Leadership capacity and financial reporting quality in local government authorities: evidence from Tanzania

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Abstract

This study examines the connection between dimensions of leadership capacity and financial reporting quality in Tanzanian local government authorities. Primary data were collected from 126 local government authorities, involving 225 final accounts-accountants and internal auditors, using a survey instrument. The hypotheses were tested using partial least squares structural equation modelling. Results indicate that financial reporting quality in local government authorities is positively and significantly explained by accountability, rule-following, network governance, and political loyalty leadership. This study provides implications for restructuring policies and regulations related to the composition of the full council and its committees, by introducing professionalism, in order to separate political and financial reporting practices in local government authorities. Consequently, the quality of public sector financial reporting will be improved, and conducive environments for the delivery of social services among local government authorities will be assured due to the embrace of accountability, rule-following, and network governance leadership among local government authorities.

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1. Introduction

Local government authorities (LGAs) are financed by government, regional and international development partners to undertake their mandated activities (Bao et al., 2024; Bisogno et al., 2024; Tran et al., 2021). Based on this, LGAs need to prepare and present quality financial reports. Financial reports of the desired quality add value in undertaking informed decisions, allocating public resources, enhancing transparency and accountability, reducing public sector corruption, and sustaining citizens' and development partners' trust in the government in power (Gamayuni, 2018). In addition, in the present world, financial reporting quality is recognised as one of the fundamental government strategies for attracting donations, sponsorship, international and domestic investments, and various economic integrations (Ngo & Nguyen, 2024; Petruzzelli & Badia, 2024). Generally, financial reporting quality improves the performance of LGAs. The achievement of the sustainable development goals (SDGs) such as SDG 1 (poverty reduction), SGD 4 (quality education) and SDG 16 (strong institutions) will be assured (Awuah et al., 2024; Galeazzo et al., 2024), resulting from sustainable and enhanced financial reporting quality.

Despite the potential of financial reporting quality in the settings of LGAs and the nations at large, financial reporting quality in various governments of developing countries is still not promising (Rakhman & Wijayana, 2019). Some of the studies in developing countries such as Pham et al. (2022), Susanto (2017), Thoa and Nhi (2021) have indicated that the quality of financial reports is poor. This is also evidenced by a survey conducted by PricewaterhouseCoopers (PwC), which revealed that various financial reports of developing nations' governments do not meet the prerequisites of financial reporting quality by 49% (PwC, 2018). In the case of local governments, Hariani and Fakhrorazi (2021), Matekele et al. (2025), and Rakhman and Wijayana (2019) emphasised that the quality of financial reporting among local governments in developing countries is also inadequate. This is also demonstrated in various LGAs in Tanzania, in which the Controller and Auditor General (CAG), year after year, reports the existence of several financial reporting irregularities. As per the CAG, over 74 Tanzanian LGAs experienced inadequate fraud risk evaluation procedures, inadequate internal controls, lack of bank reconciliations, missing payment vouchers, and unbanked collections for five consecutive years. Other financial reporting anomalies include delays in banking the collected revenue and insufficient documentation for various payments made [National Audit Office of Tanzania (NAOT), 2017, 2018, 2019, 2023, 2024]. These irregularities threaten the quality of financial reporting in LGAs since their financial reports are losing faithful

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representation, relevance, timeliness, understandability, comparability, and verifiability (Baniata, 2024; Neel & Safdar, 2024). In addition, it goes against the purpose of the conceptual framework for public sector financial reporting, which advocates the preparation and provision of high-quality financial information and reports (IPSASB, 2014; Kicová, 2017).

Since it is the responsibility of those charged with governance to prepare and present financial reports, some studies have highlighted that the quality of financial reporting is highly affected by internal factors embraced in the leadership of the reporting entities (Fitrios, 2016; Mkonya et al., 2018). This means that the effort to prepare financial reports with the desired quality rests on the leadership abilities of the related institution. This originates from the view that leaders of public organisations, such as LGAs, are the ones who provide the necessary support and commitment related to the provision of financial and human resources to achieve the objectives of financial reporting (Kezaabu et al., 2024). In this view, the capacity of leadership of various public entities sends a signal to several users and stakeholders of financial reports related to the quality of financial reporting (Thoa & Nhi, 2022). According to Tummers and Knies (2016), leadership capacity describes the roles of public leaders, which enables them to encourage and deal with their various employees by inspiring them in accountability, rule-following, political loyalty, and network-governance leadership. Based on this, the entity's leadership is recognised as an essential partner in providing quality financial reports. This is also maintained by institutional theory (DiMaggio & Powell, 1983), in which it is argued that disclosure of quality financial reporting depends much on the capacity of those charged with governance. In this case, coercive pressure on public leaders makes them employ their leadership capacity to meet the provisions of numerous stakeholders in financial reporting, such as citizens, parliaments, and international and local development partners (Tummers & Knies, 2016). In addition, Andersen (2018) and Bass (1985) highlighted that transformational leadership theory insists that leaders encourage employees to embrace various network-governance practices, which in turn promote the achievements of the organisation's desired objectives, including LGAs.

