such as board composition, roles separation between the chairman and chief executive officer, nonexecutive director and audit committees (Soobaroyen & Sheik-Ellahi, 2008).

Different views have been expressed as a response to this paradox, with most agreeing strongly on ethics as an essential factor in resolving this dilemma in CG. Several academic studies supported the power of BE in CG development. For example, business ethics is essential to overcome the flaws in CG (Arjoon, 2005; McKenzie, 2004). The absence of ethics is often associated with corporate scandals (Schwartz, Dunfee, & Kline, 2005).

This explains why over the last years, there has been a shift in the subject of CG studies as a new perspective (Lichtenstein & Dade, 2007; Wu, 2006; Siltaoja, 2006; Demise, 2005), where the interest is shifting to ethical values as the core of CG. The key issue of BE in the CG perspective is to access a system that manages ethical issues and strengthen mechanisms that achieve corporate integrity and induce ethical behavior (Kimber & Lipton, 2005).

The recent debate in CG revolves around how the current CG concept is not suitable for all companies (Sternberg, 1997), superficial and neglecting the human aspect of governance (Sonnenfeld, 2004), and lacking ethical commitment (Arjoon, 2005). The reason for this is the focus on economic logic since CG has often been associated with economic benefits because a corporation is considered to be high performing only when it is able to achieve its economic goals, so CG structures and mechanisms were designed to seek maximizing wealth, thus neglecting to consider any other non-economic logic, in particular, ethical obligation. In conclusion, there is an urgent need to understand CG from an ethical perspective.

On the other hand, Önday (2016) demonstrated in his study that BE concept is important and mostly developed in these continents in order: Americas, Europe, Asia, Oceania, and Africa. When for or CG concept is mostly developed in the continents in order: Europe, Americas, Oceania, Asia, and Africa. So, research on CG covered corporations in developed countries rather than in developing ones, affording an extensive review of literature indicating that the ideals of good CG have been adopted by developed countries when developing countries differ from them in a wide variety of ways. Therefore, there is a need to develop CG models that consider the cultural, political, social, and technological conditions in each developing country (Mwanzia & Wong, 2011).

Algeria, as one of developing countries, suffers the problem of weak CG at the micro-level and of that of the good governance at the macro level. This is manifest in Algeria's ranking on The World Bank Good Governance Index and the quality of state institutions in various aspects. This issue is precisely put forward by economists as the major cause of development efforts' failure in Algeria.

Over the past decade, Algeria witnessed many corporate scandals, financial collapses, and failures (Khalifa Bank scandal, Sonatrach 1, Sonatrach 2, the East-West Highway etc.), that affected vital economic sectors such as oil and energy, public works and finance. This resulted – far from economic losses – in shaking the public confidence in corporations because of the frank unethical practices (embezzlement, financial manipulation, fraud, false disclosure reports and the abuse of power etc.), corruption and the level of officials implicated in it. The above examples of CG issues are having a serious impact on the Algerian business climate, the confidence of national and international investors.

What is concluded from the above is that the issue of BE in CG should be explored in depth. To develop a deeper understanding of how BE can improve CG practices; an ethical perspective is needed. Since the main purpose of this study is to determine the impact of BE on CG practices in a sample of Algerian corporations, in a possibility of strengthening CG practices with BE; our main question is: *Does business ethics support corporate governance practices in Algerian corporations?*

The rest of this article proceeds as follows: the literature review section summarizes prior research on CG and BE linkage. In the research design section, we develop a conceptual tentative model of the relationship between CG and BE and we put forward our hypothesis. Methodology section explains our sample selection procedures, measurements and operational definition of each factor and the data statistical treatment. Results and discussion present and discusses our results. We conclude in the conclusion and suggestion section.

2. LITERATURE REVIEW

Despite the importance of the topic and the growing need for research that would help to find solutions for the CG dilemma, the linkage between CG and BE has not been thoroughly examined, especially in developing countries. Much research in the field of CG has been investigating the relationship between CG and the firm performance relating only to CG structures; when analyzing the linkage between CG and BE should extend the scope of CG to take into consideration its social and behavioral aspects.

Extant studies that deal with CG and BE mutual links; demonstrate that companies with more ethical behavior are more likely to be subject to good CG levels and practices, to less conflict of interest problems and their stakeholders' rights are likely to be more protected.

In their study El-Kassar, Messarra, and ElGammal (2015) examined the effects of ethical behavior and practices on promoting good CG within

400 small and medium-sized enterprises (SMEs) in Lebanon and Egypt. By dividing CG into five major categories: *corporate social responsibility*, *transparency*, *audit committee*, *the board of directors,* and *ownership structure*, the study provided evidence that ethical behavior leads to a greater level of CG and impacts all its categories. Corporate social responsibility is the most impacted category, followed by transparency, audit committee, and the board of directors. The category least affected is the ownership structure.

For Diacon and Ennew (1996), they sought to explore the implementation of corporate ethical culture and policies as a help to CG's formal forms: by (1) investigating ethical attitudes, (2) exploring the implementation of ethical policies and codes, and (3) analyzing the extent to which these policies and attitudes varied among the U.K. insurance companies. By questioning anonymous senior executives in the U.K. insurance companies they collected factual information on the importance of ethics within the respondent's company along with attitudinal perceptions of the ethical behavior of the U.K. insurance companies.

The study used four main instruments to distinguish any differences in ethical behavior and attitudes between stock insurance companies and mutual insurance companies: inclusion of ethical codes in the corporation's objective and mission statement; consideration of personal ethical behavior in hiring employees; the importance attached to ethical behavior in achieving company objectives; and the undertaking of potentially unethical activities.

The study found that all the four instruments indicate that ethical policies, attitudes, and behavior are perceived by respondents as more important in the U.K. mutual insurance companies as opposed to stock insurance companies. As a conclusion, the U.K. mutual insurance companies are less likely to indulge in potential unethical activities. These findings support the idea that a strong corporate ethical culture may be utilized to enhance formal CG instruments.

