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DOES ETHICAL LEADERSHIP CONSTRAINT EARNINGS MANAGEMENT PRACTICES? A SYSTEMATIC LITERATURE REVIEW AND CONTENT ANALYSIS[3]

The study presents a systematic literature review on earnings management and ethical leadership using the content analysis method. Secondary sources of data from academic journals were utilized to address the issue of earnings management. A total of 112 articles, spanning the period from 1977 to 2022, were examined. The study explores the theoretical aspects of earnings management and the conceptualization and operationalization of ethical leadership. The selected articles underwent a systematic review process, and a content analysis was conducted to provide a structured overview of the existing scholarship in this field. Effective ethical leadership plays a crucial role in overseeing and minimizing manipulated earnings. Therefore, this study contributes to the literature by suggesting ethical leadership as a means to mitigate earnings manipulation. This article is distinguished as one of the pioneering works that provides a thorough analysis of the literature on ethical leadership and earnings management. The findings of this study will be valuable to organizations aiming to reduce earnings management practices and improve the quality of financial reporting.
Keywords: Content analysis; discretionary accruals; earnings management; ethical leadership; ethical perspective
JEL: M12; M41; A13

1. Introduction

In recent decades, there have been numerous business scandals that have brought attention to the ethical implications surrounding the financial reporting process (Huang et al., 2020; Monteiro et al., 2022; Zhu et al., 2016). Chen (2010) emphasized that these instances were

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primarily driven by a lack of moral traits, such as integrity, and that unethical executives could engage in fraudulent activities, such as earnings management, to serve their own financial interests. The connection between business failures and immoral leadership behaviours has been highlighted by several researchers (Madanchian et al., 2018; Ponnu & Tennakoon, 2009). This highlights the importance of ethical leadership in maintaining the integrity and credibility of financial reporting and mitigating the risks of fraudulent practices. Unethical behaviours at the leadership level can have far-reaching consequences, impacting not only the financial stability of organizations but also eroding the trust of stakeholders and damaging the overall business environment (Cheng et al., 2023).

In addition to defining the concept of earnings management, the literature on this topic delves into various aspects. It explores sample selection methodologies and techniques for assessing earnings management, and, importantly, endeavours to uncover the underlying reasons why executives engage in manipulating reported earnings. The results and explanations provided in these studies have generated widespread interest among researchers and practitioners alike (Jiang, 2020; Nekhili et al., 2022; Taylor et al., 2023). The motivation behind earnings management is the central focus of these articles. They examine the various incentives and pressures that drive executives to manipulate earnings, such as meeting financial targets, securing bonuses or favourable stock prices, avoiding regulatory scrutiny, or influencing investor perceptions. Understanding these motivations is crucial for developing effective strategies to minimize earnings management and promote ethical financial reporting practices (Wu, Zhou, 2022).

While a substantial amount of research has contributed to the understanding of the motivations behind earnings management (e.g., Chen, Tsai, 2010; Monteiro et al., 2022), there have been limited studies that focus on strategies or methods designed to reduce earnings management, especially from an ethical perspective (Elias, 2002; Donegan et al., 2017). Nevertheless, it is crucial to identify and explore these ethical techniques to ensure accurate and reliable financial reporting. This will help maintain stakeholder trust and confidence in the integrity of organizations. Moving forward, research efforts should focus on understanding the motivations behind earnings management and developing ethical frameworks and practices that discourage and mitigate such behaviour (Habib et al., 2022).

The current research aims to comprehensively examine and integrate existing scientific studies on whether ethical leadership can reduce earnings manipulation. A thorough review of prominent research from 1977 to 2022 was conducted to formulate and define the concept of ethical leadership. Subsequently, it proposed ethical leadership as an effective approach to curbing the prevalence of earnings manipulation practices, which is a pioneering contribution in the literature. The significance of this study lies in its relevance to the accuracy of financial reports. Stakeholders heavily rely on the information disclosed in annual reports to make informed economic judgments. As mentioned earlier, earnings management can negatively impact the accuracy of financial statements. Therefore, it is crucial to explore strategies that address this issue and ensure the protection of users who may potentially receive misleading information.

The rest of this article is organized as follows. The second section presents the theoretical framework, the third section discusses the methodology, which includes the criteria for article selection, the methods and sources employed in the paper's selection process, and the approach taken to analyze the chosen articles. The fourth section provides the results and discussion. Finally, the fifth section offers the research conclusion and future research directions.

