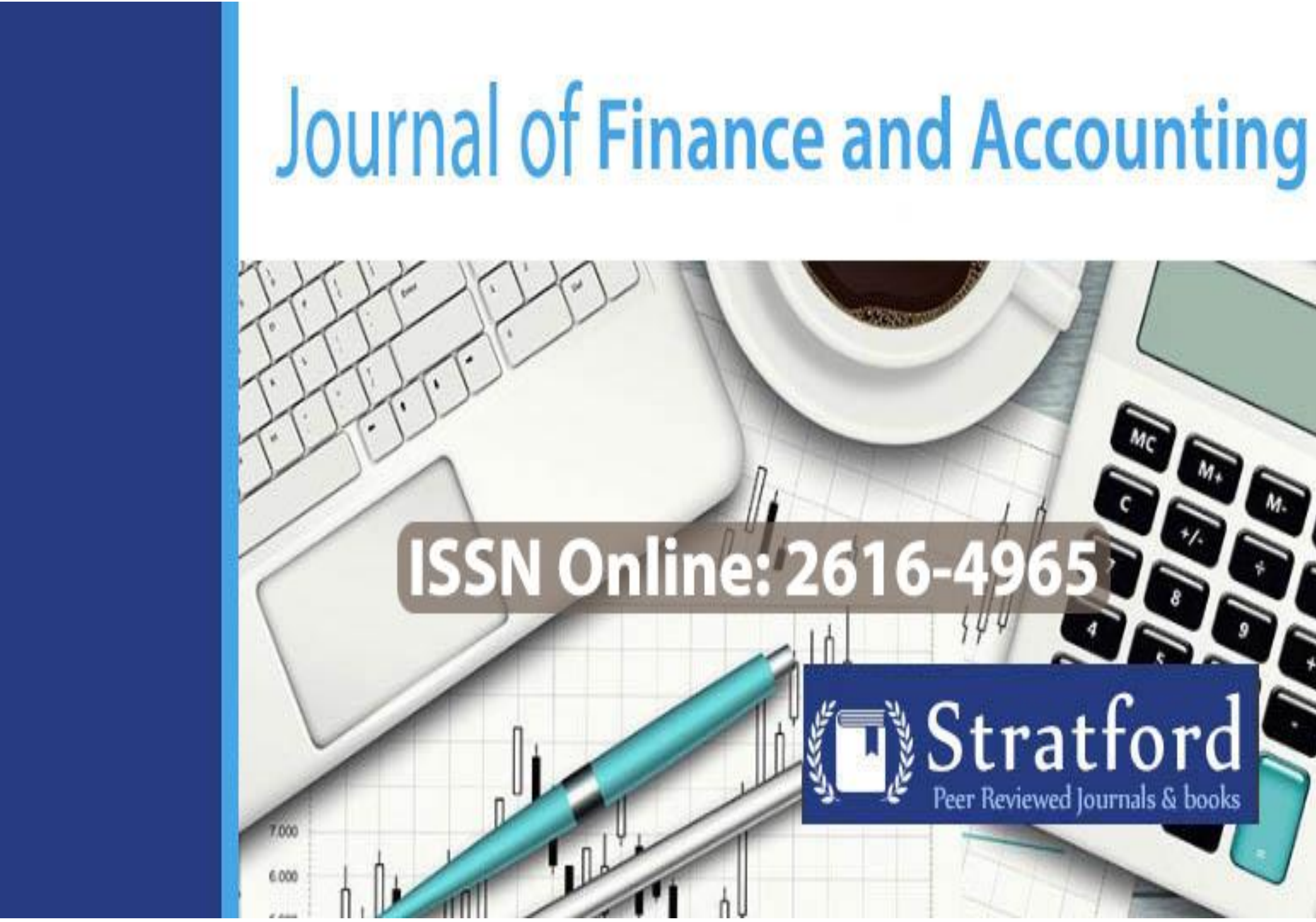

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Effect of Ethical Accounting Practices on Quality Financial Reporting in Manufacturing Firms in Rwanda: Case of Sulfo Rwanda Industries