Although leadership capacity is essential in ensuring financial reporting quality, the link between leadership capacity and financial reporting quality in LGAs has received limited attention, to the best of our knowledge and understanding. Prevailing studies have examined the affiliation among management support, managerial competencies, integrated reporting, supervisory mechanisms, and financial reporting quality (Kezaabu et al., 2024; Madawaki et al., 2022; Pham et al., 2022; Thoa & Nhi, 2022). This has resulted in a knowledge gap for our present study. In addition, this study recognises research conducted by Tran et al. (2021) in Vietnam, which scrutinised the influence of accountability and leadership on financial reporting quality. However, it is limited by the reflection of only two variables related to leadership capacity: accountability and rule-following leadership. It has considered a narrow aspect of leadership capacity since it ignores political loyalty and network governance leadership. This continues to place a need for the current study, which considers four aspects of leadership capacity: accountability, rule-following, political loyalty, and network governance leadership. In addition, the contextual gap exists since most prior studies have been done in Asian countries (Madawaki et al., 2022; Pham et al., 2022; Thoa & Nhi, 2022; Tran et al., 2021), which vary significantly from Tanzanian LGAs in terms of culture, organisational-managerial settings, and applicable laws and regulations in managing LGAs. Based on this, the present study intends to examine the effects of leadership capacity on financial reporting quality in Tanzanian LGAs while guided by institutional and transformational leadership theories.

Based on the essential roles played by the LGAs and the need for quality financial reporting, the present study dwells on the following contributions. First, according to the researchers' knowledge and understanding, the current study is the first to offer an empirical connection between dimensions of leadership capacity and the quality of financial reporting among governments of developing countries, particularly Tanzanian LGAs. In doing so, our study provides substantial contributions to the literature, which resides on the link between public administrations (leadership capacity) and financial reporting quality in the public sector. Second, this study offers managerial and practical implications for integrating rule-following leadership, accountability leadership and network governance leadership in the LGAs' financial reporting practices. In this case, the present study creates essential implications among decision-makers and policymakers in the governments of emerging and developing states. Finally, this study offers implications for restructuring policies and regulations related to the composition of the full council and its committees, by introducing professionalism, in order to separate political and financial reporting practices in local government authorities. In doing so, public sector financial reporting quality will be improved, and conducive environments for delivering social services among LGAs will be assured. This, in turn, will lead to the sustainable accomplishment of various SDGs, including poverty eradication and access to basic social services. Therefore, this study examines the influences of accountability, rule-following, network governance, and political loyalty leadership on LGAs' financial reporting quality in Tanzania.

The rest of this paper is arranged as follows. The next section reviews related literature enhanced with hypotheses development. A presentation of the methodology and data analysis follows this. Afterwards, presentations and

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discussions of the results were documented. Then, conclusions and implications are presented. Lastly, limitations and areas for further research are offered.

2. Literature review and hypotheses

2.1 Institutional theory

The current study employs institutional theory (DiMaggio & Powell, 1983). This theory describes how entities such as LGAs react to various pressures emanating from the institutional environments in which they operate. It shows how the practices of reporting entities, such as leadership and financial reporting practices, are implemented and enlightened to respond to institutional pressure (Mbelwa et al., 2019). According to Matekele and Komba (2019), institutional theory introduces practices inconsistent with organisations' standard settings and practices. Financial reporting quality is recognised as one of the practices brought by institutional theory, which places a need on the leadership of the reporting entity to meet the objective of financial reporting in the public sector (Kateb, 2024; Oulasvirta, 2014). The demand for high-quality financial reports in LGAs originates from coercive pressure generated by institutional stakeholders, which requires leaders of reporting entities to apply their leadership capacity to meet such requirements (Sellami & Gafsi, 2020; Tanjeh, 2016). This suggests that the preparation and presentation of the desired quality financial reports are embedded in the institutional leadership capacity, which comprises rule-following, accountability, network governance, and political loyalty leadership (Tummers & Knies, 2016). According to Sulu-Gambari et al. (2018), coercive pressure becomes unavoidable and a driving force for public sector entities in developing countries to apply their leadership abilities to realise the anticipated financial reporting quality. Our study considers institutional theory to examine the influence of rule-following, accountability and political loyalty leadership on LGAs' financial reporting quality.

