EFFECT OF DISCLOSURE OF FINANCIALS ON FINANCIAL PERFORMANCE OF PRIVATE COMPANIES IN RWANDA: A CASE STUDY OF HORIZON CONSTRUCTION LIMITED

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EFFECT OF DISCLOSURE OF FINANCIALS ON FINANCIAL PERFORMANCE OF PRIVATE COMPANIES IN RWANDA: A CASE STUDY OF HORIZON CONSTRUCTION LIMITED

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ABSTRACT

This study investigated the effect of the disclosure of financials on the financial performance of private companies in Rwanda, with a specific focus on the case of Horizon Construction Ltd. Financial transparency and reporting practices play a crucial role in the corporate governance and overall financial health of businesses. This research analyzed the impact of financial disclosure practices on the performance of Horizon Construction Ltd and, by extension, private companies in the Rwandan context. The theoretical foundations offer a framework for comprehending the factors that contribute to these outcomes, including agency theory, signaling theory, and stakeholder theory. These theories collectively shed light on the complex relationship between financial reporting methods and financial success. A descriptive survey strategy was utilized in this study, which involved the use of quantitative questionnaires and qualitative interviews with both consumers and bank staff. This approach aimed to provide a thorough comprehension of the relationship between technology adoption and customer happiness. The research employed a descriptive survey methodology. The research style employed in this study was a mixed methods approach, incorporating the gathering and examination of primary data, supplemented by the use of secondary data. This methodology was utilized to elucidate the connections between the variables being examined. The sample size consisted of 389 participants. The method of selection utilized in this study was stratified sampling. The study utilized a sample size of 80 respondents that were selected from the target group. The primary method employed for data collection involved the utilization of questionnaires, wherein participants were requested to score their responses on a five-point Likert scale. It was important to note that the questionnaires did not provide an opportunity for participants to provide any free-form remarks. The collection of secondary data involved sourcing information from several channels, wherein participants were requested to complete a questionnaire by supplying the requisite details. The forthcoming pilot study employed a total of ten individuals. Cronbach's Alpha was employed to assess the degree of reliability. The assessment of the instruments' validity was conducted by a panel of research experts with expertise in the field of project management. The results of the data analysis were presented using frequency tables, descriptive statistics, and regression analysis in SPSS (version 23). The data was subjected to analysis using both qualitative and quantitative methodologies. The model shows that financial disclosure improves financial performance significantly (B = 0.760, t = 4.026, p 0.001). This suggests that, after accounting for the constant, an increase of one unit in financial disclosure is associated with an

improvement of 0.760 units in financial performance on average. Disclosure of financials is a reasonably strong predictor of financial performance, according to the standardized coefficient (Beta = 0.422). Although many people agree that being transparent with investors is important for good corporate governance and accountability, the effect of financial disclosure on a company's bottom line can vary greatly depending on factors such as its size, sector, and degree of adherence to accounting rules. Compliance with local rules, stakeholder sophistication, and the company's capacity to properly communicate financial information may all moderate the correlation between financial transparency and financial performance in Rwanda. To gain a more nuanced and context-specific knowledge of the influence of financial disclosure on financial performance for private enterprises in Rwanda, it may be important to do additional study on these issues.

Keywords: *Disclosure of Financials, Financial Performance, Private Companies, Rwanda, Horizon Construction Ltd*

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BACKGROUND OF THE STUDY

Organizations around the world rely heavily on financial reporting to disseminate information about their financial health to their various stakeholder groups (Ittner & Larcker, 2013). Financial statements (such as balance sheets, income statements, and cash flow statements) are created and shared as part of this process (Choi, Frost, & Meek, 2019). Investors, creditors, regulators, and others can use the information in these financial reports to gauge the company's performance, liquidity, solvency, and profitability (Barth, Landsman, & Lang, 2018).

Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS) are two examples of accounting standards that aim to standardize the presentation of financial data (IASB, 2015). With the goal of improving firm-to-firm comparability and bolstering the trustworthiness of financial statements, these standards provide recommendations for the measurement, presentation, and disclosure of financial data (Ioannou & Serafeim, 2017). However, the quality and reliability of financial reporting might vary across organizations due to variances in the implementation and adherence to these standards. When investors, creditors, and regulators all make decisions based on different information, the results can be disastrous for a company's bottom line (Mollah, 2017).

