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RESEARCH PROJECT : AN ANALYSIS OF THE IMPACT OF FINANCIAL STATEMENT FRAUD ON THE ORGANISATIONAL PERFORMANCE OF THE MANUFACTURING INDUSTRY: A CASE OF TONGAAT HULLET ZIMBABWE FOR THE PERIOD 2018-2019.

BY

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DEDICATIONS

I wish to dedicate this research to my mother and my partner Option, whose moral and financial support has always remained adequate and also my grandmother.

ABSTRACT

It is anticipated that the manufacturing sector in Zimbabwe will prioritize accountability, equity, and transparency. Financial statement fraud is a pervasive problem that endures, leading to the distortion of a firm's financial condition. The researcher conducted a case study on Tongaat Hullet Sugar manufacturing company during the timeframe of 2018 to 2019. The investigator employed a qualitative methodology by utilizing a survey instrument in the form of a questionnaire. The study aimed to ascertain the various forms of financial statement fraud prevalent in the sugar manufacturing sector of Zimbabwe, with a specific focus on Tongaat Hullet as a case study. Additionally, the study sought to identify the underlying factors that contribute to the occurrence of financial statement fraud at Tongaat Hullet. The research approach employed was aligned with these objectives. The primary aim of this study was to assess the influence of financial statement fraud on the operational effectiveness of Tongaat Hullet. Additionally, the study aimed to offer recommendations to the sugar manufacturing industry in Zimbabwe based on the research findings, with a focus on identifying best practices in financial management. A conceptual framework was developed to assess the impact of rationalization, opportunity, capability, arrogance, and pressure on the organizational performance of Tongaat Hullet, drawing on the Fraud Diamond Theory and Agency Theory. The findings indicated a significant positive association between opportunity (69%), capability (34%), and pressure (24.9%). The p-values, which were below 0.05, indicated the statistical significance of the correlations. The results of the regression analysis indicated the presence of a negative association between pressure and the organizational performance of Tongaat Hullet.

Key: Financial Statement Fraud, Tongaat Hullet, Organisational Performance, Fraud Theory

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CHAPTER 1

INTRODUCTION

Introduction

The present chapter provides an overview of the scholarly investigation concerning the influence of financial statement fraud on the operational effectiveness of the manufacturing sector in Zimbabwe. The document is structured using subheadings, including but not limited to the background of the study, statement of the problem, objectives of the study, research questions, significance of the study, limitations of the study, delimitation of the study, research assumptions, and summary.

Background of the study

Over the years, there has been a systematic increase in both the frequency of occurrence and magnitude of losses associated with financial statement fraud on a global scale (Agbaje & Oloruntoba, 2018). The financial statements furnished by companies in capital markets are expected to adhere to principles of fairness, efficiency, transparency, and accuracy, as per Oyewobi (2022). According to Eberechukwu, Okoye, and Adeniyi (2019), financial statements or reports serve as essential instruments for users to depend on while making investment decisions. The 2020 global fraud study carried out by the Association of Certified Fraud Examiners (ACFE) revealed that the median loss incurred as a result of financial statement fraud stands at $954,000 (Hanifah & Clyde, 2022). Notably, in the most prominent instances of this category of white-collar offense, the financial damages may accumulate to hundreds of millions of dollars (Papík & Papíková, 2022).

Harman, Bernawati, and Airlangga (2020) define financial statement fraud as a purposeful act of misrepresenting an enterprise's financial condition through the intentional manipulation or exclusion of financial statement amounts or disclosures with the aim of deceiving financial statement users. According to Larum, Zuhroh, and Subiyantoro (2021), this offense is commonly perpetrated by top-level executives and is typically utilized as a strategy to achieve a desired outcome. According to Majidah and Aryanty (2022), the rationales behind committing financial statement fraud encompass the pursuit of personal financial benefits, the preservation of the organization's viability, and the maintenance of one's position as a leader within the company. The perpetration of financial statement fraud has a significant impact on the overall performance of an organization. Ramadhani et al. (2022) defines organisational performance as the degree of effectiveness and efficiency with which an organisation attains its goals and objectives. Various metrics can be employed to evaluate organisational performance, including financial ratios, customer feedback, employee engagement surveys, and process performance indicators (Sukmadilaga et al., 2022).

According to Hanifah and Clyde (2022), individuals engaging in fraudulent activities endeavour to artificially increase the perceived value of a company with the aim of rendering its stock more appealing to potential investors, securing bank approvals for loans, and rationalizing substantial remunerations and bonuses that are contingent on the company's performance. The Tyco International scandal of 2002 involved the misappropriation of funds by former CEO and chairman Dennis Kozlowski and former corporate chief financial officer Mark Swartz, resulting in a loss of up to $600 million for the company (Jan 2018). According to Ashtiani and Raahemi (2021), there was a conspiracy to inflate the reported financial results by concealing significant amounts of senior executive compensation from investors and manipulating the reported earnings through smoothing techniques. The Enron scandal, which came to light in 2001, exposed the involvement of the seventh largest company in the United States in corporate malfeasance and deceptive accounting practices, ultimately resulting in insolvency (Papík & Papíková, 2022). According to Oyewobi (2022), the shareholders incurred a loss of $74 billion, while the employees suffered job losses and a significant reduction in their pension benefits. Several instances of corporate fraud have prompted the implementation of diverse measures aimed at safeguarding the interests of the investing public and the capital markets (Hanifah & Clyde, 2022). In 2002, the Sarbanes-Oxley Act was passed by the U.S. Congress, and concurrently, the American Institute for Certified Public Accountants (AICPA) issued the Statement on Auditing Standards (SAS) No. 99, which pertains to the examination of fraud in financial statements (Majidah & Aryanty, 2022). The objective is to augment the precision and dependability of financial reporting and disclosure carried out by corporations.

Larum et al (2021) reported that the Middle East and North Africa region had the highest proportion of financial statement fraud cases, with Sub-Saharan Africa following closely behind (Sukmadilaga et al, 2022). The impact of financial statement fraud is extensive, affecting various stakeholders such as investors who are misled by inaccurate representations of performance (Papík & Papíková, 2022), employees whose job security and retirement benefits are jeopardized when fraudulent activities are exposed within the organization, and the broader society, whose confidence is undermined by leaders who fail to adhere to ethical standards (Oyewobi, 2022). Irrespective of the underlying intention, financial statement fraud engenders issues for extant and prospective investors and shareholders (Hanifah & Clyde, 2022). The consequences of such actions may lead to significant harm to one's reputation on a broad scale, as well as severe penalties from regulatory bodies. According to Harman et al. (2020), the detection of financial statement fraud is primarily the responsibility of company management. As per Papík and Papíková (2022), auditing standards dictate that auditors bear the responsibility of attaining a reasonable assurance that financial statements are free from misstatement, whether caused by error or fraud.

Chigudu (2020) has identified that within the Zimbabwean manufacturing industry, the primary form of financial statement fraud involves the fabrication of revenue, inaccurate asset valuation, and inappropriate expense recognition. The manufacturing industry faces a significant challenge with regards to deception in financial reporting, as noted by Mubako and Muzorewa (2019). Effective intermediation in the day-to-day operations of manufacturing companies is expected to be characterized by accountability, fairness, and transparency by both shareholders and the public (Otekunrin, Matowanyika, Munyoro, Doma & Ibitoye, 2022). According to Ramadhani et al. (2022), the prevalence of financial statement fraud and subsequent corporate collapses can be attributed to unethical managerial choices and deliberate concealment by prominent accounting firms. The study was motivated by the need to investigate the effects of financial statement fraud on the performance of the manufacturing industry in Zimbabwe.

Statement of the problem

The manufacturing industry in Zimbabwe is expected to uphold accountability, fairness, and transparency. However, there is a prevalent issue of financial statement fraud that persists, resulting in the misrepresentation of a company's financial status. As per the audit conducted by the parent company Tongaat Hullet (2020), it has been revealed that the executives at Hippo Valley and Triangle estates engaged in overstating sugar sales with the intention of fulfilling targets and obtaining bonuses. According to the PwC inquiry, there were financing agreements in place at Hippo and Triangle that were designed as sales of substantial sugar stocks. These transactions were recorded as sales biannually, specifically during the financial mid-year and end-of-year periods. Tongaat made a request for the suspension of its shares on the Johannesburg Stock Exchange in June, subsequent to the discovery that its financial outcomes for the period spanning March 2017 to March 2018 had been overstated by an amount ranging from R3.5 billion to R4.5 billion. The present study investigates the effects of financial statement fraud on the operational efficacy of the manufacturing sector in Zimbabwe, given the contextual background.

Aim of the study

The study is aimed at exploring the impact of financial statement fraud on the organisational performance of the manufacturing industry in Zimbabwe.

Objectives of the study

1. To determine the types of financial statement fraud in the sugar manufacturing industry in Zimbabwe with Tongaat Hullet as a case study
2. To identify the factors that contribute to financial statement fraud at Tongaat Hullet
3. To determine the impact of financial statement fraud on organisational performance of Tongaat Hullet
4. Provide recommendations to the sugar manufacturing industry in Zimbabwe based on study findings for best practises in financial handling

Research Questions

1. What are the types of financial statement fraud in the manufacturing industry in Zimbabwe?
2. What are the factors that contribute to financial statement fraud in the manufacturing industry in Zimbabwe?
3. What is the impact of financial statement fraud on the organizational performance of the manufacturing industry in Zimbabwe?
4. What are the recommendations that can be given to the sugar manufacturing industry for best practises in financial statement handling?

Significance of this study

The study holds pragmatic significance as it aims to provide valuable insights and information to investors, shareholders, senior employees, and management in the manufacturing industry, as well as policymakers who are concerned with mitigating financial statement fraud. In the manufacturing sector, shareholders, management, and investors require specialized expertise in addressing financial statement fraud. Through this approach, shareholders have the potential to enhance their overall organizational performance. This study aims to add to the current body of literature by investigating the relationship between financial statement fraud and organizational performance specifically in the manufacturing sector of Zimbabwe. It is noted that there is a dearth of research in this area, hence the significance of this study.

Assumptions

It is postulated that financial statement fraud exerts an impact on the operational efficacy of the manufacturing sector in Zimbabwe.