The main purpose of Wu's (2006) study was to determine how the international community should motivate businesses in promoting exemplary CG practices, to eliminate obstacles to ethically exemplary behavior.

By applying the empirical approach on a set of data gathered from businesses manager interviewees in both listed and over-the-counter (OTC) companies in Taiwan, the study introduced an operational model of ethical considerations of CG as a helping aid for businesses that wish to implement and boost their performance in respect to CG. The model explained the causal relationships between the study's four variables: *ethical considerations of CG* **(**ethical leadership, the creative mechanism, balancing, legitimacy, and capital gathering**)**, *family management, CG practices,* and *organizational performance.*

The study results indicated that *ethical considerations of CG* and *organizational performance* are closely linked and demonstrably proportional. The study also indicated a major finding that family management is a significant mediating variable of the ethical considerations of CG and organizational performance.

When Jinhan and Tae Hee (2011) investigated why Korean companies with more comprehensive CG have a value premium over companies with less comprehensive CG, especially with the vast economic restructuring program adoption and the undergoing of CG reform after the 1997's Asian financial crisis.

They find that companies with more comprehensive CG tend to show a strong commitment to BE, but the beneficial effect of corporate ethical commitment is not completely subsumed by CG. More, the cost of equity capital (COC) decreases with the strength of CG and that the (COC) is lower for companies with a strong commitment to BE than for those with weak commitment to BE and that the beneficial effect of CG on the (COC) is more pronounced for companies with weak commitment to BE than for those with strong commitment to BE.

In their study Othamn and Abdul Rahman (2010) aimed to understand the meaning of CG from social reality view and examine ethics dimensions that stimulate CG practices in Malaysian corporations. Interviews and documents were used for gathering evidence in examining the issue. The findings revealed several key ethical dimensions that stimulate CG practice such as *formal ethical structure*, *integration of ethical culture*, *ethical leadership,* and *established corporate values.* The integration of these variables established transparency, accountability, and responsibility in corporations' management. Thus, introduce a new approach towards the Malaysian CG system.

In their study Othman and Abdul Rahman (2011) attempted to explore ethics aspects as a moral substance to CG in Malaysian corporations. By using a qualitative approach and purposive sampling, the study found that *ethical principles*, *ethical position,* and *ethical structures* are the three main elements of ethics that enhance and motivate good governance, i.e., *accountability*, *responsiveness, responsibility,* and *transparency*, leading to more inclusive governance practices in Malaysian corporations.

In addition, for the question of integrating morality in governance, the study concluded that these three main ethics components (ethical principle, ethical position, and ethical structures) are considered as emergent patterns that answered the question of which components of ethics can be incorporated into CG practices and perceived as elements that would guide ethical governance practices. Integration of these variables would make a difference to transparency, accountability, and responsibility, etc., hence, contributing towards a new paradigm of CG.

In a goal of contributing to enhancing the understanding of CG by shifting the focus from a structural perspective to a moral and behavioral perspective, the purpose of Othman and Abdul Rahman's (2012) study was to explore the role of ethics in CG. The interview technique was employed to explore the issue. Interviews were conducted with 13 experts who were involved in the reform of

Malaysian CG and selected based on their expertise and experience.

The study results have shown that the role of ethics in the context of corporate governance is interpreted from three perspectives: *CG as a code of ethics*, *ethical inclusivity in governance* and *ethics as an affiliate of CG.* According to Othman and Abdul Rahman (2012), these three perspectives that emerged from the findings urge the revision and the re-evaluation of the existing CG structure, where more structure and process should be included to integrate ethics in the CG system.

Starting from the idea that CG and corporate social responsibility (CSR) are driven by ethical practices. The relationships between corporate ethics, CG and CSR have been heavily studied indicating significant associations, ElGammal, El-Kassa, and Messarra (2018) aimed to examine the mediating role of CG on the relationship between ethics and CSR. Data were collected through questionnaires from small to medium-sized enterprises (SMEs) in MENA countries (Egypt and Lebanon). The results were analyzed using structural equation modeling. The results indicate that ethical practices have a positive impact on CG, and in turn, CG has a positive impact on CSR. The results also reveal a mediating effect of CG on the relationship between ethics and CSR.

Another study carried out by Şahin (2018), aimed to clarify that BE is mentioned explicitly in Turkish law, in the Code of CG concerning public companies and discusses the legal impact of this regulation. She started with a thesis that this quotation in the Turkish Legislation could reveal several questions, for example: whether ethical standards might be a source of liability of the board and directors.

In a second part of the study, she tried to clarify the connection of BE with CG principles in business; to what extent ethical standards interrelates with CG codes and the liability of directors, and how BE has been adopted into the legal system and how it shapes and affects business practices especially in Turkish law. She concluded that although ethical rules are explicitly mentioned and codified in the Turkish Code of CG concerning public companies since the so-called regulation is of soft-law nature, it has no binding effects for companies, and would not constitute a source of liability of the board and the directors.

However, Şahin (2018) believes that companies might choose to adopt their own ethical codes and constitute their ethical rules using principles like those of G20/OECD as a reference and a guideline to specify the ethical rules under the Turkish Code of CG.

3. RESEARCH DESIGN

In this section, based on our research purpose, we try first to develop a conceptual tentative framework to be used to examine the relation between BE and CG along with our hypotheses.

3.1. Research purpose and questions

The main purpose of this study is to examine the impact of BE on CG practices in a sample of Algerian corporations. Research questions, addressed to determine this impact, are as follows:

- Identify CG categories that are significantly affected by BE and those that are least affected.
- Determine whether the relationship between BE and CG categories varies according to the corporations' size and capital ownership.

3.2. Development of a conceptual tentative model and hypotheses

After consulting the pieces of literature mentioned above and interviewing three selected case companies we develop a tentative framework to understand them in Figure 1, where there are two main variables, namely: *corporate governance* (endogenous latent variable) *and business ethics* (exogenous latent variable).

According to the various literature consulted, it appears that *stakeholders' rights*, *disclosure and transparency*, *the board of directors' role*, are critical factors for CG variable. Furthermore, according to the practical interview of participants, *the audit function* is intrinsic and must be involved in CG practices.