2.2 Transformational leadership theory

As founded by James MacGregor Burns in 1978, it dwells on cultivating leaders who can motivate and inspire employees and teams to utilise their potential in achieving the organisations' objectives (Andersen, 2018; Bass, 1985). According to Bowyer and Fowler (2024) and Yammarino and Dubinsky (1994), it is argued that the leadership of an organisation such as LGAs possesses inspirational motivation, which plays an essential role in creating leadership and governance networks, to ensure effective financial reporting practices and improve the performance of the entity. This becomes possible through leadership integrating and motivating employees to apply network governance leadership within various LGAs and outside entities (Burns, 2004). From this perspective, the employment of transformational leadership theory emanates from the view that transformational leaders encourage and inspire subordinates like LGAs accountants and auditors to create leadership networks, which assist them in dealing with various financial reporting practices to ensure the quality of their financial reporting. This indicates that transformational leadership practices offer conducive environments for the encouragement and empowerment of organisations and employees to fully embrace various leadership and network-governance practices fully, hence leading to the attainment of required performance, including desired financial reporting quality. Generally, transformational leadership theory encourages leaders and employees to have a vision and establish networks that will be shared among employees and the entire organisation to achieve common objectives, such as presenting quality financial reports.

2.3 Hypotheses development

2.3.1 Accountability leadership and financial reporting quality

Accountability leadership involves encouraging and inspiring employees to substantiate and explain their decisions and actions to various stakeholders (Kilango & Mutalemwa, 2024; Tummers & Knies, 2016). It is recognised as one of the most substantial elements in the operations and management of public entities, including LGAs, which creates obligations for public leaders and employees to explain and justify their conduct related to entrusted responsibilities (Harun et al., 2019; Syafaruddin, 2024). For instance, in the context of financial reporting in LGAs, the council treasurer encourages subordinates to explain and justify to the external auditors why a particular accounting treatment was done in a specific manner, representing accountability leadership. Prior studies and supporters of institutional theory have pointed out that when public leaders encourage their employees to provide rationalisations for their decisions, automatically such leaders and employees will implement their responsibilities based on the required standards, hence improving their performance (Dewi et al., 2019; Jyoti & Dev, 2015; Tran et al., 2021). This indicates that accountability leadership among LGAs holds council management teams accountable to various stakeholders, including parliament, development partners, citizens and activists. In doing so, the performance of entities such as LGAs will be enhanced, leading to improved financial reporting quality (Kheriollahi & Ghorbani, 2023). This agrees with Muraina and Dandango (2020) and Adiputra et al. (2018), who revealed that implementing accrual-based accounting has improved public entities' accountability and performance. Based on these arguments, the study contends that since financial reports are prepared and presented by employees, their quality is significantly influenced by the level of accountability existing in their leadership. This leads to the following hypothesis:

H1: Accountability leadership positively influences financial reporting quality

2.3.2 Rule-following leadership and financial reporting quality

Being one of the critical values in public leadership, rule-following leadership deals with following and adhering to government laws, regulations, and local and international standards (Thomas, 2018). It involves making decisions and actions within the rule of law (Tran & Hoang, 2024). In public sector financial reporting, rule-following leadership requires accountants and auditors to comply with applicable accounting standards, circulars and guidelines such as government circulars, accrual-based International Public Sector Accounting Standards (IPSAS), tax laws and other related requirements. As advocated by coercive pressure from institutional theorists (Mbelwa et al., 2019), to achieve the desired financial reporting quality among LGAs, the employment of rule-following leadership in LGAs is unavoidable. This designates that under rule-following leadership, leaders inspire accountants and auditors to comply with accounting standards and policies that are indispensable in various financial reporting processes. When public leaders embrace rule-following leadership (Zhang et al., 2024), compliance with applicable laws, regulations and accounting standards will be maintained, ensuring the entity's managerial competencies and performance (Kezaabu et al., 2024). In doing so, the quality of financial reporting will be strengthened by embracing accounting standards and other relevant requirements. This makes the present study to state that:

H2: Rule-following leadership positively influences financial reporting quality

2.3.3 Political loyalty leadership and financial reporting quality

Political loyalty leadership originates from having leaders who persuade their subordinates to carry out their decisions and actions in line with the interests and demands of politicians (Khanchel et al., 2025; Van der Wal et al., 2008). Under this, decisions and actions are made regardless of cost (EL-Ammari, 2023). This implies that they should be implemented even if such actions may cost them negatively. In the case of LGAs, this may occur when the executive director instructs and encourages the council treasurer to implement a particular action that emanates from instructions from councillors or ministers. At the same time, several shortcomings are embraced in such action (Liu et al., 2024; Niklasson et al., 2024). Based on this, Gailmard and Patty (2012) and EL-Ammari (2023) argued that when leaders of public institutions such as LGAs become loyal to politicians while ignoring the requirements of procedures, regulations, and laws, undesired outcomes will occur.