• The sample will yield a reliable representation of the population being examined. • The manufacturing firms being studied will not undergo liquidation throughout the research period.
• The response rate for the research instruments is expected to be substantial, enabling the researcher to obtain comprehensive, precise, and pertinent data, thereby facilitating the derivation of valuable conclusions.

Delimitations of the study

The study focused on the theoretical delimitations pertaining to the influence of financial statement fraud on the operational efficacy of the Zimbabwean manufacturing sector, specifically those entities that exclusively engage in trading on the Zimbabwe Stock Exchange. The research was underpinned by the Fraud Triangle Theory. The aforementioned theory holds significance in elucidating and comprehending matters pertaining to the interconnection between financial statement fraud and organizational performance. With regards to methodological boundaries, the investigation employed a quantitative research methodology. With regards to participant sampling for the study, the researcher employed a combination of stratified and simple random sampling techniques to select individuals who possessed a high level of familiarity with the subject matter being investigated.

Limitations of the Study

Due to the inherent characteristics of the research, it is possible that certain respondents may deliberately omit, exaggerate, or downplay certain issues, resulting in a potential challenge in obtaining accurate or relevant information. The issue of reliance on collected documents and desk research is a common challenge encountered in social science research. There is a possibility that the participants could misconstrue the underlying purpose of the investigation, leading to a hesitancy to disclose crucial data for the study. In order to mitigate the aforementioned constraint, the researcher implemented measures to ensure the privacy and confidentiality of participants' information. This was achieved by incorporating a non-disclosure clause within the cover letter of the research.

Organisation of study

The present investigation was structured into five distinct chapters. The first chapter of the research serves as an introductory section, while the second chapter, known as the Literature Review, provides a comprehensive analysis of the existing literature relevant to the study. The literature that underwent review was utilized in the process of critically analysing the findings of the study. The third chapter of the document, which is the methodology section, expounded on the approach utilized in carrying out the research. The fourth chapter of the dissertation entails the presentation and discussion of the research results. Chapter 5 explicated the deductions and suggestions of the investigation that were directly inferred from the research outcomes. Moreover, the chapter put forth the proposed domain for additional investigation.

Chapter Summary

The chapter provided an overview of the study's context, identified the research problem, outlined the research objectives and questions, stated the research assumptions, and discussed the study's significance. The study's delimitations and limitations were also addressed. The forthcoming chapter will centre on the existing body of research conducted by other scholars pertaining to the topic being investigated.

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CHAPTER 11

LITERATURE REVIEW

Introduction

The present chapter aims to conduct a literature review, commencing with an overview of essential terminologies, encompassing financial fraud. The forthcoming chapter will provide an in-depth analysis of the variables that contribute to financial statement fraud. An examination of the Fraud Triangle Theory as a potential contributing factor will also be conducted. This chapter aims to analyse the effects of financial statement fraud on the manufacturing sector's organizational performance, with a focus on highlighting its impacts. A comprehensive examination of the existing body of scholarly literature will be conducted. The forthcoming chapter will explicate the evolution of a theoretical framework grounded in agency theory, which subsequently culminated in the formulation of the conceptual theory.

In this section, we will provide an overview of financial statement fraud.

The definition of financial statement fraud has been subject to variation among scholars and professionals in the field. The subsequent are instances of general definitions of fraud:

Malan (2020) authored an entry in Encyclopaedia Britannica.

In legal terminology, fraud is defined as the intentional distortion of factual information with the aim of causing harm to an individual's valuable assets.

Mirfazli (2019) consulted the Merriam Webster Unabridged dictionary.

The deliberate distortion of reality with the aim of persuading someone to relinquish a valuable asset or forego a lawful entitlement.

According to Chenguel (2023), the Oxford English Dictionary is a reputable source of information.

The act of criminal deception involves the utilization of deceitful tactics to gain an unfair advantage or cause harm to the rights or interests of another individual.

There is no single definition of financial statement fraud. The rationale behind this is that, up until a recent point in time, the aforementioned term had not been explicitly delineated. According to Isa (2011), intentional mistakes and irregularities are the terminologies employed by the accounting profession. Fraud is a multifaceted action that encompasses a range of meanings. It is a cunning approach employed by individuals to derive benefits through deceptive means. The key components of fraud include a misrepresentation of significant facts that are untrue and accepted as true, resulting in harm to the victim. According to Widiyatmoko (2021), the deliberate act resulting in material misstatement within financial statements constitutes financial statement fraud. Sihombing and Rahardjo (2014) conducted a study during the same period. Fraudulent financial statements refer to the deliberate or inadvertent misrepresentation of financial information that deviates from the standard accounting principles widely accepted in the industry. The presence of negligence or intent holds significant materiality as it has the potential to impact the decision-making process of relevant stakeholders. As per the guidelines outlined in the Australian Audit Standard (AUS) as expounded by Mirfazli (2019), financial reporting fraud refers to the deliberate manipulation of financial statements, which may involve the exclusion of relevant information or disclosure of inaccurate amounts, with the aim of misleading financial statement users.

Factors that contribute to financial statement fraud in manufacturing industries

Financial statement fraud can be attributed to various factors such as pressure, opportunity, and other contributing factors. This section presents an exposition of several factors that are instrumental in the occurrence of financial statement fraud.

The Fraud Triangle Theory

The fraud triangle, as a reference tool for detecting the causes of fraudulence, was introduced by Cressey in 1953, as cited in Toit and Vermaak (2015). Fraud can be attributed to three distinct factors, namely:

A. Pressure

According to Shelton's (2014) assertion, individuals may be motivated to engage in fraudulent activities, such as financial fraud, due to the pressure they experience, such as financial burdens. The concept of pressure can also be characterized as the deliberate or impulsive inclination of an individual who has been compelled to engage in unlawful activities. The phenomenon of pressure arises from a decrease or volatility in the financial state of an organization, which can be instigated by economic circumstances, market fluctuations, or the actions of the organization itself. This situation can provide individuals with an opportunity to engage in fraudulent financial reporting, as noted by Tsegba and Upaa (2015).

B. Opportunity

Opportunity can be regarded as a facilitating factor that contributes to the commission of a criminal act. The reduction of opportunity is a crucial factor in combating fraud, and can be achieved through the implementation of protocols, systems, and measures aimed at early detection of fraudulent activities, among other strategies. According to Sadka (2006), it is imperative for companies to implement effective processes, procedures, and controls, as well as strategically assign employees to specific roles, in order to mitigate the risk of employee fraud. These measures have also been found to be efficacious in detecting fraudulent activities.

C. Rationalisation

According to Skousen et al. (2008), rationalization constitutes the third component of the fraud triangle, and it is considered the most challenging to quantify. The adoption of a rationalization mindset enables an individual to engage in acts of academic dishonesty while perceiving such behaviour as morally permissible. According to Frimpong, Ameyaw, and Osei-bonsu (2019), individuals who engage in financial statement fraud are capable of consistently justifying their fraudulent actions in accordance with their ethical principles.

According to the report submitted by the Association of Certified Fraud Examiners (ACFE) to the Nations, the fraudulent financial statement (FSF) is a deliberate scheme perpetrated by an employee to manipulate the financial reports of an organization. This manipulation involves the intentional misstatement or omission of material information such as recording fictitious revenues, understating reported expenses, or artificially inflating reported assets (Gipper, 2021). The primary objective of the FSF is to engage in the intentional manipulation of financial statements through the inclusion of false information or the omission of relevant financial data or disclosures. This is done with the intention of misleading users of financial statements, particularly those who invest in or lend to the organization. The existing body of literature links the reasons for FSF to various factors such as the desire to avoid reporting losses or overstated performance, meet the expectations of security analysts, increase stock prices, and generate demand for new issues, comply with listing requirements or prevent delisting by stock exchanges, and trigger performance-based compensation or earn-out payments, among others (Chenguel, 2023).

Researchers have emphasized the significance of an unethical corporate culture in the context of FSF. They argue that a corporate culture that prioritizes profits and stock prices can create an atmosphere where managers feel compelled to generate favorable financial statements. Consequently, they are more prone to misrepresent the financial status of the organization (Sanjayyana and Lpi, 2021). The ramifications of FSF have been classified into four primary categories in research studies. The consequences associated with engaging in Financial Statement Fraud (FSF) can have significant impacts on the firm, including but not limited to increased litigation costs, civil penalties, bankruptcy, economic losses, disruption of normal operations, decreased market capitalization, delisting from stock markets, heightened regulatory scrutiny, and loss of credibility. (Chavan, Ganesh, & RK, 2018).

The subsequent set of repercussions pertains to the capital market and encompasses the erosion of trust among market participants and the reduced efficacy of the capital market due to the compromised dependability of financial information (Mawanza, 2018). The third category of ramifications pertains to the individuals who engage in Financial Statement Fraud (FSF), including senior management, mid-level and lower-level employees, and organized criminals. The impact of FSF on individuals is characterized by detrimental consequences, including professional ruin such as legal prosecution and employment termination. The fourth category pertains to the field of accounting, which is characterized by the notable decline in public trust in the financial reporting process. This is further compounded by the negative perception of the auditing profession's integrity and objectivity, particularly with regards to auditors and auditing firms. As a result, there has been a gradual erosion of public confidence and trust in the accounting and auditing profession.

Hosho, Matowanyika, and Chinoda (2013) and Agbaje (2018) conducted a prominent study on the effects of FSF on corporations and individuals, which was funded by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The emergence of alleged frauds resulted in notable abnormal declines in the stock prices of companies. The study revealed that the mean stock price of fraudulent companies experienced a statistically significant decline of 16.7% during the two-day period encompassing the initial press releases pertaining to the purported fraudulent activities. Handoko et al. (2020) have observed that fraudulent activities and investigations have resulted in adverse stock market reactions and long-term consequences for fraudulent firms, such as bankruptcy, delisting from national exchanges, and significant asset sales.

According to the findings, 28% of fraudulent companies experienced bankruptcy or liquidation within two years of the year in which the SEC released the final Accounting and Auditing Enforcement Releases (AAERs) pertaining to the fraud. Additionally, 47% of these companies were delisted from a national stock exchange. According to Min, Moradinaftchali, and Piri (2019), the sale of material assets had an impact on approximately 62% of fraudulent companies. The incidence rates observed in the aforementioned time periods were found to be significantly greater in firms that experienced fraud as compared to those that did not encounter any fraudulent activities.