2. Theoretical Framework

The literature revealed a lack of consensus on the definition of the term "earnings management," with various interpretations in research that aimed to uncover earnings manipulation or provide convincing evidence of its motivations (Rahman et al., 2023). However, the first definition was established by Davidson et al. (1987), who defined earnings management as "the process of taking deliberate steps within the constraints of generally accepted accounting principles to bring about a desired level of reported earnings (p. 17)."

Moreover, the definition of earnings management most commonly used is provided by Healy and Wahlen (1999). They observed earnings management as "the use of judgment in financial reporting and structuring transactions to change financial reports in order to either mislead certain stakeholders about the underlying economic performance of the company or influence contractual outcomes that depend on reported accounting numbers (p. 368). " Additionally, Schipper (1989) stated that "earnings management is the intentional intervention in the external financial reporting process, with the aim of achieving some private benefit (p. 92)." She also added that "actual earnings management is achieved by timing investment or financing decisions to alter reported earnings or a portion of it (p. 92)."

The aforementioned scholarly definitions were extensively reviewed in the study of Dechow and Skinner (2000). They inferred that these definitions were primarily concerned with the unobservable management intent. They also claimed that these definitions stated unequivocally that earnings management strategies were permissible under International Financial Reporting Standards (IFRS) or Generally Accepted Accounting Principles (GAAP).

A significant critique of these definitions arises from the challenge of differentiating between fraudulent activities and earnings management (Dechow & Skinner, 2000). This issue is heightened by the fact that both practices share similar motivations and engage in comparable activities, such as misleading financial statement users for personal gain and causing harm to shareholders through the dissemination of deceptive information (Toumeh, 2022). However, the literature is divided on how to distinguish between fraud and earnings management (Elias, 2002; Habib et al., 2022).

In this regard, Dechow and Skinner (2000) developed a paradigm to differentiate between fraudulent activities and earnings management practices. The theoretical distinction is based on whether management's accounting choices comply with GAAP/IFRS or exceed them. Accounting choices that violate accounting standards are considered fraudulent activities, as they are intended to mislead financial statement users. On the other hand, certain managerial decisions that are in line with accounting standards are seen as bold yet acceptable practices that give managers the opportunity to exercise accounting discretion.

Furthermore, Ronen and Yaari (2008) categorized earnings management definitions into three different groups: black, grey, and white. They defined “beneficial (white) earnings management as the utilization of accounting treatment flexibility to communicate the manager's private information on future cash flows.” They described “neutral (grey) earnings management as the selection of accounting treatment that is either opportunistic (aimed at maximizing the utility of management only) or economically efficient.” Lastly, they explained, “pernicious (black) earnings management as the practice of employing deceitful tactics to misrepresent or reduce the transparency of financial reports (p. 25).”

The first and second definitions emphasized the managerial prerogative to choose the most appropriate accounting method within the limits set by IFRS and GAAP. If these standards permit multiple choices for recognizing, evaluating, presenting, or disclosing an institution’s economic events, and managers select one method over another, it would not be considered fraud, but it could be seen as creative accounting. Additionally, Ronen and Yaari (2008) argued that fraudulent activities should fall under the definition of black earnings management.

On the other hand, Yukl et al. (2013) and Brown et al. (2022) highlighted the conceptual ambiguity that is prevalent in the literature on ethical leadership. They discussed the extent and evaluation of ethical leadership, emphasizing the importance of certain dimensions that should receive attention from scholars. These dimensions included honesty, integrity, effective communication, enforcement of ethical standards, equitable distribution of rewards, acts of kindness, compassion, and a disposition towards altruism. Researchers can contribute to a more comprehensive understanding of ethical leadership and its impact on organizational dynamics, employee behaviour, and the overall ethical climate by identifying and prioritizing these topics. These insights have the potential to guide the development of frameworks and interventions that aim to foster ethical leadership practices and create a culture of integrity within organizations.

Trevino et al. (2003) conducted a qualitative investigation using interviews to gain a deeper understanding of ethical leadership. They interviewed top management and ethics officers to discuss the concept of ethical leadership. The respondents highlighted the importance of defining ethical leadership in terms of both ethical traits (such as honesty, trustworthiness, and integrity) and a transactional component. This means that ethical leaders should utilize the organization’s system of incentives and punishments to steer their followers towards ethical behaviour.