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Abstract

Manufacturing industries like Sulfo Rwanda is facing the issues of quality financial reports such as the users lack of getting full understanding about all company operations and activities, delay in reports, there is some manipulating of accounting figures. The main purpose of the study was be to examine the effect of ethical accounting practices on quality financial reports in manufacturing firms in Rwanda. To establish the effect of objectivity on quality financial reports in Sulfo Rwanda industries, to examine the effect of professional competence on quality financial reports in Sulfo Rwanda industries, to analyze the effect of integrity on quality financial reports in Sulfo Rwanda industries. The study was use descriptive research design. The study population was be composed only 43 employees of Sulfo Rwanda industries working in department fitting to provide concerning to the study objectives. This study was use purposive sampling techniques for selecting 43 employees working in Sulfo Rwanda industries as respondents. Descriptive statistics was use to analyze quantitatively, Mean, standard deviation and regression analysis was be taken into consideration to make the analysis. A statistical package for Social Sciences (SPSS) version 22.0 was use to analyze the data collected throughout a questionnaire. Regression results indicate the coefficient of objectivity was ($\beta 1=0.453$, $p=0.008$, <0.05 level of significance) showed a statistically significant relationship between objectivity and quality financial reports in Sulfo Rwanda industries. The coefficient of professional competence was ($\beta 2=0.355$, $p=0.000$, <0.05 level of significance) showed a statistically significant relationship between professional competence and quality financial reports in Sulfo Rwanda industries. The coefficient of integrity was ($\beta 3= 0.192$, $p=0.004$, <0.05 level of significance) showed that integrity has positive and significant effect quality financial reports in Sulfo Rwanda industries. The coefficient of independence was ($\beta 4=0.605$, $p=0.002$, <0.05 level of significance) showed a statistically significant relationship between independence and quality financial reports in Sulfo Rwanda industries. Sulfo Rwanda industries should invest in ongoing training and development programs for its financial professionals. This will ensure that the workforce possesses the necessary skills and knowledge to maintain high standards in financial reporting.

1. Introduction

Many accounting scandals and financial crises happened lately in numerous distinguished firms have undermined investors' trust concerning the financial reports and have introduced several criticisms about quality financial reports (Nwaobia, 2016). It has commonly been recognized that the key frustration give rise to these financial crises arisen instantly from the dearth of quality financial disclosure and insufficient governance practices (Biddle & Rodrigo, 2017).

Financial report is not only a final output; the quality of this process depends on each part, including disclosure of the company's transactions, information about the selection and application of accounting policies and knowledge of the judgments made (Jonas & Blanchet, 2020). Financial information issued by a company has become an essential resource for any market participant, since it provides a reduced amount of information asymmetries between managers, investors, regulatory agencies, society and other stakeholders (Douglas, 2014). According to Rwanda CEO SUMMIT (2020), manufacturing industries like Sulfo Rwanda is facing the issues of poor quality financial reports where some information are irrelevant, misunderstanding of financial reports, different conclusions about the financial reports, and misstatements of financial statements. Few studies have been conducted and found causal link between ethical accounting practices on quality financial reports in different sectors. This study therefore seeks to examine the effect of ethical accounting practices on quality financial reports in manufacturing firms in Rwanda.

1.1 Objectives of the Study

The main purpose of the study was be to examine the effect of ethical accounting practices on quality financial reports in manufacturing firms in Rwanda.

Specific objectives of the study:

i. To establish the effect of objectivity on quality financial reports in Sulfo Rwanda industries.
ii. To examine the effect of professional competence on quality financial reports in Sulfo Rwanda industries.
iii. To analyze the effect of integrity on quality financial reports in Sulfo Rwanda industries.
iv. To identify the effect of independence on quality financial reports in Sulfo Rwanda industries.

1.2 Hypotheses

Hypothesis is a specific statement of prediction. It describes in concrete (rather than theoretical) terms what you expect was happen in your study. Not all studies have hypotheses. Sometimes a study is designed to be exploratory. There is no formal hypothesis, and perhaps the purpose of the study is to explore some area more thoroughly in order to develop some specific hypothesis or prediction that can be tested in future research (Shields & Tajalli, 2016). The hypothesis of this research project is:

$H_0$1: There is no significant effect of objectivity on quality financial reports in Sulfo Rwanda industries?
$H_0$2: There is no significant effect of professional competence on quality financial reports in Sulfo Rwanda industries.
$H_0$3: There is no significant effect of integrity on quality financial reports in Sulfo Rwanda industries.