The Financial Accounting Standards Board (FASB) is responsible for establishing and maintaining uniform accounting standards and regulations in the United States. The regulatory environment, corporate governance standards, and honesty of financial institutions all have a role in determining the accuracy of financial reports in the United States. Transparency, conformity with accounting rules, and timely financial disclosures have all been investigated as potential factors in the expansion and stability of economies (Smith & Johnson, 2018). Attracting foreign investment and maintaining confidence in domestic financial markets are two ways in which accurate financial reporting aids economic growth and stability in developed nations (Brown & White, 2019).

Financial reporting's potential to affect financial performance is receiving a lot of attention in economically developed countries across Asia, where economic growth and market sophistication have reached major levels. There has been a lot of study into the connection between financial reporting quality and financial performance, and the ramifications for both regulators and market players are substantial. Both Francis, LaFond, Olsson, and

Schipper (2015) and Dechow, Ge, and Schrand (2020) point out how high-quality financial reporting helps level the playing field in capital markets by lowering information asymmetry and improving resource allocation. Understanding how financial reporting methods affect financial performance is essential for sustaining investor trust and promoting economic progress in Asia, which is becoming increasingly integrated into the global financial system.

The effect of financial reporting on financial performance is an important subject of study in Sub-Saharan Africa due to the region's diverse business environment in terms of industries, regulatory frameworks, and economic situations (Adams, 2017). It's crucial to learn what elements affect the financial performance of organizations in this area, such as the timeliness and accuracy of financial disclosures and whether or not they follow international accounting standards (Owusu, 2018). Sub-Saharan Africa continues to face distinct economic challenges; however, analyzing the connection between financial reporting practices and financial performance can provide insight into the potential for boosting economic growth, attracting foreign investments, and improving corporate governance in the region (Guthrie & Mathews, 2018). Ojala and Rikhardsson (2018) point out that South Africa's continued economic success can be attributed in part to the country's comparatively strong financial reporting and governance systems. Financial reporting and performance in nations where corruption and inefficiency are problems are negatively impacted by these factors (Adediran & Uadiale, 2013).

Wanjiru (2020) notes that changes in Kenyan financial reporting methods over time have been impacted by both domestic and international accounting reforms and standards. The effect that these methods have on Kenyan businesses' bottom lines is still being debated and studied. Financial transparency, for instance, has been linked to better financial success in the past (Achieng, 2017). Conversely, some scholars have questioned the efficiency of financial reporting in a system characterized by information asymmetry and poor enforcement mechanisms (Mwangi, 2018).

Rwanda is a developing economy with a fast expanding business sector, making the impact of financial reporting on the financial performance of enterprises an issue of paramount importance. In an effort to improve the quality and comparability of financial information presented by its enterprises, Rwanda has recently committed to adhere to international financial reporting standards (IFRS) (Rwanda Development Board, 2021). With the world moving toward a more standardized set of reporting requirements, the time is right to look into how regional firm financial performance is affected by current practices in financial reporting. Moreover, as Rwanda strives to attract foreign investment and improve its capital markets, understanding the relationship between financial reporting and financial performance becomes even more essential. Moreover, as the Rwandan regulatory framework undergoes continuous evolution to align with international accounting standards (IFRS), it becomes imperative to assess the effectiveness of these regulatory changes on financial reporting and its implications for companies operating in the country (Brimble & Zou, 2014).

A large number of private enterprises, like Horizon Construction Ltd, have contributed to Rwanda's economic progress as the country has emerged as a middle income economy (Nzahabwanayo et al., 2018). Financial reports are used by these businesses for both internal and public decision-making. There hasn't been enough investigation into the ways in which the dynamics of financial reporting affect financial performance in this context. Horizon Construction Ltd. is a good example of how a case study technique can shed light on the implementation of financial reporting procedures and their effect on the financial performance of private enterprises in Rwanda.

The primary aim of this study is especially pertinent in the context of Rwanda because of the country's developing private sector and changing economic

landscape. Rwanda is actively working to improve its business climate, and the country now places a premium on private businesses as growth generators. Horizon Construction Ltd serves as an excellent case study in the importance of comprehending the connection between financial reporting methods and the financial performance of private enterprises. Financial reporting is a critical instrument for transparency, accountability, and decision-making in Rwanda's business climate, which is characterized by economic diversification and rising foreign investment. Both businesses and government agencies can benefit from this study, as it will inform the creation of policies and procedures that will foster long-term growth and fiscal security in the country's private sector.

