Corporate Ethics and Financial Reporting Quality: A Thematic Analysis from Accountants' Perspectives

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Abstract A growing number of incidents concerning ethical misbehavior in business have recently attracted substantial attention in Malaysia. Despite the country's declaration of a strong corporate governance policy, bolstered by the Malaysian Code of Corporate Governance (MCCG), unethical behaviors and a lack of integrity within corporations remain a concern. The problem's pervasiveness has threatened the quality of Malaysian firms' financial reporting. This research collects accountants' viewpoints on the present implementation of corporate ethical practices among corporate governance practitioners, as well as the effect of corporate ethics commitment on financial reporting quality in Malaysian public listed companies. The data was gathered through semi-structured in-depth interviews with four (4) senior professional accountants from Malaysian publicly listed companies. Thematic analysis of the study identifies four themes: "corporate ethical values," "corporate ethics commitment attributes," "financial reporting quality features," and "best practice of corporate governance." The findings can be used to improve Malaysian public listed firms' ethical corporate behavior and financial reporting quality.

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1 Introduction

For industry players, financial reports are important decision-making tools. These reports provide accurate and timely information about a company's financial condition. Furthermore, high-quality financial reports can help users of financial analysis and feasibility reports make good decisions [1]. However, firms' misrepresentation of their true economic condition reduces the quality of financial reporting. Over the last two decades, the failure of several organizations and an increase in the number of prominent scandals have raised concerns about unethical behavior within firms. These have put the effectiveness of corporate governance procedures into question [2]. Recently, the Malaysia corporate sector has been stunned by Serba Dinamik's case, where its top management charges of submitting a false statement to Bursa Malaysia last year. Despite Malaysia's declaration of a strong corporate governance policy, which has been reinforced by the Malaysian Code of Corporate Governance (MCCG), unethical behaviors, and a lack of integrity remain serious concerns in Malaysian firms.

The problem's pervasiveness has compromised the quality and reliability of Malaysian firms' financial reporting, raising the bar for professional ethics in the financial reporting profession. This is due to the firm's performance being heavily reliant on corporate financial reporting. Internal and external stakeholder groups that use financial statements include executives, investors, security analysts, suppliers, and lending institutions [3]. According to Herath and Albarqi [4], the need for a clear and comprehensive definition of financial reporting quality has increased gradually. High-quality financial reporting is crucial for influencing users' investment decisions and improving market efficiency. The higher the quality of financial reporting, the greater the benefits to investors and financial report readers. Furthermore, financial reporting quality includes nonfinancial information that is useful for decision-making as well as financial information.

The main objective of this paper is to gather accountants' perspectives on the current implementation of corporate ethical business practices among corporate governance practitioners, as well as the impact of corporate ethics commitment on financial reporting quality in Malaysian publicly listed companies. The remaining sections begin with a literature review, which includes corporate governance practices and the present setting of financial reporting quality in Malaysia, as well as theoretical considerations on the subject. The methodology section later highlights the approach used in gathering the information included in this paper. Further, the discussion section emphasized the data analysis procedure used to arrive at the result and discussion. Finally, the conclusion summarizes the importance of the paper and potential ways for corporate governance practitioners to improve corporate ethics commitment.

2 Literature Review

Early Malaysian studies on financial reporting quality focused on corporate governance, specifically the role of the board of directors and audit committee in influencing corporate reporting. However, as a result of numerous corporate scandals involving financial data manipulation, regulators began to emphasize the importance of corporations having high-quality financial data. This is consistent with findings by Nasir et al. [5], where corporate ethical commitments could minimize the risk of financial statement fraud while indirectly improving financial reporting quality.

According to Arvind Babu and Rentala [6], the three pillars of corporate governance are transparency, accountability, and security. They are critical in steering the company in the right direction with all of its internal and external stakeholders, including the company board, shareholders, and employees. In addition, Abed et al. [7] concluded that an ethical environment and ethical management influence the quality of financial reporting. Firms with a proven track record provide high-quality financial reports. In professional body codes of ethics, fundamental features are independence, integrity, objectivity, competence, and judgement [8]. The authors also concluded that achieving an objective, reliable, and transparent financial report requires a high ethical standard. Enofe et al. [9] in their research stated that ethics has a positive and significant relation with financial reporting honesty, but not with financial report faithfulness.