$H_0 4$: There is no significant effect of independence on quality financial reports in Sulfo Rwanda industries.

2. Literature review

This chapter presents a review of the related literature on the ethical accounting practices on quality financial reports in manufacturing firms as presented by various scholars.

2.1 Theoretical Review

Theories have been formulated with regards to the effect of ethical accounting practices on quality financial reports in manufacturing firms. These theories are discussed below.

2.1.1 Theory of planned behaviour

The theory of planned behaviour (Abbreviated TPB) is a psychological theory that links beliefs and behaviour. The concept was propounded by Icek Ajzen in 1980 to improve the predictive power of the theory of reasoned action by including perceived behavioural control. Psychologically, explaining human behaviour in all its complexity is a difficult task. It can be approached at many levels, from concern with physiological processes at one extreme to concentration on social institutions at the other (Beest, Braam, & Boelens, Quality of Financial Reporting: Measuring Qualitative Characteristics, 2019).

Social and personality psychologists tend to focus on an intermediate level, the fully functioning individual whose processing of available information mediates the effects of biological and environmental factors of behaviour. The theory of planned behaviour states that attitude towards behaviour, subjective norms, and perceived behavioural control, together shape an individual's behavioural intentions and behaviours (Miles, 2012). The theory of planned behaviour didn’t stated between behaviour and quality financial reports in manufacturing firms. This theory is related to this study on how ethical accounting practices affect quality financial reports in manufacturing firms in Rwanda.

2.1.2 Agency Theory

This theory was propounded by Jensen and Meckling in 1976, since then it has been a widely used theory in the field of management and social sciences (Ezelibe, Nwosu, & Orazulike, 2017). This theory explains the separation of ownership and management, also the relationship that exists between them in an organization. The theory states that in the presence of information asymmetry, the agent is likely to pursue his personal interest that may negatively affect the owners of the organization (Sanda, Makailu, & Garba, 2015).

The major philosophical stance of this theory as stated by Ezelibe et al. (2017) is that parties who enter into an agency agreement was act to minimize their own self-interest and also these parties have right and freedom to enter into other agreements. Agency theory is relevant to our study because it explains and ensures that the agent who is the employee or the board acts in the best interest of the principal in carrying out his ethical duties and boardroom functions. This theory can also be applied to other fields such as engineering, politics and governance. Agency theory has been used to anchor several studies, implying its general acceptability and practicality. However, this theory has been criticised for only focusing on the agent-principal relationship, and totally ignoring the stakeholder's in an organization, such as the suppliers, creditors and the environment where the organization operates. This theory is related to this study on how ethical accounting practices affect quality financial reports in manufacturing firms in Rwanda

2.1.3 Stakeholder’s Theory

Against the backdrop of the Agency theory, Stakeholder's theory was propounded by Edward Freeman in 1984. Freeman (1984) used this theory to explain the tripartite relationship that exists in an organization. Between the agents (employees and the board), the principal (owners) and the stakeholders (creditors, suppliers, government, customers and so on). The stakeholder's theory also addresses morals and values in managing an organization. This theory is relevant to our current study because it was broaden our horizon in understanding the concept of "stakeholders" in an organization. This theory is also relevant to other fields such as ethics, law, and organizational management. The stakeholder’s theory provided remedy in the lapses identified in agency theory, however the concept of “stakeholders” is vague and not well spelt out (Miles, 2012), flowing from this even if an organization tries to identify its stakeholders, they assumed equal interest of stakeholders on the organization, which negates the term “social contract” in an organization (Mansell, 2013).

This theory did not explain how ethical accounting practices affect quality financial reports in manufacturing firms. This theory was important to this study because it was aligned to competence, integrity, independence and objectivity of accountants which increase the quality financial reporting.