The main hypothesis in this study is that BE influences CG as one variable, which will be further tested by the following:

H1-a: BE can directly influence stakeholders' rights protection (subscale) of CG.

H1-b: BE can directly influence disclosure and Transparency (subscale) of CG.

H1-c: BE can directly influence the board of directors' role (subscale) of CG.

H1-d: BE can directly influence the audit function (subscale) of CG.

Relying on the definition of Baron and Kenny (1986) the moderating effect exists if there is a significant interaction between the explanatory variable (BE) and the potential moderating variable (corporation's size and corporation's capital ownership) on the variable to be explained (CG).

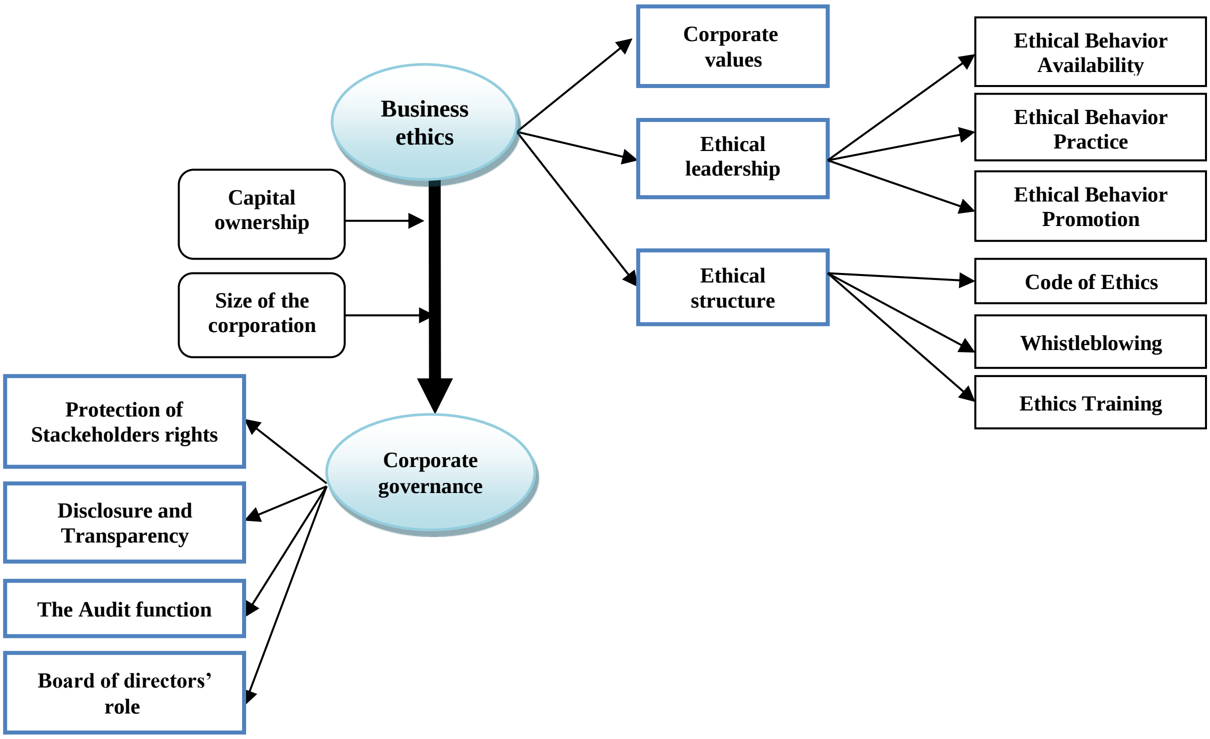
Owing to the interviews with the three case companies, it seems that *corporation's size* (if the company is a big size or SME) and *the corporation's capital ownership* (if the capital is owned to the public or to the private sector) can moderate the efficiency of BE in influencing CG. As a result, this study assumes that *the corporation's size and the corporation's capital ownership* influence CG practices. Therefore, *the corporation's size and the corporation's capital ownership* can be seen as *moderating* variables in the linkage between BE and CG.

This too is an important hypothesis of the study, which will be further tested by the following:

H2-a: The corporation's size affects the linkage between BE and CG.

H2-b: The corporation capital property affects the linkage between BE and CG.

Figure 1. Business ethics and corporate governance relationship conceptual tentative model



4. METHODOLOGY

4.1. Sample selection and description

In the Algerian context, the problematic of BE and CG's linkage can't be studied in all kinds of corporations because of the Algerian corporations' nature; where most of them are SME and not listed in the financial market. So it is hard to investigate CG complex relationships.[1] Thus, in this study we are using the purposive sampling technique, relying on the opinion of experts, practitioners in different public administration (Tax Administration, Social security, Labor Inspectorate, auditors, accountants etc.) in choosing corporations judged as characterized with strong CG practices and a good level of BE.

We select 100 companies from 1482 company exercising their activity, in the district of SIDI BE ABBES for the year 2017 (According to the Trade Registry Administration), to which we delivered copies of the questionnaire. A total of 33 useable complete responses were received representing a response rate of 33%.

Data analysis shows that middle-/high-level administrators made up some 85.4% of the total interviewees: 80.4% high-level executives, 5% CEOs, and 14.6% board of directors' members (12.6% are executives, and only 2% of them are independent members). Consequently, these interviewees were expected to generally comprehend the issues of BE and CG. Approximately, 74.5% of the interviewed corporations were companies with a trading history extending for more than 30 years. On the size criteria, 57% were MEs and 43% large corporations. On the activity criteria, 80% of corporations are manufacturing and 20% services. Joint-stock companies made up 63% of the sample and 37% as Limited joint-stock companies. On the capital ownership criteria, we have 67% Private Corporation and 33% Public Corporation.

4.2. Measurements and operational definition of each factor

The questionnaire items in this study resulted from the consultation of relevant literature and the application of field interviewing (the validity and reliability of the questionnaire's items are both presented in Appendix A). A first draft of the questionnaire was piloted on some 10 corporations and the final form was distributed to 100 corporations. A total of 33 useable complete responses were received representing a response rate of 33%.