In addition, politics is everywhere and embraced in various LGA's activities, including financial reporting (Cheong et al., 2018; Habib et al., 2018; Haider et al., 2020; Jordan et al., 2018). This indicates that examining the connection between political loyalty and financial reporting quality will add value to LGA's financial management practices. With these arguments, our study suggests that political loyalty leadership leads to undesired financial reporting practices, such as creative accounting. This, in turn, compromises accounting policies, procedures and standards, lowering the quality of financial reports. With this view, it is stated that:

H3: Political loyalty leadership negatively influences financial reporting quality

2.3.4 Network governance leadership and financial reporting quality

Network governance leadership emanates from employees actively encouraged by their leaders to stay connected with various professional stakeholders, including attendance at professional development programmes (Tummers & Knies, 2016; Zhang et al., 2024). This is evidenced when accountants and auditors from various institutions, including LGAs, are allowed and sponsored to attend continued professional development seminars and conferences, in which their professional competencies are improved (Orobia et al., 2023). As per Andiola et al. (2024) and Omer et al. (2020), this helps them create and maintain professional networks, which will aid them in implementing various professional undertakings like preparing high-quality financial reports. This is in line with transformational leadership theory (Andersen, 2018; Bass, 1985), which focuses on cultivating leaders who are skilful and capable of motivating and inspiring employees and teams to create and utilise their potential emanating from various networks to achieve organisational objectives such as financial reporting quality. This implies that LGAs that encourage their employees to spend more time creating connections with numerous stakeholders are likely to improve their financial reporting practices. This leads to the following hypothesis:

H4: Network governance leadership positively influences financial reporting quality

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Figure 1 shows the conceptual model for the relationship between leadership capacity and LGAs' financial reporting quality.

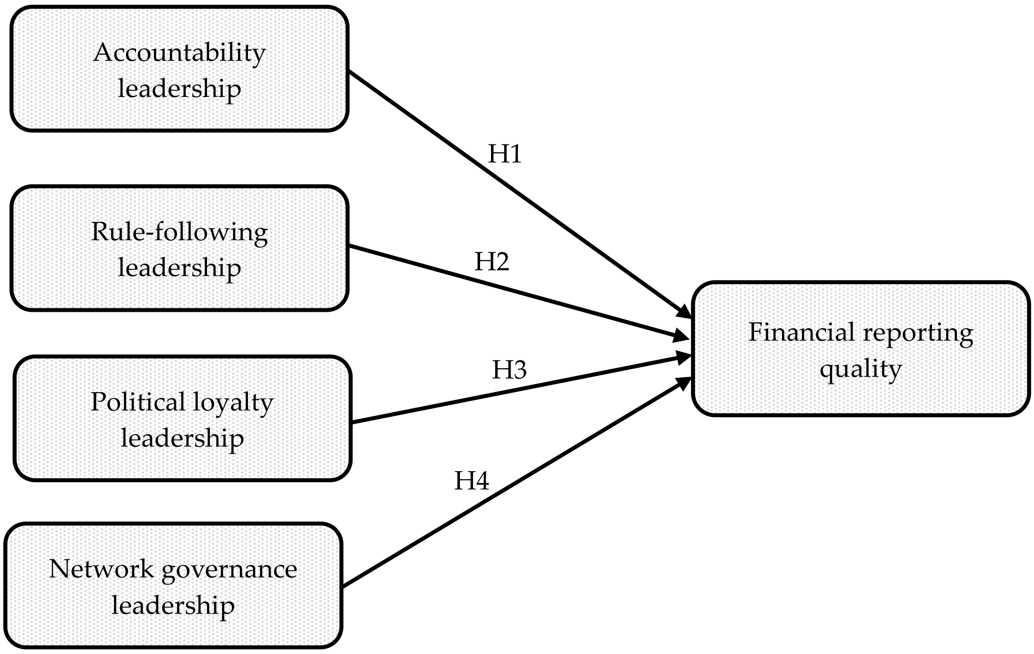

Figure 1. The conceptual model
Source: Figure by authors

3. Methodology

3.1 Study design, population and sample

A cross-sectional survey design was employed to examine the connection between leadership capacity and the quality of financial reporting of LGAs. The population of the study was 184 LGAs located in mainland Tanzania. These LGAs comprise city, municipal, town, and district councils. Within the population of 184 LGAs, 74.5% (137 LGAs) are district councils, while the rest fall under city, municipal and town councils (NAOT, 2023). In addition, a stratified sampling approach was applied due to the nature and types of the LGAs, as grouped by the PO-RALG (NAOT, 2023). This indicates that grouping the LGAs into various councils assisted researchers in selecting targeted LGAs. The existence of shortcomings in financial reporting practices among Tanzanian LGAs facilitated the selection of these LGAs as the study area (Matekele et al., 2025; NAOT, 2024). From the stated study's population, the sample size was established using Krejcie and Morgan (1970), which determined a sample size of 126 LGAs. Thereafter, a multiple-respondent approach was employed, in which two respondents from each LGAs were selected. These were final accounts-accountants and internal auditors, who were considered as per their role, experience, and day-to-day participation in various financial reporting practices in LGAs (Matekele et al., 2025).