However, there are several definitions of ethical leadership. According to Brown et al. (2005), ethical leadership is defined as “demonstrating appropriate conduct based on norms through personal actions and relationships, and promoting such conduct to followers through two-way communication, reinforcement, and decision-making (p. 120).” Their study also found that followers perceive managers as authentic and trustworthy leaders when they exhibit qualities such as honesty, trustworthiness, fairness, and care. Additionally, Kul (2017) defined ethical leadership as “a leadership style that embodies universal values such as reliability, impartiality, and justice, and reinforces these values through two-way communication with followers and encourages the development of moral thinking (p. 564)."

Honesty, trustworthiness, and fairness are qualities commonly associated with ethical leadership. These characteristics demonstrate that leaders are practising fairness and their behaviours can be predicted (Mihelic et al., 2010; Yuan et al., 2023). In this regard, Trevino et al. (2000) identified two key pillars of ethical leadership, which are presented in Table 1. The first pillar is being a moral manager, which encompasses a leader's identity, actions, and decisions. This requires leaders to be honest and trustworthy. The second pillar relates to acting as a Chief Ethics Officer (CEO). This involves understanding how to influence followers' behaviour by serving as a role model for ethical conduct, effectively communicating moral values to followers, and implementing appropriate disciplinary measures in line with ethical standards. However, Trevino et al. (2000) argued that ethical leadership necessitates both elements, highlighting that simply having personal ethics is insufficient.

Table 1. The Two Pillars of Ethical Leadership

	Moral Person	Moral Manager
Traits	Integrity Honesty Trustworthiness	Role modelling through visible action
Behaviours	Do the right thing Concern for people Being open Personal morality	Rewards and discipline
Decision-Making	Hold to values Objective/Fair Concern for society Follow ethical decision rules	Communicating about ethics and values"

Source: Trevino et al. (2000).

Regarding the measurements of ethical leadership, various metrics have been developed to evaluate and frameworks have been established to assess the constituent elements of ethical leadership. The Perceived Leader Integrity Scale (PLIS) questionnaire was created by Craig and Gustafson (1998) to determine leaders' ethical integrity. They initially identified seven behavioural domains associated with ethical leadership, including training and development, resource/workload allocation, truth-telling, unlawful discrimination, compliance with policies and procedures, maliciousness, and self-protection. Eventually, they developed 31 items that described unethical situations involving leaders. Examples of these items included statements such as "my supervisor would risk me to protect himself/herself in work matters," "my supervisor would use my performance appraisal to criticize me as a person," "my supervisor would falsify records if it would help his/her work situation," and "my supervisor would do things which violate organizational policy and then expect his/her subordinates to cover for him/her." Participants were asked to rate their responses using a range of options, including "not at all," "somewhat," "very much," and "exactly," which corresponded to numerical values 1, 2, 3, and 4, respectively.

Subsequently, Parry and Proctor-Thomson (2002) validated the PLIS, determining that it was a suitable measure for assessing and identifying the perceived integrity of managers at different levels within the organization. However, they argued that some items in the PLIS were not relevant to peer ratings of integrity. Consequently, they made a few minor adjustments to the scale, removing three items and rewording nine others to ensure they were more appropriate for respondents. This led to the development of a redesigned scale called the Perceived Leader Integrity Scale-Revised (PLIS-R).

Brown et al. (2005) developed an instrument known as the Ethical Leadership Scale (ELS) consisting of ten items. Participants rate each item on a scale of 1 (strongly disagree) to 5 (strongly agree). Examples of the items included: "My leader conducts their personal life in an ethical manner," "My leader makes fair and balanced decisions," and "My leader defines success not only by results but also by the way they are achieved." The ELS was used to assess the predictive validity of ethical leadership on various employee outcomes, such as honesty, trustworthiness, leaders' perceived effectiveness, employees' job satisfaction and dedication, and reporting problems. Many scholars successfully utilized the ELS in their empirical research (e.g., Shin et al., 2015; Kul, 2017; Mayer et al., 2012; Stouten et al., 2013; Madanchian et al., 2018; Ponnu, Tennakoon, 2009).