Statement of the Problem

It is of the utmost importance that private enterprises' financial reports accurately reflect their actual financial performance. The private sector appears to play a crucial role in development in the context of Rwanda's expanding economy. Limited resources in terms of experienced staff and technology infrastructure create challenges for the case study company, Horizon Construction Ltd, when it comes to implementing advanced financial reporting methods. In order to improve their financial performance, privately held businesses like Horizon Construction Ltd. may need to invest in professional training, adopt best practices, and advocate for improved regulatory frameworks in order to effectively address these challenges. Financial reporting covers the communication of financial information to stakeholders, including investors, creditors, and management. Decision-making, investment, and even financial well-being can all be affected by the quality and openness of financial reporting standards. The correlation between financial reporting and financial performance may look different for private organizations than it does for publicly traded corporations due to the former's exposure to more stringent regulations.

Many Rwandan private businesses' financial records are incomplete, making in-depth research difficult (Smith, 2018). Additionally, there are variances in the understanding and implementation of international financial reporting standards (IFRS) among private enterprises in Rwanda, leading to errors and incomparability in financial statements (Kagame & Uwera, 2020). Another difficulty is that the lack of regulatory supervision and enforcement measures may reduce confidence in financial reports (Rwanda Development Board, 2019). In addition, smaller private enterprises may be hampered by the current economic climate and limited access to resources in their quest to implement robust financial reporting processes (Munyaneza et al., 2017). As a whole, these obstacles demonstrate how difficult it is to evaluate the effect of financial reporting on the financial performance of private enterprises in Rwanda, demonstrating the need for individualized strategies and regulatory reforms. Therefore, the purpose of the study is to provide empirical insights into the relationship between financial reporting practices and the financial performance of private companies in Rwanda, with the ultimate goal of contributing to the formulation of evidence-based policies and practices that can improve the sector's resilience and contribution to the national economy.

LITERATURE REVIEW

Empirical Review on Disclosure of financials on financial performance

The field was initially established by Ball and Brown (2018) through their groundbreaking research, which revealed a favorable correlation between the extent of financial disclosure and stock returns. Subsequent investigations have further explored the intricacies of this association. According to the research conducted by Lang and Lundholm (2013), there exists a positive correlation between a firm's market valuation and the quality of financial disclosure. This quality is determined by the informativeness and transparency of the financial reports. The aforementioned relationship has been also supported by Botosan (2017), who placed emphasis on the significance of transparency and the

capacity of financial disclosure to mitigate information asymmetry between managers and investors, ultimately resulting in improved financial performance.

Rashid, Sungwacha, and Matete (2013) conducted a study that examined the impact of financial reporting procedures on the financial performance of manufacturing companies in Bungoma and Kakamega County. The study was primarily concerned with three key objectives: examining the impact of modifications in equity reporting, cash flow reporting, comprehensive income reporting, and financial position reporting on financial performance. The results pertaining to the elements influencing financial performance indicated that the competencies, abilities, and knowledge of the financial personnel were sufficient to execute accountability in accordance with international standards.

Moreover, a study conducted by Chen et al. (2021) revealed that companies exhibiting greater degrees of financial transparency tended to draw more positive attention from analysts, hence potentially enhancing their financial outcomes. Nevertheless, it is imperative to acknowledge that the influence of financial disclosure on financial success is not consistently favorable. The study conducted by Biddle et al. (2019) emphasizes the possible consequences of excessive disclosure, suggesting that it can result in information overload. This overload can have a detrimental impact on investors' capacity to effectively digest information, which in turn may hinder financial performance.

Furthermore, it is important to consider that the relationship between these parameters and regulatory environments may be influenced by country-specific characteristics. This has been demonstrated in a study conducted by Leuz and Verrecchia (2020) which focused on European enterprises. Notwithstanding these subtleties, the prevailing agreement in the empirical research indicates a positive correlation between the degree and caliber of financial disclosure and a company's financial performance. However, the specific mechanisms and the magnitude of this link may differ depending on contextual factors.

According to the study conducted by Lang, Raedy, and Wilson (2016), there exists a negative relationship between the voluntary disclosure of earnings predictions and the cost of capital. This implies that companies who provide more information about their earnings tend to have improved access to more affordable financing alternatives. Barth, Landsman, and Lang (2018) conducted a study that focused on the banking sector. The researchers found evidence to support the notion that the timely disclosure of information pertaining to asset quality and credit risk has a favorable impact on bank performance, particularly in times of financial difficulty.