As per the nature of our study, the unit of analysis was LGAs, and the unit of inquiry was final accounts-accountants and internal auditors. Data collection took place between October 2023 and June 2024. To distribute 252 questionnaires to 126 LGAs, a drop-and-pick strategy was applied, in which a survey instrument was handed to the respondent and collected after completion. The final usable questionnaires were received from 225 respondents, standing for 89.29%. This indicates that the generated responses were higher than 50%, hence making them suitable for further analysis (Kelley et al.,2003; Umbach, 2005).

Furthermore, to ensure ethical considerations, researchers obtained research permits from relevant authorities before embarking on collecting data. Appropriate explanations associated with the study were given to respondents to make room for voluntary participation and awareness when filling out the survey instrument. These procedures aided in ensuring ethical concerns in our research (Drolet et al., 2023). In addition, informed oral consent was obtained from respondents after submitting research permits and collecting data. This was attributed to the nature of LGAs operations, which made obtaining oral permission from the respondents highly suitable. This was also accelerated by having research permits from PO-RALG, regional administrative secretariats, and council executive directors, hence being unsuitable to apply for written consent.

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3.2 Measures

This study applied a survey instrument to collect primary data on the relationship between leadership capacity and LGAs' financial reporting quality. This was based on well-established and validated statements from preceding literature, which were employed to measure the study's variables (Creswell, 2019). Leadership capacity, as the independent variable of the current study, was operationalised as accountability (4 items), rule-following (4 items), political loyalty (2 items), and network governance leadership (5 items) (Tummers & Knies, 2016). Minor modifications to the items were made, mainly related to contextualisation of the statements in Tanzanian LGAs. The study's dependent variable was financial reporting quality (7 items), which was ideally operationalised as fundamental and enhancing qualitative features of financial information (IPSASB, 2014, 2021). The nature of financial management practices in the public sector, such as LGAs, advocates using qualitative attributes of financial reporting to measure financial reporting quality (Matekele et al., 2025). This highlights that using opinion-based measures provides more perceptions than real earnings and discretionary accruals since LGAs are not commercially oriented. In addition, Furqan et al. (2020) and IPSASB (2014) determined that evaluating financial reporting practices using fundamental and enhancing qualities reveals reliable results. In addition, operationalisation employed a five (5)-point Likert-type scale, with 1 indicating "strongly disagree" and 5 representing "strongly agree" (Likert et al., 1934, 1993). This implies that respondents were requested to rate their extent of agreement or disagreement with the presented statements for each variable.

3.3 Data analysis

The analysis of the collected data to establish the relationship between leadership capacity and LGAs' financial reporting quality was conducted using the partial least squares structural equation modelling (PLS-SEM) embedded within SmartPLS 4 (Ringle et al., 2024). The PLS-SEM is recognised for its ability to analyse models characterised by relationships with numerous independent and dependent variables, while incorporating various indicators and multiple interactions among them (Hair et al., 2022). Additionally, it is regarded as an efficient and contemporary data analysis approach, which does not heavily rely on sample size or the normality of data distribution (Hair et al., 2019).

4. Results and discussion

4.1 Common method bias

Researchers conducted statistical tests directed by the Herman single-factor test to establish common method bias, as supported by Podsakoff et al. (2012). Findings revealed that the explained variance is 33.25%, lower than 50%. This implies that the study has no serious common method bias concerns since the outcomes are below the 50% threshold.

4.2 Assessment of the measurement model

The measurement model was considered to establish composite reliability, discriminant and convergent validity, collinearity and effect size. As advocated by Hair et al. (2022), indicators having outer loadings of more than 70% are considered acceptable. The Cronbach's alpha values start from 0.778 to 0.852 (Table 1). This implies that assurance for reliability has been attained since the recorded values are more than 0.700, which is the required threshold. Additionally, the values for composite reliability for every variable are 0.857 (accountability leadership), 0.900 (rule-following leadership), 0.831 (political loyalty leadership), 0.894 (network governance leadership), and 0.879 (financial reporting quality). Since these values are more than the standard scores of 0.700, it is established that the attainment of internal consistency and reliability has been assured. On top of that, the AVE was considered to test for the convergent validity of the model based on the minimum required value of 0.50 (Magno et al., 2024). Results in Table 1 illustrate that the scores for AVE for each variable are 0.600 (accountability leadership), 0.693 (rule-following leadership), 0.710 (political loyalty leadership), 0.630 (network governance leadership), and 0.512 (financial reporting quality). This ratifies acquiescence with the standard values for AVE in numerous items in the measurement model.

The discriminant validity was examined using the Heterotrait-Monotrait ratio and the Fornell-Larcker criterion. Results in Table 2 reveal that discriminant validity was attained since the values for the Heterotrait-Monotrait ratio are not more than 0.850 (Ab Hamid et al., 2017). In the case of the provisions of Fornell and Larcker, the square root of AVE is larger than the constructs' correlation (Table 3). This means the results agree with the acceptable values (Fornell & Larcker, 1981). Moreover, Table 1 shows the non-existence of multicollinearity concerns since each item's variance inflation factor (VIF) is less than the advocated value of 0.500 (Hair et al., 2019).