The purportedly implicated individuals were discovered to face severe repercussions in connection with the ramifications of FSF. In 47% of instances, the Securities and Exchange Commission (SEC) imposed a prohibition on one or more individuals from holding the position of an officer or director in a publicly traded corporation. In 65% of the fraud cases, civil fines were levied, while disgorgements were imposed in 43% of the cases. In contrast to the methodology employed by Beasley et al. (2010), which relied on reported consequences of financial statement fraud (FSF), the present study adopts an exploratory approach that prioritizes the perspectives of key stakeholders, namely professional and academic accountants, regarding the consequences of FSF (Hosho, Matowanyika, & Chinoda, 2013).

Financial statement fraud in the manufacturing sector

This study aims to investigate the potential prevalence of deceptive financial statements among registered companies in Nigeria. The research examined a total of 212 officially registered companies in the year 2007. Frimpong, Ameyaw, and Osei-bonsu (2019) established a correlation between monetary scam communication and inadequate internal control mechanisms through their research. The author advocates for the reinforcement of the internal control system. Ikpefan (2006) conducted a study on the escalation of financial scams and their impact on the financial industry. The findings revealed that financial scams have experienced a surge in recent times, with a rise from ₦3399.39 billion in 1994 to ₦8,309.83 billion in 2004, indicating a 350% increase (Oloruntoba, 2018). The research findings indicate that financial institutions have declined to implement essential regulations and effective control systems across all facets of their banking operations, resulting in repeated occurrences of financial fraud. Therefore, the research suggests that financial institutions should strengthen their internal operational procedures by employing professionals to enhance public trust in the sector (Oloruntoba, 2018).

In 2009, Dabor and Adeyemi conducted a study on the public management and integrity of monetary reports in East Africa. The study utilized both primary data from 240 respondents and secondary data from quoted companies in the region. According to Tsegba and Upaa (2015), adherence to corporate governance and regulatory frameworks by the board of directors can enhance the credibility of financial statements. This can be achieved by continuously evaluating the benefits in relation to financial exposure.

The study conducted by Ogbonna and Ebimobowei (2012) investigated the impact of principled financing standards on the monetary reports' worth in the Nigerian banking system. The study utilized both original and calculated data, as reported by Oloruntoba (2018). The data underwent analysis through the application of econometric models, including diagnostic checks such as ADF, OLS, and Granger causality estimation. The research findings suggest that adherence to principled financing standards has a significant impact on financial reporting within the banking industry of the nation. According to Agbaje's (2018) study, it is recommended that financial professionals who are responsible for handling monetary information adhere to the principles and regulations of their field.

The analysis of fraud in banks was examined by Olaoye and Dada (2014). This study focuses on a comprehensive analysis of the environment, underlying reasons, potential consequences, discovery methods, and preclusion measures associated with financial scams in the economy. The study's authors assert that implementing effective internal management measures is imperative in preventing financial fraud. Additionally, they recommend acknowledging and rewarding individuals who exhibit high levels of integrity, while minimizing the frequent termination of financial employees. According to Agbaje's (2018) study, it is recommended that individuals who engage in fraudulent activities should be subject to punitive measures.

Shehu and Abubakar conducted a study in 2012 on public management, revenue generation, and monetary activities in the manufacturing sector, as referenced by Oloruntoba in 2018. According to the study, there was a consensus among financial and fiscal experts that public management has an impact on both monetary performance and the behaviour of company administrators. The study elucidated that the configuration of the managerial framework has an adverse impact on the tangible output of the organization. The research suggests that recognition of senior employees ought to be linked to their job performance and not be utilized as a means to incentivize management to manipulate financial records or exaggerate its effects (Oloruntoba, 2018).

A study conducted by Ryerson (2009) investigated the phenomenon of improper capitalization and its impact on earnings management. This study centres on contemporary monetary transgressions, as it is feasible to overlook numerous established methodologies employed in perpetrating fraudulent activities within the financial industry. During the period spanning from 1997 to 2002, the Security and Exchange Commission conducted an investigation which revealed that the manipulation of revenue figures by authorities was a prevalent fraudulent activity. While the report acknowledged that a significant portion of abuse pertains to the recognition of unearned revenue, it also identified instances of recognizing expenses that were not incurred. The research suggests that it is imperative to prioritize appropriate techniques for managing earnings to prevent any form of manipulation (Isa, 2011).

A particular study has closely examined the correlation between financial statement fraud and the profitability of the manufacturing industry. A study conducted by Afolabi (2013) examined the impact of monetary communication on investors' decision-making processes in the country, as referenced by Oloruntoba (2018). The study placed emphasis on the role of monetary communication in influencing the decision-making process of investors. However, it did not delve into the issue of financial statement fraud, including fictitious revenue, incorrect asset valuation, and improper expense recognition. The researcher is deeply concerned that the previous literature and studies have failed to utilize established models for the identification of financial statement fraud within the manufacturing sector. Chavan, Ganesh, and RK (2018) conducted a study on the environment, scope, and influence of scams on the income generated by financial institutions in Nigeria. Meanwhile, Aburime (2009) investigated the effects of corruption on financial profitability in the country.

According to Ogunleye (1995), return on asset (ROA) has the potential to serve as a reliable indicator of profitability (Chavan, Ganesh, & Rk, 2018). Furthermore, it has been observed that numerous scholarly works, such as Intal and Do (2002), have extensively addressed the topic of fraud and financial statement fraud. However, none of these studies have successfully employed established models to effectively detect such fraudulent activities in the financial statements of the manufacturing sector. The present study has identified numerous variations of fraud and financial statement fraud. According to Sanjayyana and Lpi's (2021) research, fraudulent activities in financial statements can be attributed to non-compliance with corporate governance principles. The study conducted by Sadka (2006) and Abri, Arumugam, and Balasingam (2019) is grounded on the premise that professional ethics serves as the underlying cause for the occurrence of distorted financial statement fraud.

Impact of financial statement fraud on organisational performance

According to Yuniasih, Muliati, Ni Ketut, Cokorda, Bayu, Ayu, Ida, Sasmita, and Madeet (2020), the manufacturing industry is considered to be the fundamental basis for the growth of the productive sector within an economy. According to Adebayo (2011), the sector in question pertains to industries that engage in the production of novel commodities or the enhancement of existing ones. Mawanza (2018) has identified that the manufacturing industry's primary financial statement fraud involves the fabrication of revenue, inaccurate asset valuation, and inappropriate expense recognition. The study posits several fundamental principles or assumptions. Firstly, there exists an inverse relationship between financial statement fraud and profitability. Specifically, as the profitability of companies increases, the incidence of financial statement fraud decreases, and vice versa. Secondly, factors that exacerbate financial statement fraud are also responsible for low levels of company profitability. Thirdly, financial statement fraud is implicitly aimed at increasing the profitability of companies, which in turn translates into investment in projects and programmes that enhance the operations of productive sectors and ultimately reduce the rate of financial statement fraud. These principles were outlined by Abri, Arumugam, and Balasingam in 2019.

The present study aims to examine the effects of financial reporting fraud on the profitability of the manufacturing sector. The issue of deceitful practices in financial reporting poses a significant obstacle to the manufacturing sector as a whole (Magnanelli, Pirolo, & Nasta, 2017). Effective intermediation in manufacturing companies requires accountability, fairness, and transparency in their daily operations to meet the expectations of both shareholders and the public. The study's researcher noted that instances of financial statement fraud and subsequent failures have been prevalent in recent times and can be attributed primarily to unethical managerial choices and deliberate concealment by prominent a ccounting firms. Despite the existence of documented instances of fraudulent activities in the manufacturing sector, a significant inquiry that remains unresolved pertains to the characterization and diverse modalities by which financial reporting fraud can be executed within this industry (Albrecht & Empresas, 2008). Fictitious revenue, incorrect asset valuation, and improper expense recognition have been identified as the primary forms of financial statement fraud in the manufacturing sector. The literature, as presented by Everette (2012), Arunkuma (2015), and Odunayo (2014), has identified five distinct forms of financial reporting fraud, namely: fictitious sales, misclassification of expenses, inaccurate property valuation, undisclosed debt, and inadequate disclosure. These findings have been corroborated by Senvar and Hamal (2022). According to Mirfazli (2019), the manufacturing industry frequently experiences financial statement fraud, with the top three types being those mentioned above.

According to the findings of the 2010 report by the Association of Certified Fraud Examiners in East Africa, monetary reporting fraud accounts for approximately 5% of reported fraud incidents. However, it is considered to be a costly form of fraud due to the significant losses incurred, with an average of 1.7 million dollars per occurrence, as noted by Agbaje (2018). The apprehension of a potential collapse of the market system due to the inflation of profits is realized by means of revenue manipulation, incorrect asset valuation, and inappropriate expense recognition. The measure of profitability is anticipated to indicate the level of success of a business. Manipulation of variables such as revenue, asset valuation, and expense recognition can impede the generation of profit. This is expected to significantly influence the dependability of profit as a metric for evaluating performance. Hence, it is imperative to conduct an assessment to verify the effects of financial statement fraud on the profitability of the manufacturing industry in Nigeria. The present study aims to address a gap in the literature by investigating the effects of financial statement fraud on the performance of organizations in Zimbabwe, with a particular focus on a selected manufacturing industry.

Theoretical framework

Fraud Diamond Theory

Mirfazli (2019) reports that Wolfe and Hermanson (2004) have introduced a capability component to the three conditions identified by Cressey (1953) as determinants of fraudulent behavior. According to Wolfe and Hermanson's (2004) argument, the perpetration of fraud necessitates the presence of individuals possessing the requisite skills and abilities to execute every aspect of the fraudulent scheme. The concept of competence or capability, as posited by Harman (2020), denotes the ability of fraudsters to circumvent internal controls within their organization, employ sophisticated misappropriation strategies, and manipulate social circumstances to their advantage by persuading others to comply with their demands. Marks (2012) is cited. The manifestation of arrogance is characterized by an individual's belief in possessing a sense of superiority in terms of entitlements, leading to a disregard for internal regulations and organizational policies.