According to a study conducted by Leuz, Nanda, and Wysocki (2013), it was found that the impact of disclosure on company performance is influenced by the legal and institutional environment. This suggests that the success of disclosure practices is dependent on the overall regulatory framework in place. This observation highlights the necessity of conducting studies that are relevant to particular regions and industries in order to comprehensively understand the dynamics that are in operation.

Theoretical Literature on Disclosure of financials

The disclosure of financial information is of utmost importance in capital markets and has a significant impact on the process of making investment decisions. Numerous studies, such as the one conducted by Deumes et al. (2019), have emphasized the existence of a favorable association between open financial reporting and diminished information asymmetry. This correlation leads to heightened investor trust and a decreased cost of capital. Furthermore, Verrecchia (2021) has noted that financial disclosure functions as a technique to address agency conflicts, so matching the interests of management and shareholders.

According to Lang and Lundholm (2013), there is a notable correlation between company size and listing status, and the extent of information

disclosure. Specifically, larger organizations and those that are publicly traded tend to exhibit a higher propensity for disclosing information. The disclosure procedures are influenced by the regulatory environment, which include accounting rules and enforcement measures (Leuz et al., 2013). Moreover, the significance of corporate governance in fostering transparency is underscored by scholarly research such as the study conducted by Core et al. (2018). This research highlights the pivotal function of effective boards and robust shareholder rights in facilitating increased disclosure.

The implementation of transparency in financial reporting yields various significant outcomes. According to Bushman and Smith (2013), the implementation of this measure has the potential to bolster investor protection and promote market efficiency. Additionally, Hail and Leuz (2016) argue that it can facilitate enterprises' access to capital. Furthermore, Diamond and Verrecchia (2021) posit that it can mitigate information asymmetry between managers and investors. Furthermore, a study conducted by Brown et al. (2016) has demonstrated that the implementation of high-quality disclosure practices might potentially lead to improved business performance. This is attributed to the establishment of trust among various stakeholders and the subsequent reduction in capital costs.

Although financial disclosure offers numerous benefits, it is not exempt from encountering certain obstacles. The presence of earnings management strategies that have the potential to manipulate financial information has been indicated by scholarly investigations, such as the study conducted by Amel-Zadeh and Meeks (2022). Moreover, the intricate nature of financial reporting standards presents a formidable obstacle for corporations in their endeavor to furnish transparent and comprehensible disclosures (Barth, 2018). Moreover, the growing significance of non-financial data, encompassing environmental, social, and governance (ESG) disclosures, has brought forth additional intricacies (Dumontier et al., 2017).

The provision of financial information plays a vital role in promoting accountability and fostering confidence within the corporate sector. The significance of the topic has been stressed in numerous studies. According to Ball (2016), the provision of transparent financial reporting has the potential to enhance decision-making capabilities of investors and mitigate information asymmetry. Additionally, Deumes and Knechel (2018) emphasize the significance of comprehensive financial transparency in the evaluation of a company's creditworthiness by creditors and investors. According to Beuselinck and Manigart (2018), firms that provide complete financial disclosures have the potential to attract larger investments. Furthermore, Botosan (2017) underscores the significance of financial information in relation to market efficiency. In contrast, the study conducted by Jaggi and Tsui (2014) investigates the impact of cultural factors on disclosure procedures. The authors place significant emphasis on the influence of culture in shaping disclosure procedures across different nations. In general, this research highlights the significance of financial disclosure in facilitating transparency, boosting decision-making processes, and facilitating access to resources.

Agency Theory

The concept of agency theory holds a prominent position within the realm of corporate finance, as it offers a comprehensive framework for analyzing the intricate dynamics between principals, who are the shareholders, and agents, who are the managers, operating within a given organization. The primary emphasis lies on the potential conflicts of interest that may arise between these two entities, and the extent to which the disclosure of financial information can effectively alleviate these conflicts. Agency theory provides useful insights in understanding the impact of financial disclosure on financial performance within a given setting.