First, the variable CG includes four-dimensional factors: *stakeholders' rights, disclosure and transparency, the board of directors' role, the audit function*, with a total of 40 items.

- *Stakeholders' rights* refer to the interests of stakeholders and if their rights are protected.
- *Disclosure and transparency* refer to the corporation's commitment to ensure timely and accurate information disclosure on all material matters regarding the corporation, including the

[1] Previous studies and literature review that we relied on in building the study's conceptual model resulted various dimensions suitable to study the problematic of CG and BE in large and shareholding companies. Thus, It is worthy to study the problematic of CG and BE in large, medium and shareholding Algerian companies, because most corporation in Algeria are small sized (from 10 to 49 workers), familial corporations funded with family funds or bank loans, managed by family members, active in the service or trade sector; where the problematic of CG and BE arises differently and requires other studies that take into account their specificities (it is one of the future prospects of this study).

financial situation, performance, ownership, and governance of the company, for all stakeholders.

- *The board of directors' role* refers to the boar effective acting as trustees for stakeholders' interests and its important role in ensuring transparency, integrity, and win-win relationships and that these values are flourished at the company-wide perspective.
- *The audit function* refers to the vital role of the mutual trust and frequent meaningful interactions and integrated relationships between the internal audit, external auditor and the audit committee that guarantee the effectiveness and efficiency of risk management, internal control, and governance processes.

Second, using the results of previous studies, we applied three major factors to design 23 questionnaire items in the BE part. These three factors include:

- *Corporate values* refer to the guides that corporation can follow voluntarily rather than the rules in a corporation, i.e., the principle behind the rule must be clear to all employees at deferent levels and to all stakeholders dealing with the corporation. The inclusion of ethical values in the corporation's objectives and mission statements. Personal ethical behavior consideration in hiring employees and in all its stakeholders' relationships. The importance of ethical behavior in achieving the company's objectives and the importance of ethical values in the corporation's evaluation.
- *Ethical leadership* refers to the demonstration of normatively appropriate conduct through personal actions (Availability of ethical behavior) and interpersonal relationships (Practice of ethical behavior), and the promotion of such conduct to followers through communication, reinforcement and decision making (Promotion of ethical behavior).
- *Ethical Structures* refer to the formal ethics posture adopted by the corporations to guide governance practices and to promote ethical conduct among the staff, board members and employees of the corporations. In this study, we consider three formal ethics postures*: code of ethics, whistleblowing, ethics training.*

Third, in our study, the size of the corporation was chosen as a moderating variable for its potential impact on the studied relationship between BE and CG. It can be measured in different ways: total sales, total assets, number of employees and the turnover during the study period. We chose to measure the size of the corporation with the number of permanent employees, based on the definition of the Algerian law (less than 49 workers: small corporation; between 50 and 249 workers: medium; more than 250 workers: large), as the most used and most reliable method in measuring this variable.

Forth, the capital ownership has two major categories in the Algerian corporations: *(1) public*: if the capital is owned to the state, *(2) private*: if the capital is owned to the private sector.

4.3. Data statistical treatment

The multivariate analysis software of Statistical Package for Social Science (SPSS) and the Analysis of Moment Structures (AMOS) software are the analytic tools applied in this study.

The treatment of the collected data and the validation of the study hypotheses are done using two types of analysis. The first is the structural equation modeling approach by using the PLS Path approach (PLS Path Modeling). We choose PLS Path Modeling (PLS-PM) in our study because it is a very flexible method without any strong assumptions about the probability distributions, the size of the sample and the types of measurements, which is the case in our study sample.

The second type of data analysis used in the treatment of the collected data is linear regression. *The simple regression* to test the effect of BE on the different dimensions of CG and *the multiple regression* to test the moderating effect of the two variables: the capital ownership and the size of the corporation on the link between the two variables (BE and CG).

4.4. Model testing

The measurement model concerns the links' reliability and validity tests between the variables manifest and latent variables. These tests are three in number: the convergent validity, the reliability of the measurements and the discriminant validity.

4.4.1. Convergent validity

We are rejecting the measures below the 0.6 thresholds, as suggested by the study by Cool, Dierickx, and Jemison (1989) they had opted for a threshold of 0.6 with at least one measure exceeding 0.7 (see Table A.1).

4.4.2. Reliability of measurements

Two tests are used: AVE greater than 50% and the composite reliability is greater than 0.7. Our latent variables are presenting an AVE and composite reliability above thresholds retained, demonstrating good reliability of the measures (see Table A.2).

4.4.3. Discriminant validity

The set of discriminant validity measures for our sample are presented in Table A.3. These results attest to the independence of our latent variables one against the other; the discriminant validity is thus verified.

5. RESULTS AND DISCUSSION

According to the path analysis, BE has a significant positive effect on the CG. And the main results are discussed as follows:

Business Ethics is positively and strongly related to stakeholders' rights ($R = .692$). Business Ethics explains 48% of variations in stakeholders' rights (R2) as a dimensional factor of CG, the associated regression coefficient (.739) is significantly positive ($p = .001$).

BE affects the dimension of stakeholders' rights more than other CG dimensions; corporations seem to serve all stakeholders (workers, customers, suppliers, government, environment, local community). We argue that this is due fundamentally to respect and compliance with laws and regulations rather than compliance with ethical principles and moral obligation; because of the reasons presented below.

Compared to previous studies, this impact rate remains weak because of the lack of a clear and explicit understanding of stakeholders' concept due to its modernity in the Algerian business environment; since few senior executives knew this term. Plus, they believe that respecting stakeholders' rights is a legal obligation, i.e., it is mandated by law when others think it is voluntary, not realizing that respecting these rights is, above all, a moral obligation and an option that cannot be underestimated as an approach that guides the corporation's decisions beyond the legislative framework.