Agency Theory

Jensen and Meckling (1976) defined agency theory as a contractual relationship in which one or more individuals (the principal(s)) enlist the services of another individual (the agent) to perform a task on their behalf, which entails the delegation of decision-making power to the agent (Tsegba & Upaa, 2015). It means, “Agency relationship as a contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making to the agent”. The relationship between principal and agent, specifically capital owners and capital managers or corporate management, is often characterized by information asymmetry. This asymmetry can give rise to a conflict of interest, wherein the interests of the principal and agent are misaligned. The phenomenon of conflict of interest arises due to divergent interests between the principal and the agent. The principal seeks to direct the agent's actions in accordance with their own preferences, while the agent seeks to act in a manner that maximizes their own utility (Magnanelli, Pirolo, & Nasta, 2017). Therefore, with the presence of asymmetry between the management (agent) and the owner (principal), it gives the opportunity to the manager to conduct earnings management in order to maximize his/her utility.

Conceptual framework

The present research adopted the theoretical framework of agency theory. The detailed structuring of the framework is shown below.

The Effect of Pressure on Fraudulent Financial Reporting

Pressure is a state in which an individual engages in fraudulent behaviour due to the existence of external or internal stressors. The present study employs proxies derived from three broad categories of conditions, namely financial stability, external pressure, and financial targets.

The Impact of Opportunity on Fraudulent Financial Statements.

Opportunity refers to a circumstance in which an individual engages in deceitful behaviour due to the availability of favourable conditions. This study projects the potential opportunities inherent in industries that involve significant estimation and consideration of risks. According to Ardiyani and Utaminingsih's (2015) research, the variable of nature of the industry with inventory proxy does not exhibit any significant impact on financial statement fraud, as noted by Handoko et al. (2020).

The impact of rationalization on fraudulent financial reporting.

Rationalization refers to the manifestation of attitudes, traits, or a set of moral principles that enable certain individuals to engage in deceitful behaviour. Mawanza (2018) posits that the total accrual ratio variable can serve as a means of characterizing rationalization pertaining to the implementation of the accrual principle by organizational management. The term "total accrual" refers to the sum of all accruals that are recorded within a specified period. The calculation of total accrual involves the deduction of cash change, depreciation cost and amortization, deferred income tax, and the addition of capital from the current asset change and short-term debt change, as well as the subtraction of the current obligation change.

The impact of capability on the production of fraudulent financial statements.

The possession of capabilities by an individual within an organization can impact the likelihood of fraudulent activities being carried out. The present research will employ the alteration of directors as a means of assessing organizational capabilities. The replacement of directors may constitute a strategic measure undertaken by the organization to enhance its operational effectiveness. The occurrence of changes in directors necessitates a period of adjustment to a novel cultural environment, which may result in diminished performance effectiveness. Mirfazli (2019) employed the alteration of directors as a means to gauge the potential for scrutinizing indications of fraudulent financial statement incidence, which may result in a period of stress that amplifies the likelihood of fraudulent activities.

The impact of arrogance on fraudulent financial reporting.

The concept of managerial ownership refers to a scenario in which a manager holds corporate shares, thereby assuming the dual role of both a manager and a shareholder (Harman, 2020). The ownership of certain shares by corporate management has the potential to influence the decision-making process regarding the disclosure of the financial performance of the corporation. The phenomenon may lead to a sense of arrogance among the management, wherein they perceive themselves to be exempt from internal controls due to their elevated status and position.

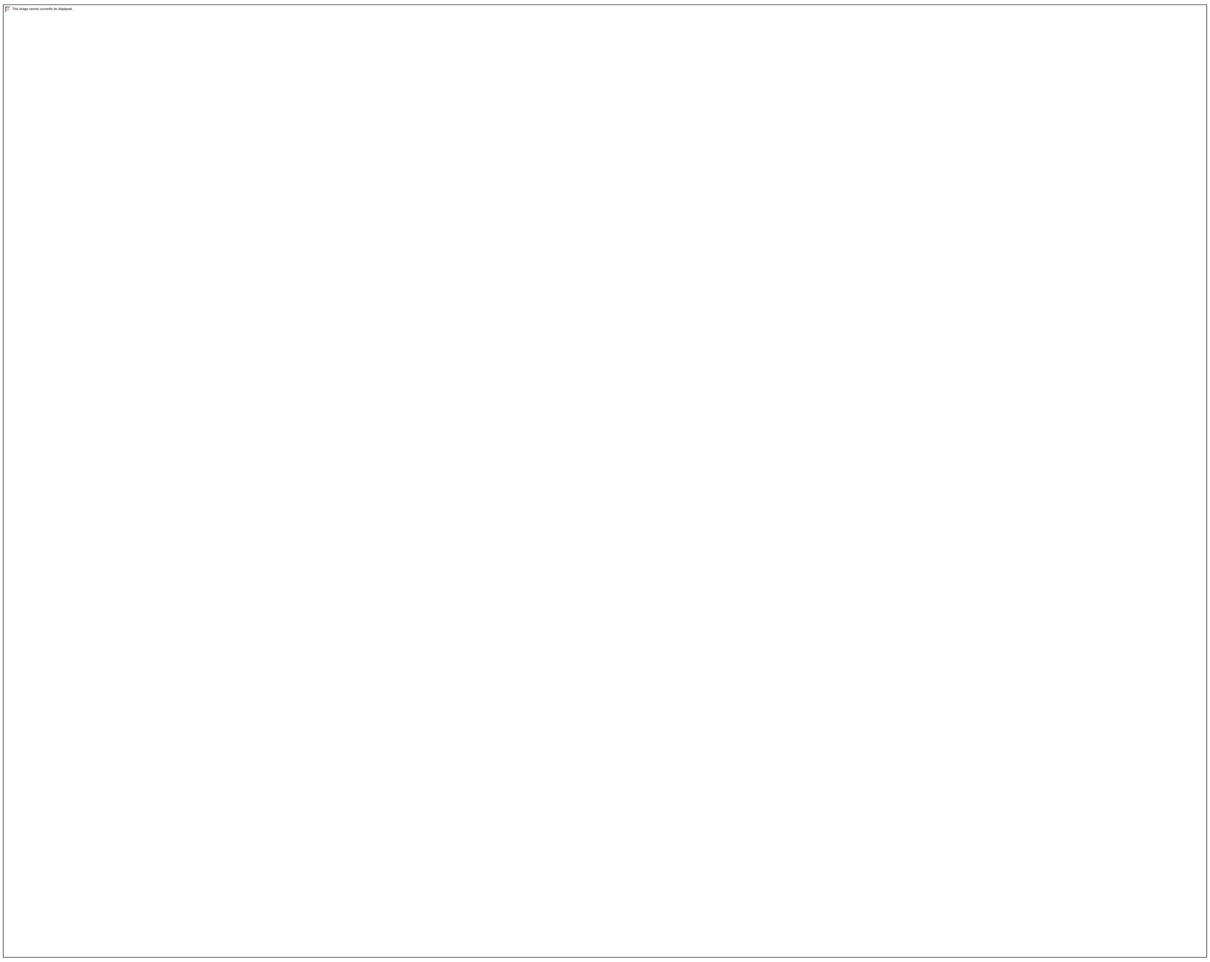

Figure 0.1 Framework developed by Author

Chapter Summary

The chapter gave a clear overview of financial statement fraud and its effect on organisational performance. The chapter reviewed related literature on the impact of financial statement fraud in the manufacturing sector. A conceptual framework was also developed.

CHAPTER 111

RESEARCH METHODOLOGY

Introduction

The present chapter outlines the methodology employed by the researcher, which is aligned with the objectives stated earlier. The methodology encompasses the research strategy employed, the methods of gathering data (both primary and secondary), and the verification of the research findings' validity and reliability.

Research Design

The identification of a research design in a study holds significance as it conveys crucial information regarding fundamental aspects of the study that may vary across qualitative, quantitative, and mixed methods. The research employed a qualitative design methodology. The primary objective of qualitative research methods is to uncover and comprehend the experiences, viewpoints, and cognitions of participants. In other words, qualitative research endeavours to investigate the meaning, intention, or authenticity of a given phenomenon (Hiatt, 1986). Qualitative research is a methodology employed to investigate and comprehend the significance that individuals or groups attribute to a social or human predicament. The research process entails the formulation of inquiries and methodologies, the collection of data usually within the participant's environment, the inductive construction of general themes from particulars during data analysis, and the researcher's interpretation of the data's significance. The structure of the final written report is adaptable. Advocates of this mode of investigation endorse a research approach that values an inductive methodology, prioritizes individual interpretation, and recognizes the significance of accurately representing the intricacy of a given circumstance (adapted from Creswell, 2007). During the 1990s and into the 21st century, the various approaches and their respective quantities in qualitative research have become more discernible. The researcher opted for a case study methodology to investigate a phenomenon within the confined parameters of Tongaat Hullet. Case studies are a methodological approach employed by researchers to conduct in-depth investigations into a program, event, activity, process, or one or more individuals. According to Stake (1995), cases are delimited by both temporal and activity-related parameters, and scholars gather comprehensive data through diverse data collection methodologies over an extended duration. According to Hadidi (2017), a case study is a research design that is descriptive in nature. The utilization of a case study is limited in its ability to definitively determine causality, but rather serves as a means to gather data pertaining to the present state of a phenomenon and to elucidate the variables or conditions that were present in the given scenario. This study employed a case study methodology, with Tongaat Hullet serving as the specific case under investigation. The utilization of this technique facilitated the restriction of the scope of investigation pertaining to financial statement fraud, which is a considerably extensive area of study, to a limited number of easily researchable subjects. The utilization of a case study design by the researcher involved the application of a qualitative methodology, which was supported by a diverse range of sources, including a literature review.

Population

According to Prabhat and Pandey (2015), the population is defined as the complete group of individuals or objects that meet a specific set of criteria that is relevant to the researcher's investigation. As per Yin (2011), the researcher aims to draw inferences from a specific subset of the population, which is referred to as the target population. The study's target population primarily comprised of the employees and managerial staff of Tongaat Hullet, as defined by the provided criteria. The Zimbabwean region exhibits a diverse range of characteristics, prompting the researcher to employ a stratified sampling technique in order to ensure precise and accurate selection of the population.