Finally, a multidimensional Ethical Leadership at Work Questionnaire (ELW) was developed by Kalshoven et al. (2011) to assess various forms of ethical leadership based on seven ethical leader traits: fairness, integrity, ethical guidance, people-orientation, power-sharing, role clarification, and concern for sustainability. The ELW instrument has 38 items, each of which has a 7-point rating scale response format (1=strongly disagree to 7=strongly agree). Examples of the items included people orientation (7 items; e.g., my manager cares about his/her followers), fairness (6 items; e.g., my manager pursues his/her own success at the expense of others), power-sharing (6 items; e.g., my manager does not allow others to participate in decision making), concern for sustainability (3 items; e.g., my manager would like to work in an environmentally friendly manner), ethical guidance (7 items; e.g., my manager explains what is expected from employees in terms of behaving with integrity), role clarification (5 items; e.g., my manager explains what is expected of me and my colleagues), and integrity (4 items; e.g., my manager can be relied on to honour his/her commitments). On the other hand, Kalshoven et al. (2011) used a 10-item unidimensional short-scale ELS that was previously developed by Brown et al. (2005) to assess ethical leadership.

Turning to the implications of the theory, the social learning theory proposed by Bandura (1977, 1986) prompted many scholars to investigate the significant impact of ethical leadership. Scholars, such as Giessner and Quaquebeke (2010), Brown et al. (2005), Shin et al. (2015), Mayer et al. (2010), and Mayer et al. (2012), recognized that this theory provides a solid foundation for understanding ethical leadership. By studying observation, imitation, and reinforcement within social learning theory, researchers gained valuable insights into how ethical leaders can shape the behaviour and moral decision-making of their followers. The theoretical basis of social learning theory has been crucial in advancing the understanding of how ethical leadership can impact individual and organizational outcomes. This, in turn, contributed to the development of effective strategies for fostering ethical leadership in various contexts.

According to the social learning theory, leaders play a crucial role as compelling and socially acceptable ethical role models for their followers. Exhibiting behaviours aligned with established norms and motivating themselves through altruistic motives, leaders effectively influence the ethical conduct of their followers (Brown et al., 2005). This notion is reinforced by the observations made by Kalshoven et al. (2011), who emphasized that followers closely observe the behaviours of their leaders and tend to imitate or mimic those actions. For instance, when leaders consistently demonstrate honesty, fairness, and respect towards their employees, it sets a precedent for how employees perceive and interact with others. They are likely to mirror the ethical behaviours exhibited by their leader, attributing their actions to the example set by their leader. Consequently, the leader’s conduct becomes a powerful influence that shapes the ethical climate within the organization, establishing a culture of integrity and ethical behaviour throughout the workforce.

Moreover, Stouten et al. (2013) argued that ethical leaders should use both negative and positive reinforcement and act as trustworthy role models based on this theory. Social learning theory suggests that rewards and punishments in the workplace assist employees in learning vicariously about what is right and wrong by observing their co-workers being held accountable for their conduct (Brown et al., 2022; Brown & Trevino, 2006). This, in turn, encourages followers to self-regulate and engage in prosocial and appropriate behaviour.

3. Methodology

In the present study, a comprehensive collection of 112 articles was identified, covering the period from 1977 to early 2022. Each paper underwent a meticulous screening process to ensure its relevance to the research objectives. To structure the literature, a thematic review technique was employed, in which the articles were organized based on the issues or subjects that align with the study’s objectives. This approach facilitated a systematic examination of the literature, enabling the researcher to gain a holistic understanding of the field. Additionally, a systematic review and content analysis methodology were employed to review and analyze the selected articles. These rigorous methods allowed for a thorough examination of the research results, extracting valuable insights and identifying key patterns and trends within the literature.

First, to ensure the inclusion of influential and reputable sources, a purposeful/selective sampling approach was employed to select peer-reviewed journals that hold significant impact within the financial accounting academic community. The search for relevant articles was conducted utilizing academic publishing houses and databases that specialize in scientific journals including Springer, Wiley, The American Accounting Association, Emerald, Scopus, and EBSCO Host, as well as the Google Scholar publishing webpage. The selection process focused on journals that have conducted comprehensive content and empirical analyses specifically related to the areas of ethical leadership and earnings management. Moreover, particular attention was given to renowned, world-leading journals known for their high-quality publications. As a result, the following journals were chosen for this study: The Accounting Review (4.67 SJR in 2021), Journal of Accounting and Economics (7.35 SJR in 2021), Accounting Horizons (1.45 SJR in 2021), Journal of Financial Economics (10.42 SJR in 2021), Journal of Accounting and Public Policy (1.09 SJR in 2021), Business Ethics Quarterly (1.54 SJR in 2021), Journal of Business Ethics (2.44 SJR in 2021), and The Leadership Quarterly (4.91 SJR in 2021), among others. The selection of these highly regarded journals ensures a robust foundation for conducting an in-depth analysis of the literature and obtaining reliable insights into the relationship between ethical leadership and earnings management.