There is an implicit and involuntary commitment to stakeholders' rights; corporations are engaged in practices that protect these rights without real knowledge of it. For example, in Algeria, like all former socialist countries, the social dimension is still very important in human resource strategies (especially the granting of financial assistance), these practices represent an implicit moral obligation of stakeholders' rights. Few senior executives find that stakeholders' right protection is governed and guided in some particular ways by Islamic values that encourage public interest and cherish social responsibility.

In the matter of seeking to balance stakeholders' rights, these corporations seem to prioritize workers in the first place as the most important stakeholder, consumers because they contribute to the profitability, when public authorities, civil society, and local community are less important. For example, in terms of serving the local community, actions are limited to voluntary charitable activities that seek to improve social conditions in random non-productive investments. The responsibility of environment protection is confined mainly in energy saving to reduce costs. And these corporations may take into account the potential environmental impact when developing new products if it is profitable.

It seems that the main reasons to ensure stakeholders' rights are to seek better relationships with business partners and search for new markets, demonstrating the strategic perspective of stakeholders rather than the ethical one. But, even the strategic perspective is incomplete since it imposes stakeholders' involvement in decision-making, however, it is clear that corporations do not favor it and considered it as a voluntary standard.

What is affecting the ethical respect of stakeholders' rights in the Algerian corporations is the problem of transparency, confidentiality and the circulation of information, where there is voluntary retention of information. Corporations do not provide all stakeholders with all the information necessary to maintain their rights fairly and seem to disclose only the required data imposed by law.

While international practices are increasingly moving towards a comprehensive performance and reporting approach (economic, social, and environmental), performance, reporting, and disclosure in Algeria remain confined purely to financial statements, because of the absence of a normative framework for social and environmental reporting.

A serious problem that hinders the development of stakeholders' rights status is the Algerian business environment is mainly the effects of the informal sector on business practices; fraud, lack of certificates and certification, as well as the high cost of adopting international standards, and the use of specialized foreign bodies for certification.

In the matter of stakeholders' rights protection, a social audit helps solve problems since it aims to encourage corporations to become more aware of BE. In Algeria, because of the absence of a regulatory framework, the role of social and environmental auditing is still weak in supporting CG and ethical practices; in human resources, social audit is still confused with human resources auditing and limited to its practices mainly remuneration and wages, promotion and training. Environmental audit is limited to energy use and saving in the goal of reducing costs. For the corporations' relation with local societies, their activity is limited to charitable giving in random non-profitable investment.

Plus, the significant delay compared to the global level in the field of social and environmental consultancy. On the other hand, the absence of non-governmental organizations, associations and civil society activities contributes to a greater lack of interest in environmental and social commitment.

Business Ethics is positively and strongly related to disclosure and transparency (R = .6). Business Ethics explains 36% of variations in disclosure and transparency (R2) as a dimensional factor of CG. They are positively related. The associated regression coefficient (.569) is significantly positive (p = .005).

Disclosure and transparency is the CG's second dimension most affected by business ethics, we attribute this to the adoption of the financial accounting system since the beginning of 2010, which resulted in accounting practices and reporting methods change.

It is noticeable that it is difficult to judge absolute disclosure and transparency (mainly financial statements' convenience and reliability) since it remains related to the degree of usefulness of financial information included in the financial statements for decision-makers because with multiple users of financial information there will be multiple needs for information. Algerian financial statements don't seem to accomplish this condition since like: optional disclosure, expected profit, risk management methods, electronic disclosure, and a weak financial market.[2]

Judging the quality of financial information disclosed relates to the good technical application of IAS/IFRS, which required being adapted to the specificity of the Algerian economic situation, as well as in keeping up with the updates approved by the IASB; since these standards are not static. All this requires the creation of independent national bodies to cope with these updates.

Another factor is the delay of Algerian corporations in the use of ICT. Although the majority of corporations have a website, it does not include all information and it is not constantly updated. The culture of using social networking

[2] This result is not specific to our study but propped by many other studies' result conducted in financial statements, disclosure, reporting and transparency in Algerian corporations: Lebbah (2018), Bouchaib (2016), Hafassa and Ferhat (2018), Douak and Beladjouz (2018).

sites in guaranteeing transparency and providing different stakeholders with information remains a strange practice in Algerian corporations.

We can also attribute this weak link to the confusion and the mix between formal and informal practices and activities. According to the Bank of Algeria, approximately 50% of the credit bloc spins outside the banking system, nurturing not only informal activities but also a huge part of the supposedly formal activities (lack of billing, cash payment, etc.). In the same context, we count the great weakness of the Algerian financial market, the lack of listed companies and the poor capitalization of private-sector corporations.

We find that 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 and honest manner.

The link between Business Ethics and Audit function is strong ($R = .56$). It explains 30% of variations in Auditing ($R2$). They are positively related, the associated regression coefficient (.657) is significantly positive ($p = .010$)

The audit function is the third dimension most affected by BE, we attribute this to the external auditor last reforms where it function has been linked to the subject of CG. Recently, Algeria has made some improvements to the audit profession by the promulgation of Law No. 10/01 of 29 June 2010, which brought a solid legal framework that helps create an introduction to CG and gives the external auditor its importance. For example, the principle of shareholders' rights protection and their equal treatment requiring the external auditor to inform, defend them and ensure justice among them.

The majority of respondents do not agree with statements that represent the moral dimension, for example, the auditor doesn't do any other works, such as providing technical, legal, administrative and fiscal advice, they considered that the external auditor provides this type of consultation. And they pointed out the issue of the relationship between the new auditor and the old auditor which raises the question of the external auditor's neutrality.

As for the internal auditing, its practice in the Algerian corporations remains far away from international practices, as well as respecting the ethics of the profession. The actual basic requirements that make the audit exercise its role efficiently and effectively are weak; because in the majority of corporation we can notice that:

- The internal auditor lacks a sufficiently high level of qualifications and experience regarding certain types of auditing (such as strategic audit, information systems audit), which imposes the need for fundamental training. Given his control position and the fact that his decisions are subject to conflicts of interest between the various stakeholders; the internal auditor is in dire need of ethical training to deal with ethical problems.
- The internal auditor lacks the authority to implement any of his recommendations in case they are rejected during the discussion session. He is not assigned to some tasks that may help managers in strategic decisions making, he contributes only to some decisions related to the operational aspects. In addition to the issue of weak information systems, corporations do not adopt an effective risk management system, so the internal auditor does it, even though he lacks extensive experience in risk management; putting the internal audit faraway from supporting CG and establishing ethical behavior.