Sampling

Sampling is a process that entails the selection of multiple study units from a specified study population. According to Polit and Beck's (2008) definition, a research sample refers to a subset of a larger population from which data is gathered and inferences are drawn, as highlighted by Gipper (2021). The study employed a stratified random sampling technique to select the participants for the survey, who constituted the sample for the research. Sampling is a commonly utilized technique in research due to the impracticality of working with entire populations of interest, which are often too large to manage and may present cost, time, and resource constraints (Harman, 2020). The utilization of the stratified random sampling method is categorized as a probability sampling technique, as per Bobbie's (2007) definition. This method ensures that each member of the population has an equal opportunity of being chosen for inclusion in the study sample. The determination of the total sample size was based on the Taro Yamane formula (1967).

$$n = \frac{N}{1 + N(e)^2}$$

The variable "n" represents the intended sample size for the designated population. The variable N denotes the population size, which is equivalent to 100 employees at Tongaat Hullet. The symbol "e" denotes the level of statistical significance, which is typically set at 0.05. Therefore, the value of n can be calculated using the formula

n = 100/ 〖1+100(0.05^2) 〗 ,

Which results in a value of 80. To ensure precision, the research employed a sample size of 80 participants.

Research Instruments

Research instruments refer to tools or techniques used to collect data in research studies. These instruments can include surveys, questionnaires, interviews, observations, and experiments. The selection of appropriate research instruments is crucial to ensure the validity and reliability of the data collected. Researchers must carefully consider the strengths and limitations of each instrument and choose the most appropriate one for their research question and study design.

An 80-employee sample from Tongaat Hullet was subjected to a designed and administered questionnaire. According to Prabhat and Pandey (2015), a questionnaire is a tool utilized in research that comprises a sequence of typed inquiries designed to collect data from participants. The researcher selected a questionnaire survey as the preferred data collection method due to its ability to efficiently gather substantial amounts of information from a vast number of individuals within a brief timeframe and at a reasonable cost. The questionnaire was designed to include a combination of open-ended and closed-ended questions. The survey was structured into distinct sections, with the initial section (Section A) cantering on the demographic characteristics of the participants. Section B of the study was centred on the first objective, which pertained to the various forms of financial statement fraud that were observed at Tongaat Hullet. The main objective of Section C was to assess the influence of financial statement fraud on the operational effectiveness of the sugar manufacturing sector in Zimbabwe. The primary objective of Section D was to ascertain the determinants that give rise to financial statement fraud within the manufacturing sector of Zimbabwe. The preceding segment pertained to the issuance of suggestions to the Zimbabwean sugar production sector, predicated on research discoveries concerning optimal approaches to financial management.

Data collection procedure

The acquisition of data holds paramount importance in all forms of research. Researchers gather empirical data to establish the foundation of their work (Magnanelli, Pirolo, & Nasta, 2017).

Secondary data

Secondary data refers to information that has been previously collected by someone else for a different purpose and is being used for a new research study or analysis.

As asserted by Malan (2020), secondary data pertains to information that was originally generated for a different purpose than the one currently being addressed. This procedure constitutes the literature review. The utilization of secondary data was employed by the author as a basis for the conceptual framework. The utilization of secondary data also fulfilled the objective of depicting the circumstances surrounding the cases, as well as the debates among experts regarding them. In this study, the author primarily focused on external sources for the collection of secondary data, as opposed to internal sources. The utilized sources were Tongaat Hullet's annual reports. The publicly issued annual reports were deemed the most precise and official evidence to substantiate the analysis. In addition to other sources, such as primary data and interviews, articles and books were deemed valuable resources for obtaining information. Their contribution was pivotal in establishing the theoretical underpinnings, particularly with regards to the delineation of financial statement fraud.

Primary data

Primary data refers to original data that is collected directly from the source, rather than being obtained from secondary sources. It is typically gathered through methods such as surveys, interviews, experiments, and observations. Primary data is considered to be more reliable and accurate than secondary data, as it is collected specifically for the purpose of the research study and is not influenced by any previous interpretations or biases.

The author opted to employ questionnaires as a means of collecting primary data, after careful consideration of various options including observations and interviews, in light of the research problem at hand. The survey was disseminated through the utilization of Google forms, given that the personnel at Tongaat Hullet possess internet accessibility. The participants were allotted a time frame of one week to complete the questionnaire. The researcher obtained consent from the participants through the HR department to ensure ethical considerations were met, thereby providing assurance of anonymity. The participants were informed by the researcher that the study was solely intended for academic pursuits.

Data Analysis Method

Descriptive statistics refer to the branch of statistics that involves the collection, analysis, and interpretation of data to describe and summarize the main features of a dataset. It is concerned with measures of central tendency, such as mean, median, and mode, as well as measures of variability, such as range, variance, and standard deviation. Descriptive statistics are commonly used in research to provide a clear and concise summary of the data, which can be useful for making informed decisions and drawing meaningful conclusions. Descriptive statistics offer a comprehensive summary or portrayal of the variables under investigation. According to Mawanza (2018), descriptive statistics pertain to techniques utilized for the purpose of categorizing, condensing, and exhibiting data in a manner that is more enlightening. Effective decision-making requires the concise and structured presentation of data. The purpose of this study was to conduct a descriptive analysis of the dependent variable, financial statement fraud, and the independent variables, which were the components of the fraud pentagon, namely, pressure, opportunity, rationalisation, capability, and arrogance. The descriptive analysis aimed to provide an overview and data description of these variables. Descriptive statistics offer a comprehensive summary of data, encompassing measures such as the mean, standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness, which provide insight into the shape and distribution of the data.

Evaluation of research.

Validity and reliability are crucial considerations in any research endeavour. Validity and reliability are essential tools for evaluating the credibility of research. Within this section, the author delineates the validity and reliability of the research through an explication of the research methodology employed.

Validity

Validity refers to the degree to which a measuring instrument is free from "non-random error" when applied. The term "non-random error", which is also known as "bias", pertains to a measuring instrument that causes a systematic biasing effect on the phenomenon being measured (Min, Moradinaftchali, & Piri, 2019). The impact of methodology on bias is a critical consideration in qualitative research. In order to enhance the validity of the research, the author placed significant emphasis on the utilization of qualitative tools within the methodology. The research methods employed encompass documentary sources and questionnaire-based investigations. With respect to the authenticity and reliability of documentary sources. With respect to the questionnaires' validity A preliminary investigation was conducted with proficient individuals in the domain of financial analysis. The survey questions were formulated after a comprehensive examination of the cases.

Reliability

The degree to which a measure is free from random error and provides consistent measurement across time and items within the instrument is known as its reliability. As per Mirfazli (2019), the reliability of a measure pertains to the instrument's ability to measure the intended concept consistently and accurately, thereby enabling the evaluation of the measure's quality. According to Mirfazli (2019), stability is demonstrated by exhibiting low susceptibility to situational changes. Meanwhile, consistency is evaluated based on the design of the research methodology. The research employed Cronbach's coefficient alpha as a measure of internal consistency to assess the reliability of the questionnaire items.

Chapter Summary

The author opted for a research design that combines a theoretical framework with descriptive and explanatory research, in accordance with the research questions outlined in Chapter 1. The study investigated information sources through the collection of primary and secondary data.

Primary data was gathered via questionnaires, while secondary data was obtained from literature sources. The author employed the case study method as a research approach, in accordance with the nature of the study. The examination of case studies facilitated comprehension of the problems in conjunction with the provided theories.

CHAPTER 1V

DATA PRESENTATION, ANALYSIS AND DISCUSSION

Introduction

The present chapter pertains to the examination of the data obtained from the questionnaires disseminated by the researcher. The chapter commences with an examination of response rate, followed by an analysis of demographics. The questionnaire items were described, and a Pearson correlation analysis was performed.

Response rate

The response rate was found to be contingent upon the nature of the questions posed, although all of the distributed questionnaires were ultimately retained, albeit some were only partially completed while others were completed in their entirety. The response rate achieved a maximum of 100%. The author has organized the partially completed responses in the following sequence.

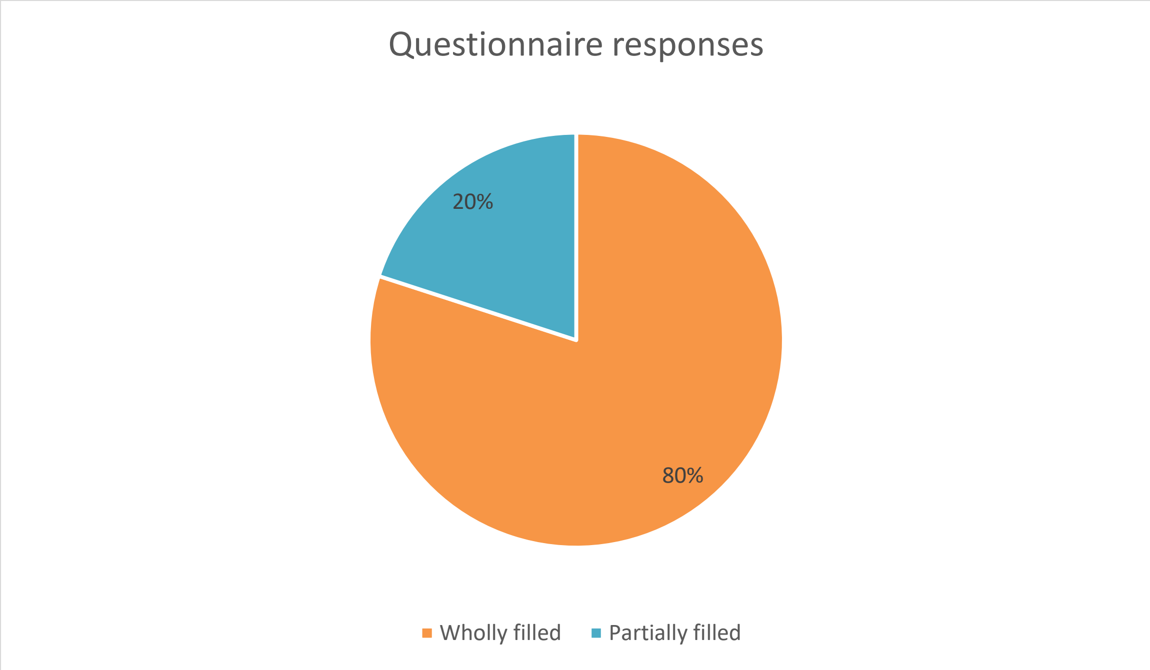

Figure 0.1 Pie chart showing the responses of the questionnaire

Demographics

The demographics section of the study encompassed pertinent details regarding the participants, such as their age, gender, educational attainment, and tenure in Tongaat Hullet. The findings are presented in the tables depicted below.