Several recent studies have examined the connection between financial reporting quality and accounting ethics. For example, based on Karasioğlu et al. [3], accounting ethics has a significant impact on financial report quality and decision-making in Kabul-based logistic firms. Other than that, Edi and Enzelin [10] also investigated the impact of accounting ethics on the quality of financial report of Nigerian firms. The authors concluded that accounting ethics had a favorable and significant effect on the relevance and faithful depiction of financial information, respectively. Shahroor and Ismail [11] also highlighted that firmer measures on corporate governance practitioners able to minimize earning management activities that may reduce financial reporting quality.

This study was based on accounting theory. Hendriksen (1985), a pioneer in accounting theory, defined accounting theory as "logical reasoning in the form of a set of broad principles that provide a general frame of reference for evaluating accounting practices and driving the development of new practices and processes." As highlighted by Mabil [2], accounting theory has grown over time as a result of observation, review, scrutiny, and scanning, as well as explanations of daily accounting procedures, and it can assist accountant professionals in resolving real-world practice issues that may emerge in their vocation. Accounting knowledge, for example, as well as the accountant's honesty and independence all have an impact on the quality of financial accounting reports.

3 Research Method

Based on the accountant's perspective, this study used a qualitative approach to gather in-depth knowledge and understanding of the corporate ethical commitment toward financial reporting quality in Malaysian public companies. In this study, purposeful sampling was used since it entails finding and selecting individuals or groups of individuals who are proficient and aware about specific subjects [12]. As a result, four senior professional accountants were chosen as research participants in order to achieve the research purpose. Professional accountants were the best fit to this study because they are the practitioners of accounting standards and preparers of financial reports.

Primary data was used to carry out this study, and it was obtained through in-depth interviews with the participants. According to Showkat and Parveen [13], in-depth interviews are conducted to elicit themes for further investigation and descriptive analysis. This is because, when compared to other types of data collection methods, this method provides much more precise information.

A set of interview protocols were developed based on content analysis of 20 companies' annual reports and have been reviewed and validated by three academic experts in corporate governance and financial reporting studies. Changes and improvements have been made in response to comments from academic experts. This attempt is being made to obtain the best interview protocol for the interview. Four (4) semi-structured interviews were conducted and analyzed using thematic analysis in ATLAS.ti.

4 Data Analysis Procedure

In this study, the researchers analyzed data from participants' interview transcripts. The research analysis began with quotations and document classification. Coding is effective for synthesizing the meaning or core information given in a group of related quotations. Open coding was the first step of coding, and it was used to identify and categorize ideas by thoroughly reviewing the data [14]. The researchers then create code groups to compare data based on any criterion of interest. Code groups, according to Soratto et al. [15], are incredibly useful in data retrieval and analysis. Their primary function is to act as filters, which also help to form the coding frame.

Throughout this phase, researchers developed codes related to corporate ethics and financial reporting quality. During this process, codes that are similar or connected to one another were merged. Following that, selective coding was used to examine the data and codes for themes, topics, and relationships. This process is necessary for producing network diagrams, which are a high-quality visual representation of data in which concepts are represented [16]. Researchers were able to identify themes, patterns, and relationships in the data by generating a network diagram.

Based on Soratto et al. [15], once themes and relationships have been identified, the researchers can proceed with thematic content analysis. Content analysis is commonly employed in qualitative research, and numerous approaches, including thematic or categorical analysis, can be applied. Thematic analysis was used in this study to highlight the research objectives, which were to collect accountants' perspectives on the current implementation of corporate ethical practices among corporate governance practitioners, as well as the effect of corporate ethics commitment on financial reporting quality in Malaysian listed companies.

5 Result and Discussion

To create a theme, all codes were analyzed to see whether they could be combined to form a theme. Four themes were identified, with a total of 20 sub-themes. The four main themes were "corporate ethical values," "corporate ethics commitment attributes," "financial reporting quality features," and "best practice of corporate governance." (Fig. 1)

5.1 Corporate Ethical Values

The participants described certain corporate ethical values that must be applied in a company to maintain financial reporting quality. They were all in agreement that integrity had a significant impact on reporting quality. This is because people with integrity avoid any form of ethical misbehavior in the workplace, whether it is by management or employees. This is in line with Rashid et al. [17] who mentioned in their paper that the most important factors of dealing with financial reporting are responsibility and integrity (Fig. 2).