2.2 Empirical Review

2.1.1 Objectivity and quality financial reports

Tae and Jinhan (2011) conducted a study on the objectivity of accountants and extend of fiscal reporting in the Spanish banking industry. The aim of the study was to assess the connection between a firm’s accountants’ objectivity and the quality of its financial reporting. The study used questionnaire on the data collected from the Spanish banks’ internal audit directors. The findings established that banks with more objective accountants and auditors provided high quality financial reporting. An extensive involvement of internal auditors in reviewing internal financial reports boosted the quality financial reporting. However, the study did not objectivity as key factor quality of its financial reporting in manufacturing firms.

In Nigeria, Ogbonna and Appah (2011) observed that the motivation for improved objectivity and independence in internal auditing could be associated with the expanding and evolving roles of internal accounting as important mechanism for corporate governance. The study used the fixed effects and random effect estimator to fit the static panel data established for the study. In this respect, internal auditors hold a unique position of providing either services of quality assurance or management consultancy services. The objectivity of accountants is therefore critical in enhancing the quality of financial reports they prepare. The study gaps are that findings focus corporate governance did not focus on quality of its financial reporting in manufacturing firms.

Yosep (2016) explored the effect of accountant’s objectivity on financial report’s quality in Indian publicly lusted commercial banks in India. This research employed a descriptive research design to describe the variables and the questionnaire and interview guide were used as the research instruments. Descriptive statistics were used in this study included frequencies, means and regression analysis on variables. The author observed that IIA India had underlined the importance of objectivity in the practice of accounting and internal auditing internal. The standards indicate that accountants and internal auditors must be objective in carrying out their work. Objectivity of the accountants and internal auditors refers to the mental attitude individually. The study by Yosep (2016) indicated that banks which had objective auditors rarely provided qualified financial statements. The conclusion from the study was that objectivity of the accountant positively influenced quality of financial reports. The study gaps are that findings focus commercial banks did not focus in manufacturing firms.

2.2.2 Professional competence and quality financial reports

Mahdi and Mohsen (2011) carried out a study on the impact of professional ethics on quality financial reports in Iran they employed a 24 item questionnaire and worked with a sample of 205 Iranian companies. The result of their findings showed that professional ethics have a significant impact on the quality of financial reporting. The study gaps are that findings focus Iranian companies did not focus quality financial reports in manufacturing firms.

Enofe, Edemenya, and Osunbor (2015) investigated the effect of ethics on quality financial reports in Nigeria firms. Primary data was used for the study with the aid of questionnaires. The analysis of the data showed that accounting ethics had a significant relationship with quality financial reports. The study made recommendations that the employment processes of companies should be improved upon so as to ensure that men and women with a high level of ethical standing could be employed. Ethics and compliance department should be put in place by firms to direct and monitor ethics implementation on a routine basis. In addition, accountants as custodians of good financial reports should adhere to the codes of professional practice issued by the Institute of Chartered Accountants of Nigeria (ICAN) in carrying out their responsibility. The study gaps are that findings focus used only primary and did not use secondary data.

Salaudeen *et al.* (2015) researched on the "effect of internal accountants' competences to develop quality financial reports in Indonesia." The research on Bogor District Local Government used survey method to survey 31 local government units. Questionnaires were used as data collection tools. The study's findings showed significant influences of competent internal accountants' in regard to financial reports' quality. The study gaps are that study focused only local government units did not focus on quality financial reporting in manufacturing firms

2.2.3 Integrity and quality financial reports

In a similar study, Agwor and Okafor (2018) examined the effect of integrity on the quality of financial reports of banks in Nigeria. The data was sourced from questionnaires administered to respondents systematically collected from the twenty-four banks in Nigeria. The data generated from the questionnaires were analysed using econometric models such as diagnostic test, Augmented Dickey-Fuller, Ordinary Least Square and Granger Causality. The results reveal that integrity of accountant are significantly related to the quality of financial reports of banks in Nigeria. On the basis of the findings, the study concluded that integrity are fundamentally necessary for accountants to produce quality financial reports free from material misstatements. The authors recommended the following among others: that professional accountants as custodian and producers of accounting information should adhere to the codes of professional best practices issued by relevant professional bodies. They further recommended that banks in Nigeria should establish ethics departments to ensure that activities including the financial reporting process, accountants and accounting officers adhere strictly to established codes of ethics in order to reduce the failure symptoms in the banking industry. The study gaps are that this study only focused banks and did not focus quality financial reports in manufacturing firms.