Gender

Table 0.1 Gender profile of the participants

		Frequency	Percent
	MALE	50	62.5
Valid	FEMALE	30	37.5
	Total	80	100.0

The data indicates a gender distribution of 62% male and 37% female, which aligns with Saunders' (2020) assertion that the study is appropriate given the male-dominated nature of the workplace at Tongaat Hullet. This indicates that the gender composition was appropriate for the research to be carried out.

Age

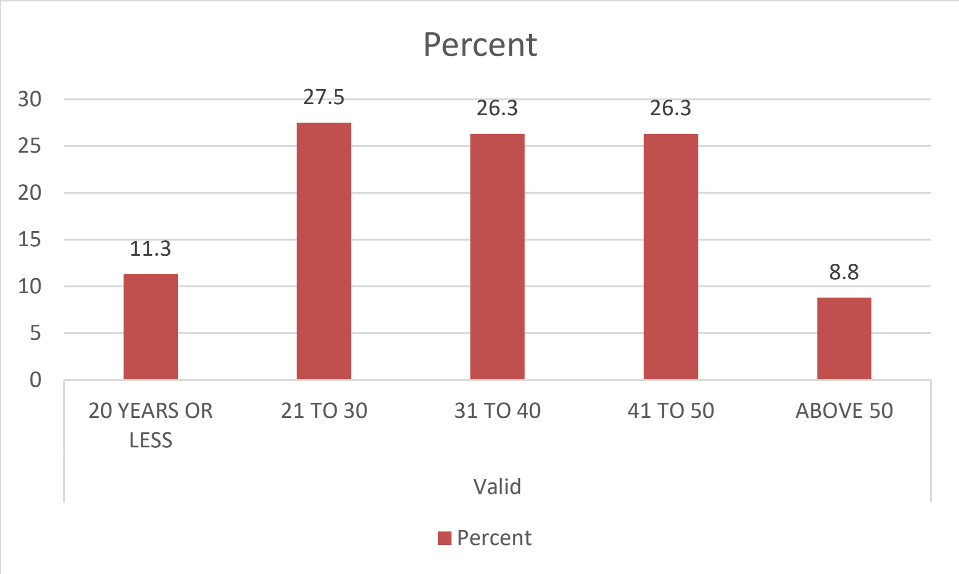

Figure 0.2 Age distribution of participants

The aforementioned table presents the categorization of individuals based on their age. Individuals who were younger than 20 years of age accounted for 11.3% of the sample, whereas those aged between 21 and 30 years constituted 27.5% of the population. Within the age range of 31 to 40, a proportion of 26.3% consisted of individuals who were above 50 years of age, while the percentage of individuals aged 50 years or older was 8.8%.

Level of education

Table 0.2 Level of education

		Frequency	Percent
Valid	Degree	24	30.0
	Masters	17	21.3
	Diploma	22	27.5
	Professional course	17	21.3
	Total	80	100.0

The participants were categorized based on their educational attainment at the time of the research, with the highest level achieved being considered. The findings are presented in the aforementioned table. Among the population under study, the proportion of individuals holding degrees was 30.0%. 21.3% of individuals who had completed professional courses were observed to have followed the number. Individuals possessing a master's degree constituted 21.3% of the sample, while those holding a diploma accounted for 27.5%. The participation rate for professional courses was found to be 21.3% among the participants. The heterogeneity of educational backgrounds among the participants facilitated the researcher's acquisition of insightful responses. One of the four "home" conditions identified by () as a potential explanation for the varying levels of competitiveness among countries was the optimal utilization of available resources, including both natural and human resources.

Work experience

Table 0.3 Table showing work experience of participants

		Frequency	Percent
Valid	below 5 years	7	8.8
	2 to 5	17	21.3
	5 to 8	36	45.0
	8 to 10	15	18.8
	above 10	3	3.8
	Total	78	97.5
Missing	System	2	2.5
Total		80	100.0

The presented table indicates that a proportion of 8.8% of the participants had a work experience of less than five years at Tongaat Hullet, whereas those who had worked between two to five years accounted for 21.3% of the sample. 45% of the individuals surveyed had been employed at Tongaat Hullet for a duration ranging from 5 to 8 years. The data reveals that a proportion of 18.8% of individuals fell within the age range of 8 to 10 years, while only 3.5% were above the age of 10. Additionally, a subset of 2.5% of participants were unable to accurately recall their age. The inclusion criteria for the study ensured that only individuals with prior affiliation to the company were selected, thereby minimizing the potential for biased responses (Mirfazli, 2019).

Statistical analysis

This section presents the descriptive statistics of the variables analysed, which include means, frequencies, and standard deviation. The section was categorized into Reliability, Inferential Statistics, Correlation, and Regression Analysis.

Reliability test

The Cronbach's alpha coefficient of consistency was utilized to conduct a reliability test. The findings indicating values exceeding 0.6 provide evidence of the internal consistency of the questionnaire items used in the study conducted by Frimpong, Ameyaw, and Osei-bonsu (2019).

Table 0.4 Reliability test for items on section B of questionnaire

Reliability Statistics for section B

Cronbach's Alpha	N of Items
0.774	8

The table is showing an alpha value of 0.774 which show that the items were consistent to check the forms of financial statement fraud that are prevalent at Tongaat Hullet.

Table 0.5 Reliability check for items on section C

Reliability Statistics for section C

Cronbach's Alpha	N of Items
0.95	8

An alpha value of 0.95 is well above the 0.6 mark meaning that items were consistent in checking the factors that contribute to financial statement fraud.

Table 0.6 Reliability for items on section D

Reliability Statistics for section D

Cronbach's Alpha	N of Items
0.814	8

The table is showing a coefficient of 0.814 implying the items on section D were consistent in checking the impact of financial statement fraud.

Descriptive statistics

This section outlines the researcher's methodology for capturing the various means of the items within each section. In order to address the research inquiries, the present investigation calculated the arithmetic average of the data collected from the Likert-type five-point "survey" instrument. According to Brian's (2014) findings, the scale used in the study was a 5-point scale. The mean values ranged from 1 to 2.33, indicating a state of disagreement, from 2.33 to 3.66, indicating a neutral position, and from above 3.66 to 5, indicating agreement with the assertion or item presented.

Objective 1: To determine the types of financial statement fraud in the sugar manufacturing industry in Zimbabwe with Tongaat Hullet as a case study

Table 0.7 Descriptive about objective 1

Descriptive Statistics			
	N	Mean	Std. Deviation
Cases of overstating revenue have occurred at Tongaat Hullet	80	2.15	.843
Fictitious revenue and sales have been reported happening	80	4.08	.776
Sales have been posted before they are made prior to payment	80	2.21	.910
The company has at some point overstated net income and retained earnings which inflated shareholders' equity	80	2.54	.980
Liabilities have been kept off the financial statements to inflate equity or assets	80	3.76	.846
There have cases of improper disclosures that include concealed liabilities with loans or warranties attached to sales	80	2.90	.773
Experiences of falsified expenses have occurred before with the company net income exaggerated	80	3.93	.897
Altered the statement to mask theft or embezzlement through double-entry bookkeeping	80	4.04	.934
Valid N (listwise)	80		

The table is showing that the participants did not agree Cases of overstating revenue have occurred at Tongaat Hullet (mean=2.15); Sales have been posted before they are made prior to payment *(mean 2.21). At a certain juncture, the corporation has engaged in the overstatement of both net income and retained earnings, leading to an inflation of shareholders' equity (mean=2.54). The study findings indicate that the participants reached a consensus regarding the occurrence of fictitious revenue and sales (mean=4.08), as well as the deliberate omission of liabilities from financial statements to inflate equity or assets (mean=3.76). Additionally, the participants reported instances of falsified expenses in the past, resulting in an overstatement of the company's net income (mean=3.93).

Objective 2: To identify the factors that contribute to financial statement fraud at Tongaat Hullet

Table 0.8 Descriptive of objection 2

	N	**Mean**	**Std. Deviation**
Financial instability	80	4.22	.927
External influence	80	4.50	.712

Nature of industry	80	4.31	.851
Loopholes in security	80	4.10	.963
Incompetency	80	3.84	.787
Total accruals	78	3.88	1.093
others are doing it	80	3.37	1.418
ownership management	76	3.04	1.399
Valid N (listwise)	74		

The aforementioned table was utilized to validate the variables that are responsible for perpetrating financial statement fraud. The results indicate that various factors are implicated in the perpetration of financial statement fraud at Tongaat Hullet, with the exception of Ownership management, which falls under the category of Arrogance, and the justification that others are engaging in similar behaviour, which falls under Rationalization. The results align with the research conducted by Sanjayyana and Lpi (2021), which identified the fraud theory encompassing pressure, rationalization, and opportunity as the primary contributors to financial statement fraud.

Objective 3: To determine the impact of financial statement fraud on organisational performance of Tongaat Hullet

Table 0.9 Descriptive on the impact of financial statement fraud on organisational performance of Tongaat Hullet

	N	Mean	Std. Deviation
The company faces reduction in sales	79	3.71	.819
The company clientele in reduced as others pull out	80	3.84	1.445
Bankruptcy or substantial economic losses	80	2.25	1.037
Devastation in the normal operations	80	4.13	.769
Drop in market capitalization	80	4.29	1.105
Diminished confidence of capital market due to poor profits realization	80	4.19	1.159
Huge pay-outs to shareholders who pull out	80	4.04	.803
Valid N (listwise)	79		

The tabular representation illustrates the impact of financial statement fraud on organizational performance. According to the participants, the company is experiencing a decrease in sales (mean = 3.7), a reduction in its clientele as others withdraw (mean = 3.84), disruption in its normal operations (mean = 4.13), a decline in market capitalization (mean = 4.29), a decrease in the confidence of the capital market due to poor profit realization (mean = 4.19), and significant pay-outs to shareholders who withdraw (mean = 4.04). The individuals expressed a lack of consensus regarding the impact of bankruptcy or significant economic losses, as indicated by a mean score of 2.25. For manufacturing companies, the most seen consequences include loss of public trust, drop in capitalization and devastation of normal operations. Therefore, these findings concur to the study by (Oloruntoba, 2018) and (Yuniasih et al., 2020).