Second, during the paper discovery process, multiple keywords were used to ensure the comprehensive inclusion of relevant literature. The chosen keywords included ethics, leadership, ethical leadership, earnings management, earnings manipulation, financial reporting quality, and ethical dilemmas. These specific keywords were selected to focus on articles that specifically discuss the intersection of ethics, leadership, and earnings management within the context of financial reporting. In addition to considering the titles of papers, the abstracts and associated keywords from each article were also taken into account. This broad approach aimed to encompass a wide range of studies that covered the desired research topics, allowing for a thorough analysis of the literature. By including these specific keywords and utilizing multiple elements of the papers, the current study guarantees a comprehensive examination of the literature and the selection of relevant articles that contribute to the understanding of ethical leadership and its implications for earnings management and financial reporting quality.

In the final phase of the study, a time frame was established, limiting the search to papers published between 1977 and 2022. This period ensured comprehensive coverage of relevant literature while considering the evolution of research on the chosen topics. A total of 247 papers were initially retrieved from the selected journals, marking the starting point for the investigation. To ensure a thorough analysis, the content of each paper was scrutinized in detail, resulting in a reduction to 112 articles that aligned most closely with the research objectives. However, it is important to note that access restrictions posed a limitation, leading to the exclusion of 23 articles from the final selection. This step aimed to maintain the integrity and comprehensiveness of the study while working within the available resources. To further refine the chosen articles, specific criteria were applied. The research had to primarily focus on the field of financial accounting, and the paper had to explicitly address the various aspects of financial reporting ethics.

The majority of the selected articles, comprising 82%, were published in peer-reviewed journals. These journals are known for their rigorous evaluation process and add credibility to the findings. It is worth noting that a significant proportion of the selected papers were published in world-leading journals, which further highlights their scholarly significance and the recognition they have received in the academic community. The data on journal rankings was obtained from the widely used Scientific Journal Rankings (SJR), which is a metric used to assess the influence and impact of scholarly journals. Relying on SJR rankings helps ensure that the chosen journals are prominent and of high quality, thus ensuring the inclusion of reputable sources in the study.

4. Results and Discussion

Numerous research studies identified concerns related to the financial reporting process, such as earnings manipulation. In light of this, ethical leadership has been recognized as a possible solution to address and prevent unethical behaviours. The following articles provide insights into this issue and also examine the potential link between ethical leadership and earnings management.

The most important figure in financial reports is earnings, which is shown as the bottom line in the profit or loss and other comprehensive income statements. Stakeholders relied heavily on earnings data to assess a company's performance (Rahman et al., 2023; Ronen, Yaari, 2008; Toumeh, 2023). However, the existence of accounting standards like IFRS or GAAP, with their principle-based approaches, provided executives with the discretion to interpret and implement these standards (Chen, Sheng, 2013; Dechow, Skinner, 2000; Gerged et al., 2021). In practice, this discretion created an opportunity for managers to manipulate reported earnings in order to meet their own objectives (Rahman, Chowdhury, 2020; Schipper, 1989).

Such manipulation of reported accruals by managers reflected their ability to use discretion within the accounting standards to modify earnings, potentially aiming to meet specific targets or objectives (Habib et al., 2022; Taylor et al., 2023). This practice raised concerns about the reliability and transparency of financial reporting, as the reported earnings may not accurately reflect the underlying economic performance of the company (Cheng et al., 2023; Huang et al., 2020). Researchers extensively studied these issues and their impact on financial reporting, providing insights into the complexities and potential consequences of earnings management practices (Roychowdhury, 2006; Wu, Zhou, 2022).