Joseph and Jossy (2014) explored the impact of integrity on financial reporting of oil and gas firms in Kenya. Metrics of return on investment, earnings per share and dividend per share were utilized as proxies for financial reporting. Multiple regression results showed that there is a positive link between integrity and financial reporting with respect to return on investment, earning per share and dividend per share. The study gaps are that the study are carried out in oil and gas firms in Kenya and did not focused quality financial reports in manufacturing firms.

In a recent study, Alleyne and Devonish (2016) examined the nexus between accounting ethics and quality financial reports using tourism and hospitality firms in Rivers State in Nigeria. The study adopted the quantitative design and questionnaires were distributed. Accounting ethics were gauged by means of professional independence and competence while quality financial reports, qualitative attributes of reliability and understandability. The ordinary least square (OLS) estimation technique was used and findings support the assertion that variability in accounting ethics can account for between 79% and 91% of the variability in quality financial reports. Understandability was significant at 5% level in linking with both competence and independence, however, reliability was found to be significant at 5% level, only with independence. This implies that accounting ethics had a significant link with quality financial reports. The study gaps are that the study are carried out in tourism and hospitality firms and did not focused quality financial reports in manufacturing firms.

2.2.3 Independence and quality financial reports

In Malaysia, A study by Hutchinson and Zain (2019) sought to ascertain the effect of accountant independence and quality of financial reports, firm performance and growth opportunities. This study focused on 60 Malaysian companies from the financial and services sector. This research employed a descriptive research design to describe the variables and the questionnaire and interview guide were used as the research instruments. The study established that accountant independence is associated with quality financial reporting, firm performance and growth opportunities. However, the findings indicated that financial reporting efficiency was negatively related with accountant independence. The study gaps are that this study did not focused quality financial reports in manufacturing firms.

The study by Al-Matari, Al-Swidi and Fadzil (2014) wanted to determine the influence of accountant independence on quality financial reports. A correlational design was used with mixed approach using both quantitative and qualitative data. Total population of 132 from which a sample of 97 was derived using censer and simple random sampling. Quality financial reports in this regard was measured using qualitative and quantitative measures of effectiveness and efficiency. The study revealed that quality financial reports is perceived to be the core of corporate accounting since as a section it maintains track with businesses related with the sector. Efficiency in financial reporting could assist with the development of the company's work since the reports presents the outlook of the company performance. Independence of accounting team was found to significantly and positively influence quality of financial reports. This implied that as accounting team becomes more independent from the influences of management, the efficiency of the output of accounting department improve. However, the study focused on different companies while did not accountant independence as key factor quality of its financial reporting in manufacturing firms.

3. Research methodology

The third chapter presents the methodology used to conduct the research. Research approaches are discussed. It justifies the choice of method that used by the researcher and it details precisely how the researcher goes about achieving the research objectives.

3.1. Research design

This study adopted descriptive survey research design. Descriptive survey research used by the researcher to present collected data from questionnaires. Descriptive survey research design used to analyze the data by the use of tabulation and calculation of percentages from

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respondents. This study adopt descriptive survey research design because it helped in computation of mean and standard deviation and frequencies for demographic information of respondents.

3.2 Study population and sampling

The study population composed only 43 employees of Sulfo Rwanda industries working in department fitting to provide concerning to the study objectives. Since the total target population size is small, the researcher consider the whole target population as sample size. Therefore, it was no need of determining sample size in order to achieve accuracy and for the research data collection; the researcher used all 43 employees as sample size.

3.3 Data Collection Methods and Instruments

This study used quantitative data collection methods. Quantitative data was be collected using a well-designed structured questionnaire that filled by the employees of Sulfo Rwanda industries. In this study primary data collected. Primary data are those data which have been collected for the first time such as questionnaire. There was questionnaire for different categories of employees of Sulfo Rwanda industries.

3.4 Reliability of Instruments

The reliability dimension was use for this study is Cronbach Alpha. When the Alpha is greater than 0.70 that shows there is high reliability, if Alpha is less than 0.70 the instrument is not reliable.