Table 1. Measurement model

Variables	Outer loadings	VIF	Cronbach's alpha	Composite reliability	AVE
Accountability leadership (AL)					
AL1	0.733	1.368	0.778	0.857	0.600
AL2	0.789	1.672			
AL3	0.789	1.601			
AL4	0.786	1.533			
Financial reporting quality (FRQ)					
FRQ1	0.698	1.958	0.841	0.879	0.512
FRQ2	0.620	1.749			
FRQ3	0.667	1.471			
FRQ4	0.684	1.397			
FRQ5	0.789	2.431			
FRQ6	0.768	2.626			
FRQ7	0.765	1.941			
Network governance leadership (NGL)					
NGL1	0.806	1.997	0.852	0.894	0.630
NGL2	0.854	2.397			
NGL3	0.699	1.708			
NGL4	0.815	2.214			
NGL5	0.786	2.173			
Political loyalty leadership (PLL)					
PLL1	0.849	1.215	0.792	0.831	0.710
PLL2	0.836	1.215			
Rule-following leadership (RFL)					
RFL1	0.815	1.921	0.852	0.900	0.693
RFL2	0.860	2.302			
RFL3	0.877	2.718			
RFL4	0.774	1.985			

Source: Table by the authors

Table 2. Heterotrait-Monotrait ratio

Variables	AL	FRQ	NGL	PLL	RFL
AL					
FRQ	0.611				
NGL	0.578	0.572			
PLL	0.474	0.772	0.449		
RFL	0.610	0.445	0.404	0.236	

Source: Table by the authors

Table 3. Fornell-Larcker criterion

Variables	AL	FRQ	NGL	PLL	RFL
AL	0.775				
FRQ	0.495	0.715			
NGL	0.472	0.489	0.794		
PLL	0.321	0.566	0.322	0.843	
RFL	0.497	0.382	0.340	0.166	0.833

Source: Table by the authors

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4.3 Assessment of the structural model

The evaluation of the structural model was considered by establishing the coefficient of determination (R^2) and the effect size (f^2), as advocated by Hair et al. (2022). As shown in Figure 2, the R^2 value is 48.80%. This implies that LGA's financial reporting quality is explained by accountability leadership, rule-following leadership, political loyalty leadership and network-governance leadership by 48.80%. Our model demonstrates a moderate explanatory capacity, as per Hair et al. (2022) and Shmueli et al. (2016). Besides that, the effect size (f^2) was applied to determine the contributions of leadership capacity to the quality of financial reporting in LGAs. Table 4 highlights that the contributions of each variable are 0.043 (accountability leadership), 0.031 (rule-following leadership), 0.068 (network-governance leadership), and 0.283 (political loyalty leadership). Since the values of accountability leadership, rule-following leadership, and network-governance leadership are higher than 0.020 and not more than 0.150, as recommended by Cohen (1988), it is stated that these variables have a moderate effect on the quality of financial reporting in Tanzanian LGAs. In the case of political loyalty leadership, its effect is moderate but approaching to large effects, because its value is higher than 0.150. As advocated by Cohen (1988), such effect size advocates that accountability leadership, rule-following leadership, network-governance leadership and political loyalty leadership are essential and suitable practical factors to describe financial reporting quality in Tanzanian LGAs. In addition, PLS prediction was applied to determine our model's predictive relevance before establishing statistical outcomes for the proposed hypotheses (Henseler et al., 2016). As shown in Table 5, the score for the Stone–Geisser (Q^2) is 0.434. This implies the existence of predictive relevance since the values of Q^2 is greater than zero. The mean absolute error (MAE) is 0.525, and the root mean square error (RMSE) is 0.762. According to Fornell and Cha (1994), and Shmueli et al. (2019), the model has a predictive capacity since the stated values are less than one.

4.4 Hypotheses testing

This study tested the proposed hypotheses by employing 5,000 bootstrap samples in the bootstrapping procedures to establish the relationship in the model. According to the findings presented in Table 4, accountability leadership (β = 0.188; p =0.030; t = 2.168) has a positive and significant influence on financial reporting quality among Tanzanian LGAs. This leads to the acceptance of H1. This implies that financial reporting quality among LGAs is highly enhanced by the existence of accountability leadership practices. Such practices include having supervisors who honestly and openly encourage employees to provide rationalisations and explanations for their various financial reporting undertakings to numerous stakeholders. This suggests that the LGAs' leadership emphasises that employees respond to questions raised by LGAs clients, including internal and external auditors. In doing so, the quality of prepared and presented financial reports is improved, enhancing LGA's performance. This is consistent with Kheriollahi and Ghorbani (2023), Muraina and Dandango (2020) and Adiputra et al. (2018). These studies highlighted that accountability practices play a significant role in strengthening organisational performance, hence leading to improved accrual accounting practices. This also agrees with institutional theory (DiMaggio & Powell, 1983), which places institutional pressure on organisational leadership to be accountable to its various practices, making them have quality practices related to financial reporting.