Earnings management became a global issue in financial reporting, with significant growth observed over the past two decades. Scholars from around the world demonstrated great interest in this phenomenon (Chen & Sheng, 2013). Corporate failures have revealed that a significant number of companies in the present day engage in manipulating their reported earnings. Previous studies focused on the ethical dilemmas that were present in high-profile collapses of corporations such as Arthur Anderson, Enron, HIH Insurance, Toshiba, WorldCom, and Tesco (e.g., Jiang, 2020; Monteiro et al., 2022; Toumeh et al., 2020). Following the numerous financial scandals that occurred over the past twenty years, there was a noteworthy focus on the ethics of financial reporting (Saleh et al., 2020; Mihelic et al., 2010; Nekhili et al., 2022). Trevino et al. (2003) and Mayer et al. (2010) highlighted that these scandals were triggered by a lack of personal qualities like integrity and honesty in leadership positions within institutions. For example, in the Enron scandal, the management fostered a culture of conflict of interest and unethical accounting practices, ultimately resulting in the company’s downfall (Zhu et al., 2016; Ponnu, Tennakoon, 2009).

Goswami and Agrawal (2023) and Taylor and Pattie (2014) emphasized that the evaluation of managers based on their ability to meet analyst forecasts is a subject of ongoing debate. However, according to Trevino et al. (2000), the responsibilities of managers should extend beyond solely focusing on business aspects, such as outperforming competitors and meeting earnings targets. They argued that managers should also prioritize the establishment of ethical standards within their organizations. Building on this perspective, Kul (2017) stressed the significant role of managers in fostering moral values among employees. They stated that managers bear the responsibility for implementing these values in their decision-making processes and leadership positions, ultimately creating an ethical culture within the organization.

Leadership involved using techniques to motivate and guide subordinates in achieving specific goals set by leaders (Abu Afifa, Nguyen, 2023; Andriani et al., 2018). In any organization, ethics play a significant role, especially in management and leadership (Yuan et al., 2023). Ethics are not limited to being a personal matter between an individual and their conscience. Therefore, leaders are expected to prioritize ethical considerations and take a central role in guiding their followers to adhere to these standards (Babalola et al., 2019; Mihelic et al., 2010). To effectively promote ethical principles throughout the organization, management can employ various strategies. One approach is the implementation of motivational programs based on ethical values (Brown et al., 2022; Fleischman et al., 2017). These programs serve as a means to spread the message of ethics across the organization, cultivating a culture where ethical behaviour is encouraged and maintained. Moreover, leaders actively advocate for ethics, setting the tone for ethical conduct and fostering a work culture where employees are motivated to align their actions with ethical standards. Their guidance and example play a crucial role in shaping the organization’s ethical framework and upholding ethical values and principles.

An ethical perspective is a personal strategy that managers can use to avoid involvement in unethical behaviours (Cheng et al., 2023; Donegan et al., 2017). Mayer et al. (2012) noted that effective leaders can mitigate negative organizational outcomes, such as conflicts of interest and misconduct. According to Shin et al. (2015), ethical leadership is associated with positive outcomes, including increased employee commitment, engagement, and incentives. These positive outcomes, in turn, contribute to improved organizational performance. Additionally, Madanchian et al. (2018) found that ethical leadership is linked to greater leadership effectiveness. Taken together, these findings highlighted the importance of ethical leadership in creating a positive work environment, enhancing employee commitment and engagement, and ultimately driving organizational success.

Ethical leaders demonstrate to their subordinates that they value and reward doing the right thing. They serve as ethical role models, creating an ethical climate for employees and equipping them with the skills and procedures to handle ethical issues. For instance, ethical leaders instil in their followers the importance of upholding moral standards despite external pressures and striving to achieve business objectives impartially (Chen, 2010; Mayer et al., 2010). Additionally, ethical leaders emphasize the significance of ethical conduct by implementing ethical rules and procedures. They also promote the message that ethics are a crucial outcome of the organization, first by establishing ethical standards, then by adhering to these standards, and finally by rewarding ethical employees while disciplining those who violate ethical standards (Brown, Trevino, 2006; Yuan et al., 2023).

The connection between earnings management and ethical leadership reveals an important aspect of organizational behaviour. Earnings management refers to the deliberate manipulation of financial statements in order to achieve specific targets or deceive stakeholders, which can compromise the integrity of financial reporting. On the other hand, ethical leadership encompasses principles and practices that prioritize moral values, transparency, and accountability in decision-making. Examining the relationship between these two subjects can offer insights into how ethical leadership can count. Additionally, studying the role of ethical leadership in promoting a culture of integrity and responsible financial reporting provides strategies that organizations can adopt to reduce the risks associated with earnings management and enhance stakeholder trust.