Table 1. Reliability Statistics

Cronbach's Alpha	N of Items
.813	25

Source: Primary data (SPSS data)

From table 1 above it is evident that the obtained Cronbach's alpha value of 0.813 is above the acceptable standard value of 0.7 hence indicative that the data collection instrument was likely to yield reliable and valid results.

3.5 Data Analysis

Data entered in the computer with Statistical package for Social Scientist version 22 (SPSS 22.0) for data analysis. The data analyzed and interpreted in line with the objectives of the study. Descriptive statistics namely (frequency, mean, and standard deviation) used to analyze the research questions and objectives of the study and regressions analysis used to verify the hypotheses.

Multiple linear regression attempts to model the relationship between two or more explanatory variables and a response variable by fitting a linear equation to observed data. Every value of the independent variable *x* is associated with a value of the dependent variable *y*.

Model specification

X = Independent Variable
Y = Dependent variable
$Y= \beta0+\beta1X_1+ \beta2X_2+ \beta3X_3+ \beta4X_4+ę$

Where
Y=quality financial reports
$X1_=$ Objectivity (OBV),
$X_{2=}$ Professional competence (PFC)

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$X_{3=}$ Integrity (ITG)
$X_{4=}$ Independence (IDP)
ȩ= Error term
β0= constant
β1- β3= coefficients of explanatory variables
The test of significance was be 0.05

4. Research findings

This chapter presents the analysis of data collected and discusses the findings of the effect of ethical accounting practices on quality financial reports. In this chapter, the results of the questionnaire and regression model are presented. This chapter is chronologically arranged to give statistical answers to the research questions addressed to the respondents.

Multiple linear regression analysis was conducted using the four independent variables (objectivity, professional competence, integrity, and independence) against the dependent variable (quality financial reports). The results of the regression model are presented in the following sections.

Table 2. Model Summary Between ethical accounting practices and quality financial reports

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.329[a]	.108	. 576	1.17771

a. Predictors: (Constant), objectivity, professional competence, integrity, and independence.

From the results of the analysis, the findings show that ethical accounting practices (objectivity, professional competence, integrity, and independence) contributed to 57.6% of the variation in quality financial reports in Sulfo Rwanda industries as explained by adjusted R2 of .309 which shows that the model as a good prediction while .424 representing 42.4% of quality financial reports in Sulfo Rwanda industries comes from other variables that are not included in the model studied. This implies that these variables are very significant and need to be factored to improve quality financial reports in selected manufacturing firms in Rwanda.

Table 3. ANOVA[a] Between ethical accounting practices and quality financial reports

Model		Sum of Squares	Df	Mean Square	F	Sig.
5	Regression	40.150	4	10.038	4.463	.007[b]
	Residual	60.725	38	2.249		
	Total	100.875	42			

a. Dependent Variable: quality financial reports
b. Predictors: (Constant), objectivity, professional competence, integrity, and independence.

The results of the findings above revealed that the level of significance was .007(b) which is less level of significance of 5% and this implies that the regression model is significant in predicting the relationship between ethical accounting practices (objectivity, professional competence, integrity, and independence) and quality financial reports in Sulfo Rwanda industries. F-test is 4.463 implies that the model was statistically relationship between ethical accounting practices (objectivity, professional competence, integrity, and independence) and quality financial reports in Sulfo Rwanda industries.

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Table 4. Coefficients[a] Between ethical accounting practices and quality financial reports

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7.887	10.262		.769	.000
Objectivity	.780	.637	.453	1.226	.008
Professional competence	.492	.510	.355	.964	.000
Integrity	.268	.513	.192	.523	.004
Independence	.734	.215	.605	3.418	.002

a. Dependent Variable: Quality financial reports

The Multiple regression model equation would be ($Y = \beta0 + \beta1X_1 + \beta2X_2 + \beta3X_3 + \beta4X_4 + \varepsilon$)
Where Y dependent variables while X= independent variables
$X1_=$ Objectivity, $X_{2=}$ Professional competence, $X_{3=}$ Integrity, and $X_{4=}$ Independence
Becomes:
$Y = 7.887 + .453X_1 + .355X_2 + .192X3 + 0.605X4 + 10.262$