The absence of an audit committee, this is because the board of directors is convinced that it is sufficient to appoint only one internal auditor to evaluate the internal system of control and to do risk management. It seems that the board of directors is unaware of the importance of this committee in raising the level of control and the financial information credibility and transparency which reduces significantly the strength of the internal audit function as a supporting mechanism of CG.

The link between Business Ethics and the role of the Board of Directors is not significant ($p = .111$).

The role of the board of directors is not affected by BE, this result was not surprising; since the exploratory study revealed the great difference between the boards of corporations studied and what is recommended in CG's rules. The Algerian context differs significantly from the rest of the relied previous studies that take place in a very different context such as Malaysia or South Korea. Therefore, the possible explanation is the accuracy of the elements and phrases used to activate the board of directors as a variable. Also, the rejection of this hypothesis may be due to the relatively small sample size that can lead to unreliable results.

On the other hand, most studies emphases that the involvement of external directors on the board of directors affects business ethics; boards of directors composed of a majority of external directors establish more ethical awareness in CG practices. This is considered rare in the Algerian corporations.

Plus, in most corporations the chairman of the board of directors position is combined with chief executive officer (CEO) position, the number of independent members is atomic, no clear policy of granting privileges to the board of directors, and the lack of reliance on committees that facilitate its work guarantee the performance of its functions effectively.

Studies have also shown that ethical behavior in CG practices is guided and developed by leaders on boards. The board of directors' integrity influences the development of CG models. This is not the case in our study, where statements related to ethical dimensions and the duty of care achieved poor rates by the majority of respondents. The majority of respondents believe that the members of the board of directors do not have sufficient knowledge, experience related to the duties and responsibilities of the board member.

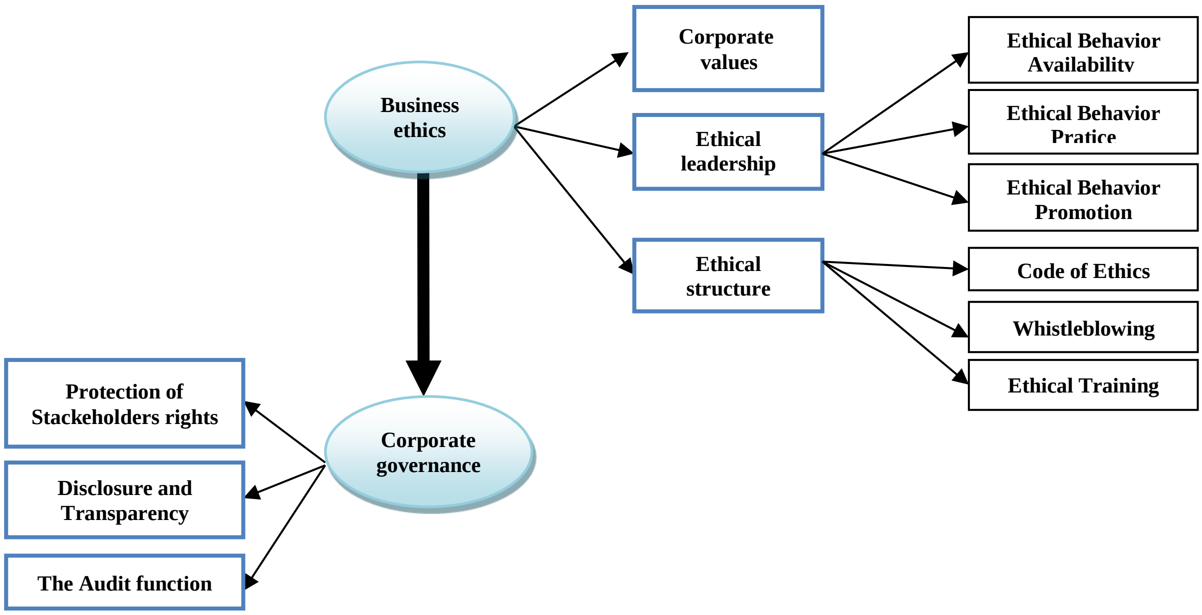
For the moderating effect, by applying a multiple regression (hierarchical method), the two variables Nature of Capital and Size of Business do not have a moderating effect on the relationship between BE and CG.

The absence of the nature of capital effect as a modifier probable explanation is the accuracy of the elements used to activate it as a variable. We mainly relied on the nature of capital (public/private), and not on *the capital's structure* which is more precise, specific and includes many variables that measure the composition of capital: *the concentration of ownership, the nature of capital, the contribution of managers (administrative ownership).* These hypotheses can be developed in future research.

The possible explanation for the absence of the modifier effect of both the size of business and the nature of capital is because the size of the sample is small which can lead to unreliable results.

The aforementioned results of this empirical study demonstrate the causal relationships between BE and CG's three factors (stakeholder rights, disclosure, and transparency, auditing), but not the role of the board of directors. Therefore, the tentative framework in Figure 1 is replaced by Figure 2 that formally becomes the "*Operational Model of Business ethics and corporate governance relationship*".

Figure 2. Business ethics and corporate governance relationship operational model



6. CONCLUSIONS AND SUGGESTIONS

6.1. As a summary of the most important findings we can conclude the following

When discussing the relationship between corporate success, CG and ethical issues, most respondents believe that a successful business should be concerned with ethical issues, compared to a few who do not worry about BE if the corporation overall performance is good.

At the same time, the majority finds that business decisions should be based on economic realism and not on moral philosophy. The business world has its own rules, and the only concern is to earn profit without worrying about the ethical aspect, these ideas are mainly due to the lack of understanding of the term and the meaning of BE.