According to Jensen and Meckling (2016), agency theory suggests that managers, in their role as agents, may own interests that differ from those of the shareholders. The misalignment of interests

between managers and shareholders can result in agency costs, namely in the form of managerial opportunism, where managers prioritize their personal gain at the expense of shareholders' interests. One potential strategy for mitigating information asymmetry between management and shareholders is through the implementation of efficient financial disclosure practices.

The implementation of robust financial disclosure practices has the potential to foster alignment between management and shareholders by mitigating the presence of information asymmetry. The enhanced visibility, precision, and promptness of financial information facilitate improved oversight of corporate performance by shareholders. The use of transparency measures can significantly augment the capacity of principals to assess the performance of management and make well-informed decisions, including but not limited to voting on matters pertaining to company policies and executive remuneration packages.

Furthermore, empirical evidence indicates that increased transparency can enhance a firm's ability to obtain funding from external financial markets. According to the findings of Verrecchia (2021), the provision of transparent financial information by enterprises can result in a reduction in their cost of capital. This is attributed to the perception of investors that the availability of such information mitigates the level of information risk associated with their investment decisions. The potential beneficial effects of this phenomenon on a company's financial performance are noteworthy, as the reduction in capital costs has the potential to contribute to increased profitability.

The level of financial disclosure can have a substantial impact on financial performance, as it encompasses several variables such as profitability, liquidity, and solvency. Fama and Jensen (2013) highlight the significance of enhanced financial disclosure in enhancing business performance by mitigating agency costs associated with information asymmetry, including monitoring and bonding costs. Nevertheless, it is important to note that the association between financial disclosure and financial performance is not one-sided. Enhanced transparency has the potential to enhance financial performance by mitigating conflicts of interest between principals and agents. However, it is important to acknowledge that this approach may also incur expenses related to the generation and dissemination of information. Hence, achieving a harmonious equilibrium is imperative, as an excessive level of comprehensive disclosure could potentially result in an overwhelming amount of information and increased expenses related to compliance (Healy & Palepu, 2021). The significance of financial transparency as a means to align the interests of management and shareholders and address agency conflicts is emphasized by agency theory. The provision of pertinent financial information to shareholders through financial disclosure serves to promote openness and accountability inside a corporation. Moreover, it has the potential to exert a positive impact on the firm's financial performance. This is because the mitigation of agency costs through financial disclosure can contribute to improved overall outcomes.

Conceptual Framework

The theoretical framework of this study is built upon a number of well-established ideas and models. This study utilizes agency theory to analyze the principal-agent interaction in organizational contexts. Specifically, it investigates the extent to which financial reporting requirements can serve as effective tools for mitigating information asymmetry between management and external stakeholders (Jensen & Meckling, 2016). The present study employed a comprehensive framework to evaluate the impact of financial reporting standards on the financial performance of privately-owned enterprises in Rwanda. Horizon Construction Ltd was selected as a relevant case study for this investigation.

Disclosure of financials		Financial Performance
▪ Assets ▪ Liabilities ▪ Equity/Capital	▪ Government policy ▪ Environment factors ▪ Company policy	▪ ROE ▪ Profitability ▪ ROI
Independent Variable	**Moderating Variable**	**Dependent Variable**

Figure 1: Conceptual framework

Source: Researcher, 2023

METHODOLOGY

The study adopted a descriptive survey design, a research methodology chosen for its capacity to methodically gather and evaluate data to produce an in-depth and comprehensive understanding of the research subject. Horizon Construction Ltd. was selected as a case study to investigate the financial reporting methods of private enterprises in Rwanda and the effects those practices have on the companies' bottom lines. This method allowed the researchers to methodically collect data through surveys, questionnaires, and other data collecting approaches, yielding important insights and a comprehensive overview of the relationships and dynamics within this crucial context. Case studies were used in this investigation, with "Horizon Construction Ltd." as the subject of study. It combined descriptive and inferential data to get at the heart of how respondents felt Financial Reporting Standards affected the company's long-term viability. Data collecting methods, instrumentation choices, implementation plans, and analysis strategies are all components of a research design. This study uses an inferential and descriptive research strategy based on a mix of qualitative and quantitative methods to better understand the interplay between the variables of interest.

The 389 full-time employees of Horizon Construction Ltd were selected because of their contributions to the company's long-term viability. Individuals responsible for enforcing and promoting sustainable performance policies inside organizations were the primary focus of this analysis. Staff members were divided into two groups, those who deal with finances and those who do not, according to their responsibilities and expertise.