Using the regression equation above and holding all factors constant (objectivity, professional competence, integrity, and independence) affect quality financial reports in selected manufacturing industries in Rwanda. The coefficient of objectivity was ($\beta1=0.453$, $p=0.008$, <0.05 level of significance) showed a statistically significant relationship between objectivity and quality financial reports in Sulfo Rwanda industries. The results implied that a unit increase in objectivity would result to an increase of 0.453 units in quality financial reports in Sulfo Rwanda industries. This was concurred with Yosep (2016) explored the effect of accountant's objectivity on financial report's quality in Indian publicly lusted commercial banks. Objectivity of the accountants and internal auditors refers to the mental attitude individually. The study indicated that banks which had objective auditors rarely provided qualified financial statements. The conclusion from the study was that objectivity of the accountant positively influenced quality of financial reports.

The coefficient of professional competence was ($\beta2=0.355$, $p=0.000$, <0.05 level of significance) showed a statistically significant relationship between professional competence and quality financial reports in Sulfo Rwanda industries. The results implied that a unit increase in professional competence would result to an increase of 0.355 units in quality financial reports in Sulfo Rwanda industries. This was supported by a study of Masoud and Mahbude (2013) investigated the impact of professional ethics on quality financial reports and found that developing professional ethics in accounting was help promote quality financial reports.

The coefficient of integrity was ($\beta3= 0.192$, $p=0.004$, <0.05 level of significance) showed that integrity has positive and significant effect quality financial reports in Sulfo Rwanda industries. The results implied that a unit change in integrity would result to a increase of 0.192 units in quality financial reports in Sulfo Rwanda industries. This was concurred with Joseph and Jossy (2014) explored the impact of integrity on financial reporting of oil and gas firms in Kenya. Multiple regression results showed that there is a positive link between integrity and financial reporting with respect to return on investment, earning per share and dividend per share.

The coefficient of independence was ($\beta4=0.605$, $p=0.002$, <0.05 level of significance) showed a statistically significant relationship between independence and quality financial reports in Sulfo Rwanda industries. The results implied that a unit increase in independence would result to an increase of 0.605 units in quality financial reports in Sulfo Rwanda industries. This was agreed with a study by Al-Matari, Al-Swidi and Fadzil (2014) wanted to determine the influence of accountant independence on quality financial reports. The study revealed that quality financial reports is perceived to be the core of corporate accounting since as a section it maintains track with businesses related with the sector.

5. Conclusion

The study assessed the effect of ethical accounting practices on quality financial reports in selected manufacturing firms in Rwanda. The study found that ethical accounting practices (objectivity, professional competence, integrity, and independence) has positive and significant effect on the quality financial reports in selected manufacturing firms in Rwanda. Thus, the study concludes that ethical accounting practices do positive effect to the quality financial reports in selected manufacturing firms in Rwanda.

The study concluded that most of the firms accord ethical accounting practices is important role that aims to improve quality financial reports in selected manufacturing firms in Rwanda. Most firms defining objectives to its project. Additionally, the study concludes that defining project objectives are in line with overall goal. The study concluded that defining project objectives positively and significantly contributes to quality financial reports in selected manufacturing firms in Rwanda.

The study concluded that professional competence has a positive and significant effect on quality financial reports in selected manufacturing firms in Rwanda. The study concludes that professional competence for the project was properly determined and that the milestones were fair to complete the project. The study concludes that integrity their project scope and visualize all the tasks required to complete their projects. The study concludes that integrity has a positive and significant effect on quality financial reports in selected manufacturing firms in Rwanda.

The study concludes that independence has effect on quality financial reports in selected manufacturing firms in Rwanda. It was clear that independence was effective as it was indicated in the quality of the resources used, right resource used and the indication that all independence has a positive and significant effect on quality financial reports in selected manufacturing firms in Rwanda.

6. Recommendations

Sulfo Rwanda industries should invest in ongoing training and development programs for its financial professionals. This will ensure that the workforce possesses the necessary skills and knowledge to maintain high standards in financial reporting.

Sulfo Rwanda industries should emphasize a culture of integrity and ethical conduct at all levels of the organization. Implementing and reinforcing a robust code of ethics can contribute to maintaining the trustworthiness of financial reporting processes.

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