Many leaders exercise moral leadership but implicitly based on some ethical rules and values derived mainly from the Islamic religious teachings, individual ethics, and the morals of Algerian society.

Ethical codes are still strange practice the Algerian corporations and its concept is still confused with the concept of rules of procedure. The same is true for organizational ethical structures. If we take for example ethical training, corporations do not do it. But when we explained its meaning and objectives to executive managers, it was highly appreciated because considered as covering huge moral problems that the manager faces during his daily tasks practicing and decision making.

As for whistleblowing policy, it seems that there is a big reservation on this dimension and its meaning; the majority of respondents agreed that corporations do not have clear procedures and methods that can be followed to report violations or any unethical behavior or abuse. Respondents agreed that the whistleblower is not legally protected, they pointed out that this mechanism cannot be used in Algerian corporations as long as the judiciary system is not independent, and as many laws are deficient and have many loopholes. Therefore we conclude that legal compliance mechanisms have proved insufficient and they lack the power of BE in all its dimensions to restore or build confidence in corporations.

It is also noticeable that the complex interaction between different considerations (historical development, cultural and social factors, the legal system, corporate governance model, political system, economic development etc.) provides a different context for CG and BE in Algeria, which imposes the idea that Algeria has its governance model that suits its corporations.

Algerian corporations are quite different; most of the private corporations are family-owned with weak financial and technological capital. Public corporations are still suffering the disparity between serious consequences of taking entrepreneurial risks and the low return that the general executive can benefit (low salary, no exceptional remuneration, etc.) which is at the heart of the difficulty of initiating new mechanisms in management or control.

6.2. Study limits

The following questions are not included in the study; not including these dimensions somewhat limits the analytical scope of the study and the scope of our results:

- Determine which dimensions of BE are the most influential on CG practices.
- Taking into account the impact of the business environment on the relationship between business ethics and CG.
- BE analysis extends to three levels: macro level, organizational level and individual level. In our study, the conceptual model analyzes the impact of BE on CG at the organizational level only without addressing the rest of levels.

Plus, the study model as described in the literature review cannot be generalized to all Algerian corporations. CG and BE relationship in Algerian corporations is a fertile field for further studies and future hypotheses development.

The sample of this study is limited to 100 companies from 1482 company and only in the district of SIDI BE ABBES. The sample, unfortunately, is not large enough. And by using the purposive sampling technique, the results of the study remain confined to the sample. The results of this work have their shortcomings, yet the solution to these problems will be a goal of future studies.

6.3. Future prospects

According to our analysis of study limitations, we find it useful for future studies to address the following topics:

- It is important to study BE in terms of the our ethical approaches (*abstract ethics, ethical compliance, relative ethics, evolutionary ethics*) and considering the possibility of using them at different levels in supporting CG practices; individuals in corporations are not often acting in all of their decisions according to one approach but rather according to the consensus of all approaches.
- It is important to use the approach formal/informal BE to analyze which of them is more effective in influencing CG practices in Algerian corporations.
- Future studies may address the impact of CG practices on spreading ethical behavior in corporations since some studies (Jinhan & Tae Hee, 2011) found out that high levels of CG can enhance BE practices.
- Adopting exploratory studies and more qualitative methods to define the concept of BE and CG in the Algerian corporations; because it differs significantly from other environments. Qualitative methods are more appropriate to understand BE and CG, provide an in-depth exploration without being restricted in specific categories or predetermined dimensions, like for example relying on the theory of social construction that was used by Othamn and Rahman (2010) to reach a CG definition in Malaysian corporations.
- Future studies can target other stakeholders instead of senior managers to understand their perception of ethical considerations in CG practices and shed light from a different point of view to the problematic of BE and CG.
- Study the influence of internal and external forces that have positive (e.g., stakeholders' pressure) or negative impact (power, political influence, weak laws etc.) on BE and CG adoption, or by examining the relationship between CG's internal mechanisms and good governance.
- Using behavioral theory to understand the ethical aspects of CG practices. For example, one can consider leaders' individual attitudes towards BE and CG; many studies considered the leader's vision and individual integrity is the key to moral values, in addition to psychological aspects
- Taking into account the characteristics of the Algerian society, it is possible to include many topics that can be studied in the future, such as the effects of Islamic principles on individual ethics.