Pearson correlation analysis.

The Pearson correlation coefficient was utilized by the researcher to

Table 0.10 Table showing the correlations between variables

Correlations

		Pressure	Arrogance	Rationalization	Opportunity	Capability	Performance
Pressure	Pearson Correlation	--					
Arrogance	Pearson Correlation	-0.062	--				
	Sig. (2-tailed)	.000					
Rationalization	Pearson Correlation	0.241	0.002	--			
	Sig. (2-tailed)	0.032	0.00				
Opportunity	Pearson Correlation	0.641	0.128	0.097	--		
	Sig. (2-tailed)	0.041	0.001	0.390			
Capability	Pearson Correlation	0.949	0.125	0.221	0.103	--	
	Sig. (2-tailed)	0.029	0.283	0.005	0.037		
Performance	Pearson Correlation	0.249	-0.253	0.213	0.690	0.345	--
	Sig. (2-tailed)	0.000	0.001	0.002	0.000	0.04	

The aforementioned table indicates a positive correlation between Tongaat's performance and rationalization of 21% at a significance level of p=0.032. Additionally, there is a positive correlation between opportunity of 69% with a p value of 0.000, capability of 34% with a p value of 0.04, and pressure of 24.9% with a p value of 0.00. The statistical significance of the correlations is indicated by the p-values. The sole negative correlation observed was for arrogance, with a magnitude of 25.3%, and was found to be statistically significant at a p-value of 0.001.

Regression analysis

This study employs a regression model to investigate the impact of financial statement fraud on the operational efficacy of manufacturing firms in Zimbabwe. The case of Tongaat Hullet is specifically examined in this research. The presented model for regression analysis is as follows.

$$Y=\beta_0+\beta_1X_1 + \beta_2X_2 + \beta_3X_3+ \beta_4X_4+ \beta_5X_5+ \varepsilon$$

.

The dependent variable in question is organizational performance, denoted by Y.

1. The parameter β0 denotes the y-intercept, which corresponds to the constant term in the model.

2. The variable β1 denotes the second slope coefficient that pertains to the Pressure variable, whereas X1 represents the initial explanatory variable.

3. The coefficient of slope β2 denotes the second order of magnitude that pertains to the Arrogance variable, while the first explanatory variable is represented by X2.

4. The variable denoted as β3 corresponds to the second slope coefficient, which pertains to the Rationalization variable. Meanwhile, the variable X3 denotes the first explanatory variable.

5. The variable β4 denotes the second slope coefficient, which corresponds to the Opportunity variable. Meanwhile, X4 refers to the first explanatory variable.

6. The coefficient of slope denoted by β5 pertains to the Opportunity variable and is ranked second, whereas the first explanatory variable is represented by X4.

7. The symbol ε denotes the stochastic or random error component.

Table 0.11 Model summary table

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.324[a]	.705	.691	.40298

a. Predictors: (Constant), Rationalization, Arrogance, Opportunity, Pressure, Capability

The R-squared value, commonly known as the coefficient of determination, serves as a measure of the model's goodness of fit. The findings of the research indicate a robust association between financial statement fraud and organizational performance, as evidenced by a coefficient of determination (R-squared) of 70.5%. Furthermore, the differentiation between R-squared and adjusted R-squared is equal to 0.014, suggesting the lack of presence of sampling error.

Table 0.12 Anova table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.332	5	.266	9.641	.000
	Residual	11.367	70	.162		
	Total	12.700	75			

a. Dependent Variable: Performance

b. Predictors: (Constant), Rationalization, Arrogance, Opportunity, Pressure, Capability

The ANOVA table presents information regarding the statistical significance of the model as a whole, as well as the goodness of fit of the model. The current study demonstrates that the F statistic value of 9.641 surpasses the critical value of 4, as delineated in the table. This suggests that the model exhibits statistical significance. Additionally, the calculated p-value of 0.00 suggests that the model exhibits statistical significance at a significance level of 1%. Thus, the variables related to financial statement fraud are considered appropriate for modelling the organizational performance of Tongaat Hullet.

Table 0.13 Table of coefficients

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.774	.523		5.299	.000
	Pressure	-.133	.074	.210	1.791	.001
	Arrogance	-.036	.070	.059	.517	.003
	Opportunity	-.207	.058	.014	.118	.001
	Capability	-.113	.034	-.043	-.363	.000
	Rationalization	-.485	.052	.198	1.634	.000

a. Dependent Variable: Performance

According to the data presented in the table, the coefficient of constraints related to pressure is -0.133. This indicates that there exists an inverse correlation between pressure and the organizational performance of Tongaat Hullet. It can be inferred that there exists a negative correlation between the score pressure and the organisational performance of Tongaat Hullet, where an increase of 1 unit in the former is associated with a decrease in the latter. The research conducted by Tsegba and Upaa (2015) suggests that the impact of fraudulent activity on organizational performance should not be solely viewed as a profit-reducing activity. Rather, it should be evaluated in terms of the potential consequences that stakeholders may face as a result. To mitigate the effects of fraud and prevent its recurrence, it is important to consider ways to add value to stakeholders.

The analysis indicates that there exists a significant correlation between the level of arrogance and the organizational performance of Tongaat Hullet, as evidenced by the coefficient of constraints (-0.036) associated with arrogance. There exists a negative correlation between the arrogance score and the organizational performance score of Tongaat Hullet, whereby a unit increase in the former is associated with a decrease in the latter. This implies that the display of arrogance by employees has a detrimental effect on their performance.

The coefficient of constraints pertaining to the concept of opportunity is -0.207. This finding implies that there exists a positive correlation between opportunity and the overall performance of Tongaat Hullet as an organization. The Tongaat Hullet's organizational performance experiences a decrease of 20.7% with each unit increase in the score opportunity.

Chapter Summary

The chapter presented an overview of the demographic characteristics of the data and the response rate of the participants. The chapter expounded on the correlation between the independent variables and the dependent variable of organizational performance. The chapter presented an analysis of the associations between organizational performance and the variables of pressure and opportunity.

CHAPTER V

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary

The act of concealing theft or embezzlement through the use of double-entry bookkeeping was modified, as indicated by a mean score of 4.04. The results presented in this section are in agreement with the investigation carried out by Oloruntoba (2018) regarding prevalent types of financial statement fraud. The study revealed that fictitious revenues, manipulated statements for concealment purposes, and the overstatement of equity resulting from undisclosed liabilities were the most common forms of financial statement fraud. The results align with the research conducted by Sanjayyana and Lpi (2021), which identified that financial statement fraud is primarily caused by the fraud theory's components of pressure, rationalization, and opportunity. Manufacturing companies are often confronted with various repercussions such as a decline in public confidence, reduction in capitalization, and disruption of routine operations. Thus, these results agree with the research conducted by Oloruntoba (2018) and Yuniasih et al. (2020). The results of the correlation analysis indicate a significant positive correlation between the dependent variable of organizational performance and the independent variables of pressure, opportunity, rationalization, and capability. A negative correlation was observed with respect to arrogance. The present study's results regarding the factors that contribute to financial statement fraud align with the findings of prior research conducted by Toit and Vermaak (2015), Malan (2020), and Sanjayyana and Lpi (2021).

The study found that the coefficient of rationalization pertaining to arrogance was -0.485, indicating a negative correlation between rationalization and the organizational performance of Tongaat Hullet.

Conclusion

The study successfully attained the predetermined objectives, as delineated below.

1. The aim of this study is to identify the various forms of financial statement fraud that occur within the sugar manufacturing sector in Zimbabwe, using Tongaat Hullet as a case study.

The present investigation successfully identified the categories of financial statement fraud that are prevalent in the manufacturing sector of Zimbabwe, relying on the results of the statistical analysis. According to a descriptive study, it was found that there were instances of fictitious revenue and sales being reported, as well as the deliberate omission of liabilities from financial statements in order to artificially inflate equity or assets. The study found out too that the experiences of falsified expenses have occurred before with the company net income exaggerated. The aforementioned were the prevalent forms of financial statement fraud.

2. The aim of this study is to ascertain the determinants of financial statement fraud at Tongaat Hullet.

On this objective the study managed to come up with the factors that contribute to financial statement fraud in the manufacturing industry in Zimbabwe based on the findings of the study. The study finds out that the variables shown in the table below were the contributing factors of financial statement fraud in the manufacturing industry. The findings shown below were also poised by (Harman, 2020).

Table 0.1 Factors that contribute towards financial statement fraud.

Financial instability
External influence
Nature of industry
Loopholes in security
Incompetency
Total accruals

3. To determine the impact of financial statement fraud on organisational performance of Tongaat Hullet

To determine the impact of financial statement fraud the researcher used regression analysis after conducting a Pearson correlation to find out the correlation that existed between the variables under study. The results of linear regression showed that there was negative relationship between organisational performance and opportunity. This means that opportunity affected the organisational performance of Tongaat negatively. Employee hs or directors uses an opportunity that arises to commit a fraud based on the circumstance surrounding them. The study also found out that the variable capability had a negative impact on organisational performance. The study found out that rationalization had negative impact on organisational performance so as the study by (Frimpong, Ameyaw and Osei-bonsu, 2019). The study found out also that the variable capability had a negative effect on organisational performance. This statement posits that the impact of directorial roles and management transitions on organizational performance is adverse, particularly in relation to instances of financial statement fraud.

4. Based on the findings of the study on best practices in financial handling, it is recommended that the sugar manufacturing industry in Zimbabwe implement certain measures to improve their financial management. These measures may include but are not limited to, implementing effective financial reporting systems, adopting sound financial policies and procedures, and investing in staff training and development to enhance financial literacy and competence. By implementing these measures, the sugar manufacturing industry in Zimbabwe can improve their financial performance and ensure sustainable growth. The recommendations for the study are given in the following section.

Recommendations

The sugar manufacturing industry is a complex and competitive one, and the ability to produce accurate and reliable financial statements is essential for success.