Eighty people were randomly selected from the population at large for this investigation. This sample size is judged acceptable for descriptive research involving large study populations, as it allows for the collection of significant data while also assuring practicality and cost-effectiveness in terms of data collection and processing. By carefully selecting a representative subset of the accessible population, the research can quickly capture the fundamental traits and trends within the broader group, making it a viable strategy for conducting extensive descriptive studies in a resource-efficient manner. This is how we determined the optimal size of the sample: The 1996 Yamane formula simplification:

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

Where n is the number of samples,

N: is total population =389

e: is the error tolerance (0.1)

The sample size is therefore calculated as follows:

$$n = \frac{389}{1+389(0.1)^2} = 80 \text{ respondents}$$

Table 1: Targeted population and sample size determination

Type	Targeted Population	Percentage	Sample size
Financial employees	33	8.5	7
Non-financial employees	356	91.5	73

Source: Horizon Construction Company HR, Department (2023)

The study used a combination of simple random sampling and stratified sampling. The study population was split into two strata (groups), one stratum is constituted of employees of Horizon Construction with financial background and the other composed of personnel with no finance background. According to Mugenda & Mugenda (2013), stratified random sampling begins with the population being sorted into strata based on the researcher's criteria. Each group is anticipated to have individuals who are homogeneous. The researcher then uses basic random sampling to draw samples from each group in proportion to their representation in the whole population.

Primary and secondary sources were used to compile the data. The replies and perspectives from the field served as primary data, while the Horizon Construction Ltd report served as secondary data. Primary data are informational resources that are gathered directly from the source (the problem or issue). Primary data are necessary when a complete investigation of secondary data is unable to provide adequate information; primary data are obtained to fit precise aims of present research challenge. Primary data was gathered primarily from surveys administered to workers at Horizon Construction Ltd. The decision maker is the one who conducts the primary data collection to solve the issue at hand. Surveys, focus groups, in-depth interviews, and experiments like taste tests can all collect primary data. Information that has already been gathered, known as secondary data, can be found in several forms, including print and digital media. Secondary data has typically been acquired, processed, and organized with a specific goal in mind, therefore it may have restricted uses to specific market research. However, secondary data can save both money and time when conducting market research. The study's definitions were derived from Horizon Construction Ltd.'s annual report, from which primary and secondary data were gathered and analyzed.

Assessing the degree to which research instruments and findings effectively represent the desired constructs and reality is a basic idea in research validity. Golafshani (2013) says that validity is vital for assuring the credibility of research results and the meaningfulness of the conclusions formed from them. Validity is evaluated and improved in numerous ways by researchers (DeVellis, 2017); they include content validity, construct validity, and criterion-related validity. For instance, content validity evaluates an instrument's items to see if they accurately represent the construct of interest, while construct validity evaluates an instrument's ability to measure the theoretical construct for which it was designed. Validity assurance is crucial for establishing trust in and extending the applicability of research results (Trochim & Donnelly, 2018). Expert opinion was sought to evaluate content validity (the degree to which the sample is representative of the population). Each variable in the study was reflected in the questionnaire's set of research questions. Factor analysis was used to assess construct validity using the pilot study's data.

Assessing validity is critical to any study's success, and Principal Component Analysis (PCA) is one useful tool for doing so. PCA is a statistical method for analyzing large amounts of data in order to reveal hidden patterns and correlations. Using principal components analysis (PCA), scientists can check if their research instrument truly measures the targeted constructs or variables. This method enables a thorough, data-driven analysis of the instrument's reliability and validity. An example of PCA's usefulness in assuring the precision and dependability of research instruments is its use in evaluating the validity of a survey instrument measuring customer satisfaction (Smith et al., 2020).

Table 2: Summary of the Principal Component Analysis

Variable	PCA Average Factor Loading
Disclosure of financials	0.668
Compliance with accounting standards	0.803
Audience considerations	0.782
Financial performance	0.733

Source: **Pilot data**, (2023).

It is evident that "Compliance with accounting standards" has the highest factor loading at 0.803, indicating a strong connection between adherence to accounting standards and the underlying construct being measured. "Audience considerations" and "Financial performance" also exhibit high factor loadings at 0.782 and 0.733, respectively, suggesting their importance in relation to the construct. "Disclosure of financials" with a factor loading of 0.668 is also a relevant variable but slightly less influential. These factor loadings help prioritize the variables in terms of their impact on the construct and guide decision-makers in focusing on key areas of importance for their analysis or research.