Furthermore, some participants claimed that persons with integrity will put their personal interests aside while carrying out their duties. Personal agendas can lead to ethical lapses and, in the worst-case scenario, organizational corruption. There have been various instances of unethical activity around the world, including financial reporting manipulation, such as the Enron and Parmalat scandals.

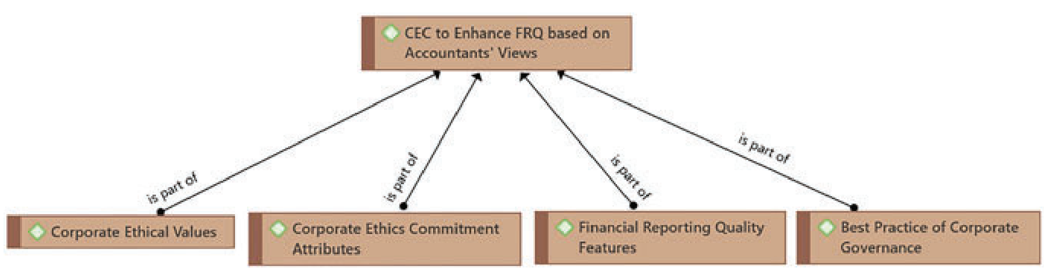

Fig. 1 Network diagram of CEC to enhance FRQ in ATLAS.ti

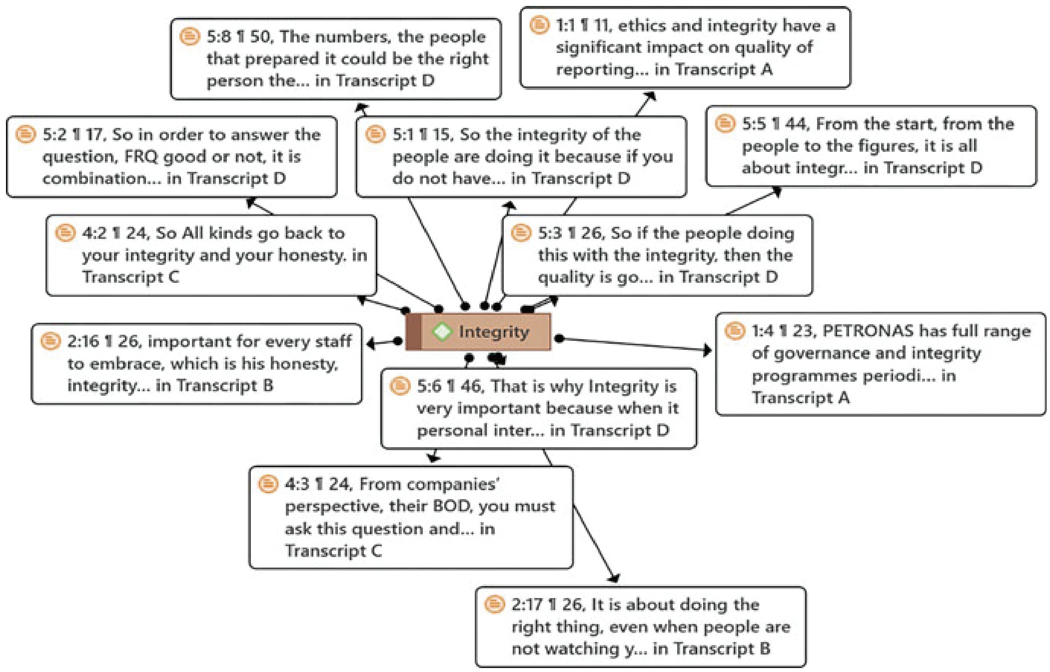

Fig. 2 Hyperlink diagram of integrity in ATLAS.ti

> People know that they have to be ethical, they have to be complied with the rules and regulation. But when it comes to greed, people may abuse their power, do corruption. They think for their personal interest. That is why integrity is very important because when personal interest come into picture, people would do so many things—Participant D

Professional accountants are expected to present a true and accurate image of an entity's performance, even when competing interests affect his own interests as financial statement preparers [18].