- Establish a strong internal control framework. This includes having clear policies and procedures in place for all aspects of financial reporting, as well as segregation of duties and independent checks and balances. A strong internal control framework can help to prevent fraud and errors and can also help to ensure that the company is in compliance with all applicable laws and regulations.
- The implementation of a dependable accounting system. It is imperative that the accounting system possesses the capability to monitor all monetary dealings precisely and expeditiously. The implementation of a dependable accounting system can facilitate the maintenance of precise and current financial statements for the organization.
- Training employees on financial reporting procedures. All employees who are involved in financial reporting should be trained on the company's policies and procedures, as well as the importance of accuracy and compliance. It is imperative for employees to possess knowledge regarding the potential hazards linked with financial reporting and exhibit proficiency in recognizing and reporting any plausible issues.

- Performing routine audits. The utilization of external audits can facilitate the detection of prospective issues with financial reporting and guarantee the adherence of the company to all pertinent laws and regulations. The engagement of an external audit can yield significant benefits by offering valuable insights into the financial reporting process of an organization and identifying potential areas for improvement.
- The implementation of a risk-based methodology in financial reporting. It is imperative for the organization to identify and evaluate the potential hazards linked with its financial reporting mechanism and establish appropriate measures to alleviate such risks. Employing a risk-based methodology can aid in directing the company's resources towards the domains that present the highest likelihood of fraudulence or inaccuracy.
- Exhibiting proactivity in engaging with stakeholders. It is imperative for the organization to promptly and candidly disclose its financial outcomes to all concerned parties, encompassing investors, creditors, and regulatory bodies. Through transparent and truthful communication with stakeholders, the organization can establish a sense of reliability and trustworthiness.
- It is recommended to maintain a uniform chart of accounts. The implementation of this measure is expected to facilitate the monitoring of monetary dealings and streamline the process of generating financial reports.
- Utilize a centralized repository to store financial data. This measure will facilitate the consolidation of financial information into a centralized repository, thereby enabling authorized personnel to retrieve it as needed.
- Automated processes can be utilized for the purpose of financial reporting. The implementation of this measure is expected to mitigate the likelihood of human fallibility and enhance the efficacy of the financial reporting procedure.
- It is recommended to regularly review financial statements. This approach facilitates the early detection of potential issues and enables the implementation of appropriate corrective measures.

By adhering to these guidelines, sugar production firms can guarantee the precision, dependability, and conformity of their financial records.

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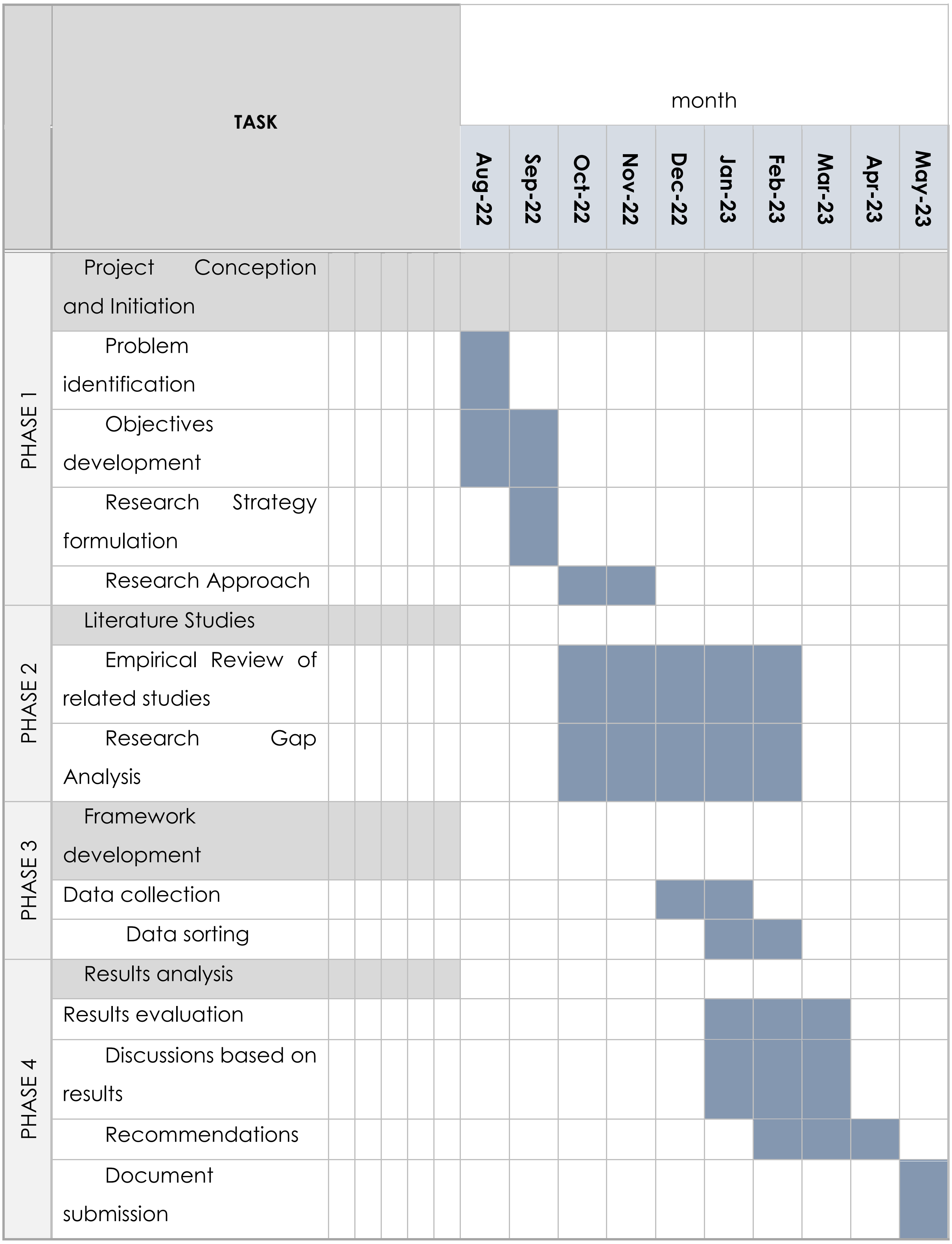
APPENDIX I: Gantt chart



APPENDIX II: LETTER OF INFORMED CONSENT

Dear Respondent.

My name is Kelly. I am a student at the Bindura University of Science Education studying towards a degree in Department of Intelligence And Security Studies. I am doing a research study entitled "**AN ANALYSIS OF THE IMPACT OF FINANCIAL STATEMENT FRAUD ON THE ORGANISATIONAL PERFOMANCE OF THE MANUFACTURING INDUSTRY: A CASE OF TONGAAT HULLET ZIMBABWE FOR THE PERIOD 2018-2019"**. Prior approval to conduct this study with the school as a case in point has been attained from the administration.

The researcher consequently requests you to voluntarily participate in this study and to be as honest as possible in answering the questions. Should you wish not to participate, then you should not respond to the questionnaire. The researcher wishes to assure you that your identity will not be revealed to any person(s) and your responses will be regarded as confidential. The information you provide will **not** be used outside its intended purpose.

In order to do justice to the said investigation, please complete the questionnaire to the best of your knowledge and ability. Please do not write your name on any part of the questionnaire. The questionnaire takes about ten minutes to complete.

Instructions

For your answers, you are kindly asked to tick in the box resembling your response or simply fill in the spaces provided.

Disclaimer: I hereby consent to participate in this research, and I confirm that I have read the above information and agree with it.

Place: ………………………………….

Date: ………………………………….

Sign: ………………………………….

APPENDIX III: QUESTIONNAIRE

Section A: Demographic profile

1. Gender:

Male [ ] Female [ ]

2**. Age :**

20 years or less [ ]

21-30 years old [ ]

31-40 years old [ ]

41- 50 years old [ ]

Above 50 years old [ ]

3. **Please indicate your highest level of education:**

Degree [ ]

Masters [ ]

Diploma [ ]

Professional course [ ]

Other [ ]

4. Work experience:

Below 5 years [ ]

6-10 years [ ]

11-15 years [ ]

16-20 years [ ]

Above 20 years [ ]

5. **SECTION B:** To determine the types of financial statement fraud in the sugar manufacturing industry in Zimbabwe

   For question 5, use the following key: *(1-strongly disagree, 2-disagree, 3-uncertain, 4-agree, 5- strongly agree)*

ITEM	**S**	**C**	**O**	**R**	**E**
	1	2	3	4	5
B1 Cases of overstating revenue have occurred at Tongaat Hullet					
B2 Fictitious revenue and sales have been reported happening					
B3 Sales have been posted before they are made prior to payment					
B4 The company has at some point overstated net income and retained earnings which inflated shareholders' equity					
B5 Liabilities have been kept off the financial statements to inflate equity or assets					
B6 There have cases of improper disclosures that include concealed liabilities with loans or warranties attached to sales					
B7 Experiences of falsified expenses have occurred before with the company net income exaggerated					
B8 Altered the statement to mask theft or embezzlement through double-entry bookkeeping					

SECTION C: To identify the factors that contribute to financial statement fraud in the manufacturing industry in Zimbabwe

For question 6, use the following key: *(1-strongly disagree, 2-disagree, 3-uncertain, 4-agree, 5- strongly agree)*

VARIABLE	**ITEM**	**S**	**C**	**O**	**R**	**E**
		1	2	3	4	5
PRESSURE	C1 Financial instability					

	C2 External influence					
OPPORTUNITY	C3 Nature of industry					
ARROGANCE	C4 Loopholes in security					
	C5 Incompetency					
RATIONAZATION	C6 Total accruals					
	C7 "Others are doing it" mentality					
CAPABILITY	C8 Ownership management					

SECTION C: To evaluate the impact of financial statement fraud on the organizational performance of the Tongaat Hullet

For question 6, use the following key: *(1-strongly disagree, 2-disagree, 3-uncertain, 4-agree, 5- strongly agree)*

VARIABLE	**ITEM**	**S**	**C**	**O**	**R**	**E**
		1	2	3	4	5
SALES	D1 The company faces reduction in sales					
	D2 The company clientele in reduced as others pull out					
REVENUE	D3 Bankruptcy or substantial economic losses					
	D4 Devastation in the normal operations					
PROFIT	D5 Drop in market capitalisation					
	D6 Diminished confidence of capital market due to poor profits realisation					

	D7 Huge pay-outs to shareholders who pull out					