In the conducted content analysis, several ethical dilemmas were identified as influential factors in earnings management practices. These dilemmas included conflicts of interest, the pressure to meet financial targets, and the temptation to manipulate financial statements. It was clear that ethical leaders played a crucial role in guiding employees through these dilemmas by promoting ethical decision-making frameworks and providing guidance on ethical behaviour. The analysis highlighted the significance of organizational factors in shaping ethical leadership and its impact on earnings management. Factors such as organizational culture, ethical climate, and the presence of robust corporate governance mechanisms were found to enhance the effectiveness of ethical leadership in curbing unethical earnings management practices.

Finally, the current study revealed that ethical leadership acts as a protective mechanism against unethical earnings management. Organizations with ethical leaders demonstrated a reduced susceptibility to financial misconduct and fraudulent activities. Ethical leaders cultivated an environment of trust and transparency, discouraging unethical practices and fostering a strong ethical culture within the organization. These findings emphasized the importance of ethical leadership in mitigating unethical behaviours associated with earnings management. Ethical leaders served as role models and champions of integrity, creating an atmosphere where employees were motivated to uphold ethical principles. Ethical leaders played a crucial role in shaping the ethical climate of an organization. They established and reinforced ethical norms, which not only safeguarded against unethical earnings management practices, but also fostered a culture of ethical conduct throughout the entire organization.

5. Conclusion

The present research relied on secondary data gathered from published scientific articles available in the academic literature. The purpose of this approach was to systematically explore the phenomenon under investigation and propose an effective mechanism to address it. To structure the literature review, a thematic approach was adopted. This involved categorizing articles based on specific themes and topics that were relevant to the study objectives. Using this approach, a comprehensive understanding of the subject matter was achieved, and the review focused on key aspects relevant to the research topic. Subsequently, a content analysis was employed to thoroughly review and analyze the selected research papers. The content analysis process involved a systematic examination of the articles, including their titles, abstracts, methodologies, findings, and discussions. This approach allowed for the identification of common themes, emerging trends, and gaps in the existing literature. Following this rigorous approach, the research findings were made reliable and valid, contributing to a deeper understanding of the phenomenon and providing a foundation for proposing effective mechanisms to address it.

Earnings management practices have a significant impact on the credibility of reported earnings. They can mask a company's true performance, distort the quality of earnings, and erode confidence in the financial statements. As a result, shareholders have lost trust in the accuracy of accounting information. This has prompted researchers to focus more on earnings quality. Previous empirical research has consistently shown that ethical leadership has a positive impact on curbing unethical behaviour and misconduct within organizations. Ethical leaders create an environment where the temptation to engage in manipulative financial reporting practices is reduced.

The current study highlights the importance of ethical leadership in promoting ethical conduct and reducing earnings management. This, in turn, enhances the quality of financial reporting and creates a more ethical climate within organizations. The findings from the content analysis shed light on how ethical leadership influences earnings management practices and financial reporting quality. These findings underscore the imperative for organizations to prioritize the advancement and endorsement of ethical leadership. By doing so, they can foster a climate of integrity, enhance financial reporting procedures, and mitigate the perils associated with unethical earnings manipulation. Ethical leadership has consistently shown its effectiveness in enhancing the overall performance of organizations. Based on these findings, the present study provides additional evidence supporting the idea that ethical leadership can effectively mitigate earnings management practices.

Drawing on an extensive literature review of earnings management and ethical leadership, this article suggests new perspectives to expand the understanding of these topics. Specifically, it focuses on identifying strategies beyond the traditional methodological or conceptual aspects to effectively mitigate earnings manipulation. However, it is important to acknowledge certain limitations. For example, this study proposes theoretically that ethical leadership can be an effective mechanism to minimise earnings manipulation practices. Therefore, future studies should empirically investigate the impact of ethical leadership on these practices. In addition, it is important to acknowledge that earnings management is a comprehensive and complex concept. Different forms of earnings management, such as real-based earnings management, may necessitate distinct approaches to effectively control them. As a result, future researchers could explore the influence of ethical leadership specifically on real earnings management.

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