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APPENDIX A

Figure A.1. Estimation of model parameters by the PLS-PM algorithm

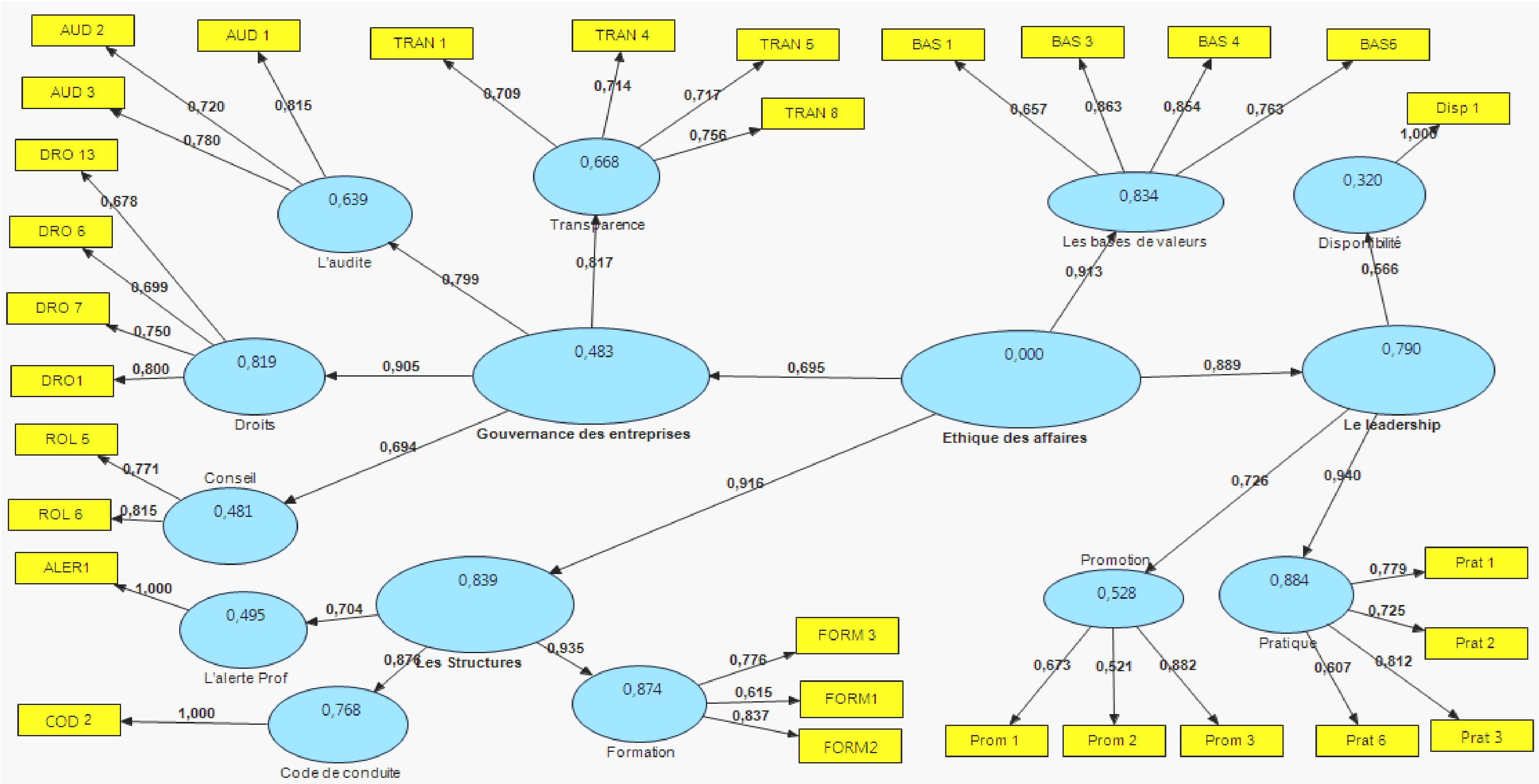

Table A.1. Convergent validity

	Corporate values	*Ethical Behavior Availability*	*Ethical Behavior Practice*	*Ethical Behavior Promotion*	*Ethics Training*	*Code of Ethics*	*Whistle blowing*	*Disclosure Transparency*	*The Audit function*	*Protection Stackeholders' rights*	*Board directors' role*
CV 1	0.657										
CV 3	0.863										
CV 4	0.864										
CV 5	0.763										
EBA 1		1.000									
EBP 1			0.779								
EBP 2			0.725								
EBP 3			0.812								
EBP 6			0.607								
EBPR 1				0.673							
EBPR 2				0.521							
EBPR 3				0.882							
ET 1					0.615						
ET 2					0.837						
ET 3					0.776						
COE 2						1.000					
WB 1							1.000				
DAT 1								0.709			
DAT 4								0.714			
DAT 5								0.717			
DAT 8								0.756			
TAF 1									0.815		
TAF 2									0.720		
TAF 3									0.780		
PSR 1										0.800	
PSR 6										0.699	
PSR 7										0.750	
PSR 13										0.678	
BOR 5											0.771
BOR 6											0.815

Notes: CV: Corporate values;
EBA: Ethical Behavior Availability;
EBP: Ethical Behavior Practice;
EBPR: Ethical Behavior Promotion;
ET: Ethics Training;
COE: Code of Ethics;
WB: Whistle blowing;
DAT: Disclosure Transparency;
TAF: The audit function;
PSR: Protection Stackeholders' rights;
BOR: Board directors' role.

Table A.2. Reliability of Measurements (Composite Reliability and AVE)

Manifest variables	***Composite Reliability***	***AVE***
threshold	*> 0.7*	*> 0.5*
Corporate values	0.866767	0.621895
Ethical Behavior Availability	1.000000	1.000000
Ethical Behavior Practice	0.822840	0.540087
Ethical Behavior Promotion	0.742211	0.500925
Ethics Training	0.790276	0.560625
Code of Ethics	1.000000	1.000000
Whistle blowing	1.000000	1.000000
Disclosure and Transparency	0.815128	0.524498
The Audit function	0.815780	0.596764
Stackeholders' rights protection	0.822318	0.537425
Board of directors' role	0.772058	0.628919

Table A.3. Discriminant validity

	Corporate values	***Ethical Behavior Availability***	***Ethical Behavior Practice***	***Ethical Behavior Promotion***	***Ethics Training***	***Code of Ethics***	***Whistle blowing***	***Disclosure Transparency***	***The Audit function***	***Protection Stackeholders' rights***	***Board directors' role***
validity criteria $\sqrt{AVE(X)} > COR(X,Y)$											
Corporate values	1.000000										
Ethical Behavior Availability	0.097251	1.000000									
Ethical Behavior Pratice	0.694675	0.484181	1.000000								
Ethical Behavior Promotion	0.605288	0.117850	0.505704	1.000000							
Ethics Training	0.711073	0.279042	0.558699	0.564079	1.000000						
Code of Ethics	0.715149	0.089253	0.565278	0.545126	0.758477	1.000000					
Whistle blowing	0.579570	0.232182	0.492484	0.491867	0.486248	0.464191	1.000000				
Disclosure Transparency	0.439233	0.420319	0.587722	0.450233	0.461257	0.437344	0.343908	1.000000			
The Audit function	0.381714	0.703907	0.651919	0.256283	0.491527	0.512078	0.257860	0.589956	1.000000		
Stackeholders' rights protection	0.627620	0.247767	0.691958	0.426337	0.481105	0.614922	0.374958	0.679200	0.558900	1.000000	
Board of directors' role	0.305463	0.350561	0.362292	0.125042	0.227298	0.221915	0.058624	0.384139	0.454477	0.585883	1.000000

Note: The table's diagonal indicates the square root AVE for each latent variable. The other values concern the correlations between the different latent variables