In addition, Table 4 reveals that rule-following leadership (β = 0.146; p =0.026; t=2.231) significantly improves LGA's financial reporting quality, which aligns with H2. This entails embracing rule-following leadership extensively to enhance financial reporting quality among Tanzanian LGAs. These findings advocate that rule-following leadership, which embraces the compliance and requirements of laws, regulations, standards, and government procedures and policies in various undertakings of the LGAs, affects their financial reporting quality significantly. This means that the leadership of the LGAs, which places much consideration on compliance with different statutory practices and requirements, will be enlightened, hence contributing towards presenting and reporting high-quality financial information. This goes in harmony with Zhang et al. (2024), who emphasised that having public leaders who acknowledge their wrongdoings in the eyes of the requirements of laws and regulations stimulates employees' compliance with applicable standards and regulations, hence adding value to the achievement of intended performance. Strengthening this, Kezaabu et al. (2024) concluded that managerial competencies are essential in ensuring integrated financial reporting practices, originating from having management teams that emphasise compliance with laws and regulations. In this case, our findings shed more light on the need for LGA's management teams to practice and encourage rule-following leadership, strengthening the quality of financial reports.

On the other hand, Table 4 indicates that political loyalty leadership positively influences financial reporting quality (β = 0.411; p =0.000; t=4.555). This is not consistent with our prior hypothesis (H3) in terms of the direction in which it was expected that political loyalty leadership negatively influence financial reporting quality. Contextually, these findings could be justified by the presence of working environments in LGAs, in which politicians (councillors) are part and parcel of the LGAs' managerial decisions, hence making LGAs management and staff highly inclined to various

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political practices and directions. In the settings of Tanzanian LGAs, this suggests that it is the customs of LGAs to embrace political agenda and interferences from councillors and ministers, so as to achieve political objectives, hence reflecting these results. Despite such contextual settings, prior studies such as Niklasson et al. (2024) and EL-Ammari (2023), emphasised that when public entities such as LGAs are highly loyal to political decisions, non-compliance with standards, laws, and regulations will be experienced. In practice, this leads to inadequate performance, including low financial reporting quality. Since politics are highly embraced in various LGA's activities, Cheong et al. (2018), Habib et al. (2018), Haider et al. (2020), and Jordan et al. (2018) collectively underlined that entities should pay much attention to practices related to political loyalty and organisational performance. This implies that financial management practices, such as financial reporting practices, should be kept separate from various unfavourable political decisions. This will be consistent with recommendations by the CAG, who highlighted that to enhance the effective performance of LGAs in Tanzania, decision-makers should introduce a separate oversight organ which will replace councillors (NAOT, 2017, 2018). In doing so, various political practices will be separated from LGAs activities.

Furthermore, the positive influence of network governance leadership on LGA's financial reporting quality is confirmed ($\beta = 0.218$; $p = 0.002$; $t = 3.066$); hence H4 is accepted. This suggests that when management teams of the LGAs allow their employees to maintain professional contacts with other entities and colleagues and to invest more resources in building and motivating professional development, the LGAs' financial reporting practices are strengthened. Through network governance leadership, accountants and auditors in LGAs are encouraged by leaders to establish strong relationships with their fellow professionals. In doing so, when they encounter professional challenges related to financial reporting, it will be easy for them to obtain professional assistance, hence improving the quality of financial reporting. Previous studies, such as Mang'ana et al. (2023), Orobia et al. (2023) and Omer et al. (2020), support our findings in that the competencies of preparers and presenters of financial reports are highly enhanced when they are sponsored and allowed to attend various professional development programmes. As per Omer et al. (2020), this gives them professional networks and a common understanding of different accounting practices and treatments, strengthening financial reporting quality. In addition, Andiola et al. (2024) highlighted that professional coaching of accountants and auditors is significantly maintained when attending professional development seminars and conferences is continued.

Table 4. Hypotheses testing

Hypotheses	Original sample	Sample mean	Standard deviation	T statistics	p-values	f^2
H1	0.188	0.192	0.087	2.168	0.030	0.043
H2	0.146	0.151	0.065	2.231	0.026	0.031
H3	0.411	0.415	0.090	4.555	0.000	0.283
H4	0.218	0.216	0.071	3.066	0.002	0.068

Source: Table by authors

Table 5. PLSpredict LV summary

Variable	**Q^2predict**	**RMSE**	**MAE**
FRQ	0.434	0.762	0.525

Source: Table by authors

This study employed importance-performance analysis to provide managerial consideration for improved financial reporting quality among LGAs. As shown in Table 6, political loyalty leadership is the most influential variable in explaining the quality of financial reporting. This is followed by network governance and accountability leadership and finally by rule-following leadership. Generally, this implies that council management teams in various LGAs should pay much attention to the leadership capacity dimensions to attain improved financial reporting quality. This is consistent with Martilla and James (1977), who emphasised that variables presenting substantial performance should be given maximum reflection by management.