Some participants mentioned that honesty and integrity are interrelated. Both values are critical for all employees to embrace. Based on Participant B, his organization adopted HIP values (honesty, integrity, and passion), where all the staffs are required to comply. As stated by Edi and Enzelin [10], the attitude of integrity promotes an accountant's honesty practice; therefore, accountants tend to make true and true financial reports. However, As and Ga [18] discovered that the integrity criterion had no substantial impact on the quality of financial reports due to the avoidance of real or apparent conflicts of interest.

As stated by the respondents, corporate ethical values also included accountants adhering to accounting ethics. Accountants, as experts responsible for the compilation of financial reports, must follow ethical accounting standard guidelines provided by the Institute of Chartered Accountants, according to Abed et al. [19]. As and Ga [18] also mentioned in their article, accounting ethics is necessary for accountants to provide high-quality, error-free financial reports by ensuring actions that promote ethical standards compliance. According to Edi and Enzelin [10], a deep understanding of accounting ethics can help an individual improve work performance and establish positive behaviors.

5.2 Corporate Ethical Commitment Attributes

The researchers were interested in accountants' thoughts on firms' efforts to increase their corporate ethical commitment. According to the majority of participants, corporations are becoming more aware of the importance of high corporate ethical commitment, as urged by regulators. Efforts such as ethics education, training, and workshops are in place to improve employees' corporate ethics. According to Zainul Abidin and Hashim [20], ethics training is essential for businesses to instill excellent behavior in their staff while dealing with stakeholders. Continuous training can effectively develop an ethical society. Karasioğlu et al. [3] also believed that professional organizations should develop training sessions and programs that encourage its members to be truthful in the performance of their professional duties.

> ... management guidance on groupwide internal accounting policy and practices, also important things need to be look up. Such as necessary training, skill group, promote internal sharing of best practices through community of practices, internal attestations through financial reporting control framework—Participant A

5.3 Financial Reporting Quality Features

According to the accountants, there are numerous approaches to improve the quality of financial reports. As required by Malaysian Financial Reporting Standards (MFRSs), the company should generate financial reports that are timely, comparable, verifiable, and understandable (Fig. 3).

This is supported by Golochalova and Tsurcanu [21] who stated that comparability and timeliness of financial reports provide an opportunity to develop rational approach for measuring the quality of financial statements. Furthermore, Bandara [22] concluded in his thesis that the fundamentals of qualitative characteristics of

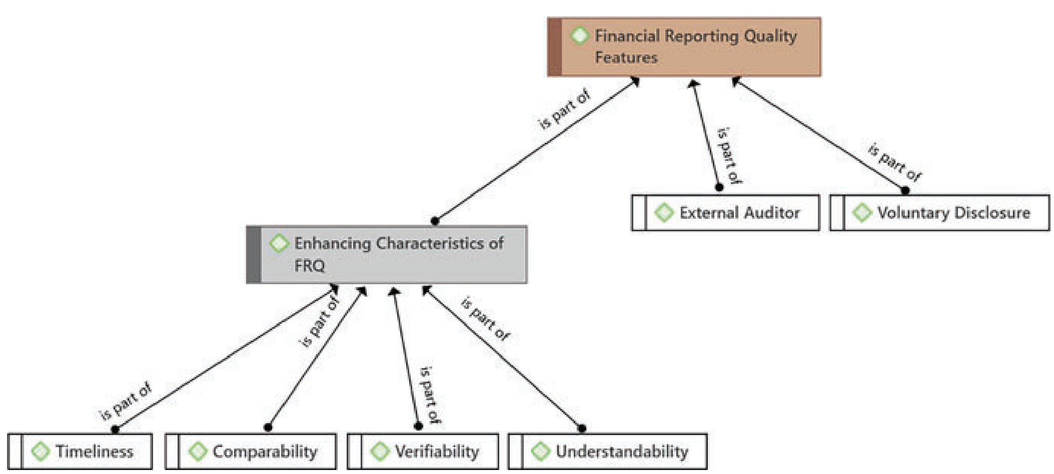

Fig. 3 Hyperlink diagram of financial reporting quality features in ATLAS.ti

financial reporting quality are relevance and faithful representation, while enhancing it includes understandability, comparability, verifiability, and timeliness.