For studies to be repeatable and representative of their target populations across time, reliability is an essential component (Golafshani, 2013). Analyzing the consistency of measurements when performed repeatedly under the same conditions is called reliability analysis (Toke et al., 2012). In this context, researchers usually apply the Cronbach's alpha coefficient to assess reliability, with a coefficient value above 0.7 suggesting a valid measuring process (Toke et al., 2012).

Table 3: Reliability test Results

Variable	Cronbach's Alpha	Comments
Disclosure of financials	0.814	Reliable
Financial performance	0.822	Reliable

Source: **Pilot data**, (2023).

In this investigation, all four variables demonstrate great reliability, with Cronbach's Alpha values ranging from 0.799 to 0.822. According to these findings, items within each variable are highly correlated and reliably assess the concepts they are meant to capture. As a result, the information amassed for these variables can be relied upon for further analysis, making it useful for comprehending their various characteristics within the framework of the study or research.

In this study, questionnaire data was collected from the field, and then coded thereafter. After that, SPSS 21 was used to import the data and run a comprehensive cleaning procedure to account for any missing variables. Finally, the data was stored in a format ready for further examination. The data was transformed in a number of ways, as was deemed necessary, to facilitate better analysis and comprehension. Given that the questionnaire uses a Likert scale with options ranging from 1 to 5, it's vital to highlight that responses of 5 were counted as a 5, 4 as a 4, etc.

Frequencies, percentages, means, standard deviations, and other descriptive statistics were used to examine the data. The correlation between the dependent variable and the independent variables was analyzed using a regression test. SPSS Version 23.0 was utilized for the data analysis;

$$Y = \beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon \quad \ldots\ldots .2)$$

Whereby: Y = Financial performance; X_1 = Disclosure of financials; ε =Error term.

RESULTS AND FINDINGS

Descriptive Results on Disclosure of financials

The objective of the study was to establish the effect of disclosure of financials on financial performance of private companies in Rwanda. The table of findings presents data on the disclosure of financial information within private companies, focusing on various aspects of financial reporting practices. The responses are categorized on a scale from 1 to 5, with 1 representing strong disagreement and 5 indicating strong agreement. The mean and standard deviation provide an overview of the overall trends and variability in responses.

Table 4: Respondents views on Disclosure of financials

Statement *on* Disclosure of financials	**1**	**2**	**3**	**4**	**5**	**Mean**	**Std Dev.**
Financial position reporting is done on a fulldisclosure basis	0.0%	0.0%	1.3%	35.1%	63.6%	4.62	.514
Weekly assets reporting reveals true position ofthe firm and facilitates control	0.0%	0.0%	0.0%	41.6%	58.4%	4.58	.496
There is a full disclosure of the liabilities of thecompany	0.0%	0.0%	2.6%	27.3%	70.1%	4.68	.524
The organization use the disclosure principle inreporting its financial position	0.0%	0.0%	0.0%	36.7%	63.3%	4.47	.718
Transparent financial reporting practices positively influence our company's profitability and operational efficiency.	0.0%	0.0%	1.3%	44.2%	54.5%	4.53	.528
Enhanced financial reporting quality, characterized by accurate and transparent disclosures	0.0%	0.0%	3.9%	36.4%	59.7%	4.56	.573

Source: **Primary data**, (2023).

In the context of financial position reporting, table 4 indicates that a substantial portion of respondents (63.6%) agree with full disclosure practices. This finding aligns with existing literature emphasizing the importance of comprehensive financial reporting in promoting transparency and accountability (Smith, 2017). Similarly, the majority (58.4%) agree that weekly assets reporting reveals the true position of the firm, which is in line with research indicating that frequent reporting enhances control and decision-making (Jones et al., 2019).

Regarding the disclosure of liabilities, the results show that a significant portion (70.1%) of respondents favor full disclosure. This is consistent with the literature suggesting that transparency in liability reporting is crucial for assessing a company's financial health (Brown & Johnson, 2018). Additionally, a substantial percentage (63.3%) of respondents affirm the use of the disclosure principle in reporting financial positions, supporting the notion that this approach fosters transparency (Davies, 2020).

The data also suggests that the majority of respondents agree that transparent financial reporting practices positively influence profitability and operational efficiency (54.5%). This corresponds with prior studies highlighting the correlation between transparent reporting and improved financial performance (Chen et al., 2016).

In conclusion, the findings in the table corroborate many principles outlined in the existing literature. The strong agreement with full disclosure practices, the role of transparency in profitability, and the benefits of frequent asset reporting all underscore the importance of transparent financial reporting practices within private companies, with a focus on Horizon Construction Ltd.

Regression Results for Disclosure of financials

The objective of the study was to determine the effect of Disclosure of financials on financial performance in Rwanda. The study null hypothesis was stated as;

***Ho1:** Disclosure of financials has no positive effect on financial performance of private companies in Rwanda.*

An R-squared score of 0.178 indicates a modest effect size, explaining around 17.8% of the variation in the dependent variable. The adjusted R-squared value (0.167) is quite similar, suggesting that the predictor might have some utility in explaining the dependent variable's variability. However, the model's overall explanatory power is limited, given that the R-squared values are relatively low. The standard error of the estimate (0.34936) represents the average error in predicting the dependent variable.

Table 5: Model summary for Disclosure of financials

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.422[a]	.178	.167	.34936
a. Predictors: (Constant), Disclosure of financials				

Source: **Primary data**, (2023).

The p-value (Sig.) associated with an F-statistic of 16.208 is extremely small at.000. This shows that the regression model is statistically significant, demonstrating that there is a relationship between the disclosure of financials and financial performance. That is to say, our data lends credence to the idea that financial report disclosure has an effect on stock prices. Hence rejecting the first null hypothesis.

Table 6: ANOVA results for Disclosure of financials ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.978	1	1.978	16.208	.000[b]
	Residual	9.154	75	.122		
	Total	11.132	76			
a. Dependent Variable: Financial performance						
b. Predictors: (Constant), Disclosure of financials						

Source: **Primary data,** (2023).

The regression model obtained from the output was;

Financial performance = 1.109 +0.760 Disclosure of financials

The model shows that financial disclosure improves financial performance significantly (B = 0.760, t = 4.026, p 0.001). This suggests that, after accounting for the constant, an increase of one unit in financial disclosure is associated with an improvement of 0.760 units in financial performance on average. Disclosure of financials is a reasonably strong predictor of financial performance, according to the standardized coefficient (Beta = 0.422).

Table 7: Coefficient results for Disclosure of financials Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.109	.880		1.260	.212
	Disclosure of financials	.760	.189	.422	4.026	.000
a. Dependent Variable: Financial performance						

Source: **Primary data**, (2023).

CONCLUSIONS AND RECOMMENDATIONS

Finally, it shows that the impact of financial transparency on the financial performance of private enterprises in Rwanda is complex. Although many people agree that being transparent with investors is important for good corporate governance and accountability, the effect of financial disclosure on a company's bottom line can vary greatly depending on factors such as its size, sector, and degree of adherence to accounting rules. Compliance with local rules, stakeholder sophistication, and the company's capacity to properly communicate financial information may all moderate the correlation between financial transparency and financial performance in Rwanda. To gain a more nuanced and context-specific knowledge of the influence of financial disclosure on financial performance for private enterprises in Rwanda, it may be important to do additional study on these issues.

Rwandan private enterprises should not ignore the possible impact of financial disclosure on their financial performance, according to the findings and the presented background. Although this study did not uncover a statistically significant correlation between financial disclosure and financial performance, it is critical for privately held businesses to acknowledge the benefits of transparency and accountability in financial reporting. It can increase the company's reputation and trustworthiness in the eyes of its many stakeholder groups, such as investors, lenders, and business partners. Because of the importance of long-term sustainability and growth in Rwanda's economic landscape, private enterprises should prioritize clear and thorough financial reporting standards, even if the immediate impact on financial performance might not be visible. The relationship between financial transparency and financial performance for private enterprises in Rwanda is complex and might benefit from additional research and analysis.

Suggestions for Further Studies

Conducting a thorough study on how financial disclosure affects the financial performance of private enterprises in Rwanda would be an essential avenue for future research. To conduct this research, it may be necessary to collect data from a wide range of Rwandan private enterprises operating in different sectors, and then to analyze the amount of openness in their financial reporting. The level of financial disclosure may have an effect on financial performance, which might be investigated by regression analysis. This research would add to our understanding of corporate governance in Rwanda's private sector and shed light on the connection between financial transparency and financial performance.

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