Participants also emphasized the significance of engaging an independent external auditor to improve the quality of financial reports. This is consistent with Alzeban [23], in which external auditor quality has huge impacts on financial reporting quality.

As mentioned by Joseph et al. [24], Malaysian corporations are still cautious to reveal information about their ethical procedures and make few voluntary disclosures. According to the interviews, firms have begun to provide voluntary disclosure in order to improve the quality of their financial reporting and attract possible investors. This is similar with Md Zaini et al. [25], which the purpose of voluntary disclosure is to give relevant stakeholders with information about corporate operations that are not reflected in financial statements.

5.4 Best Practice of Corporate Governance

In Malaysia, the Malaysian Code of Corporate Governance (MCCG) serves as a guideline for Malaysian public listed companies to conduct ethically. As cited from Zainul Abidin and Hashim [20], MCCG provides set of standards for companies to commit to better transparency and ethical business practices. The findings of the interviews also emphasize the importance of a corporation adhering to MCCG principles, such as the code of corporate governance and the most recent issue, environmental, social, and governance (ESG) (Fig. 4).

> If your question is either can ethics being integrated with good quality of financial reporting, the straight answer is Yes. That is why the ESG also highlight the ethical element—Participant D

In their study of the relationship between financial reporting quality and ESG performance, Şeker and Şengür [1] discovered that firms' ESG performance enhance financial reporting quality.

During the interview, some participants mentioned how important it is for an organization to have a whistleblower policy. It is critical to have an independent and anonymous communication channel where stakeholders can express their concerns

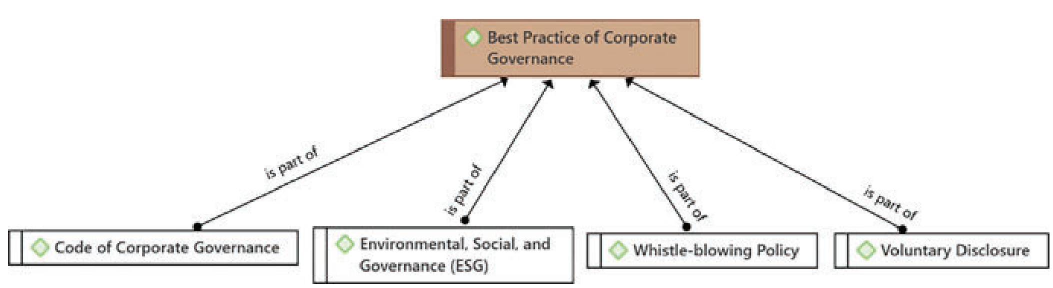

Fig. 4 Hyperlink diagram of best practice of corporate governance in ATLAS.ti

without fear of repercussions. In their study, Hashim et al. [26] developed an Ethical Commitment Index (ECI) that includes whistleblowing policies. According to them, the ECI was expanded to suit the Malaysian corporate environment based on previous literature and MCCG recommendations.

6 Conclusion

This article analyzes professional accountants' viewpoints on corporate ethics commitment in enhancing financial reporting accuracy. It is critical to seek the advice of accountants because they are responsible for producing high-quality financial reports. Based on the interviews, it is possible to conclude that corporate ethics commitment has a considerable impact on financial reporting quality. This is confirmed by Nasir et al. [5] in their previous study that high corporate ethics commitment leads to high financial reporting quality. There were four themes that can be highlighted from the study, "corporate ethical values," "corporate ethics commitment attributes," "financial reporting quality features," and "best practice of corporate governance."

The study's findings have a high potential for policy contributions and the discovery of corporate ethics practices within corporations themselves. Firms can improve firm performance by identifying absences and/or applicable corporate ethical principles. The results may also be referred to by the policymaker as guidance for developing some indexes as guidance for firms' corporate ethical conduct.

Since this study included in-depth interviews with professional accountants, the primary data's flaw may occur. The accountant may provide biased opinions in order to improve the accountant's reputation. Future research could include more than one group of samples to confirm the findings and reduce this limitation. Furthermore, future studies should always refer to the regulators' updated guidelines and recommendations to help with the creation of adequate and thorough interview protocols.

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