Table 6. Importance-performance matrix for the LGAs' FRQ

Variables	**Total effects**	**Performance**	**Performance/Importance**	**Rankings**
AL	0.188	76.703	407.355	3
NGL	0.218	71.873	330.106	2
PLL	0.411	73.129	177.924	1
RFL	0.146	81.051	555.764	4

Source: Table by authors

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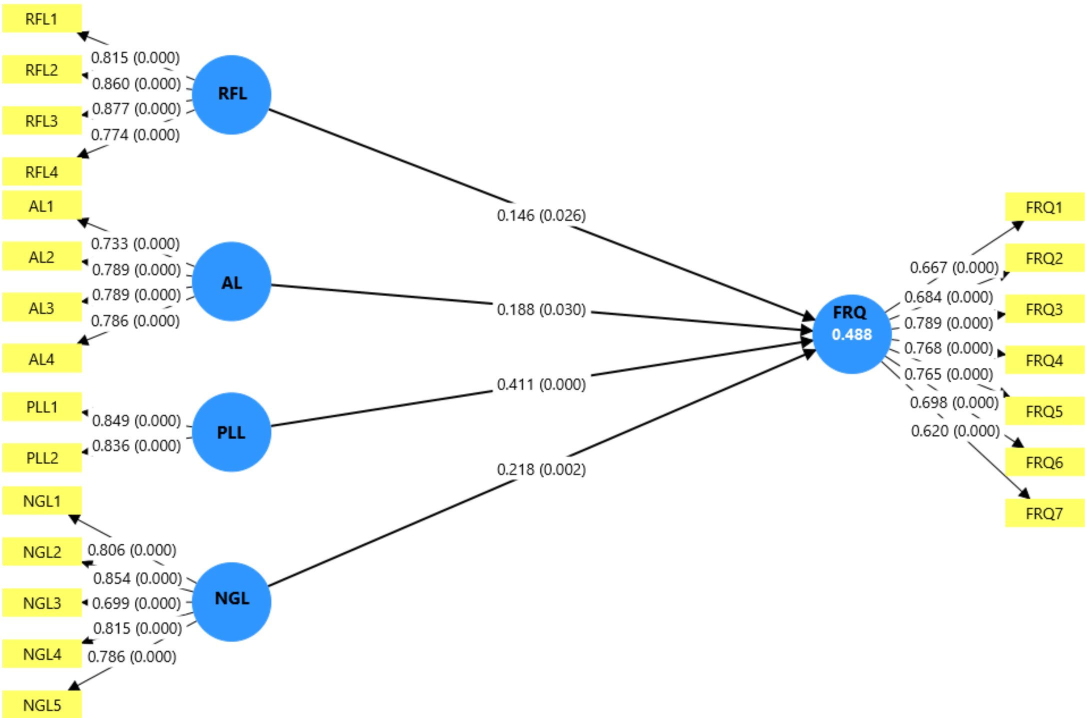

Figure 2. The structural model
Source: Figure by authors

5. Conclusion and implications

5.1 Conclusion

Guided by institutional and transformational leadership theories, this study intended to examine the relationship between four (4) dimensions of leadership capacity (accountability, rule-following, network governance and political loyalty leadership) and financial reporting quality. The empirical results reveal that financial reporting quality among LGAs is positively and significantly explained by accountability, rule-following, and network governance leadership. On the other hand, political loyalty leadership has significant positive influence on LGAs' financial reporting quality, contrary to prior expectations, which creates a need for further studies. Generally, these findings accentuate the inevitabilities of viewing leadership capacity as an essential practice in enhancing good financial reporting among LGAs. Based on this, the following section offers various implications for the current study.

5.2 Theoretical implications

The findings of our study contribute to the theoretical understanding by shedding more light on the connection between accountability, rule-following, network governance, political loyalty leadership and LGA's financial reporting quality. Based on transformational leadership and institutional theories, the results of this study entail that desired financial reporting quality among LGAs can be attained through embracing leadership practices related to accountability, rule-following, and network governance leadership. Accordingly, the present study offers substantial theoretical contributions to public sector financial reporting and public administration practices (leadership capacity). By drawing on theoretical understandings from public administration and public sector financial reporting, our study introduces accountability, rule-following, and network governance leadership as public administration practices that positively connect with LGAs' financial reporting processes.

5.3 Managerial implications

The present study provides various managerial insights to inform LGAs' management teams and decision-makers about enhancing financial reporting quality among LGAs. This study requires council management teams in various LGAs to exercise accountability leadership practices in various undertakings. This implies that the LGAs' management team should establish a culture of accountability to the community and related stakeholders. In doing so, they will cultivate an accountability culture among their subordinates. Furthermore, council management teams in various LGAs should incorporate practices of rule-following leadership in their daily management of LGAs. This implies that to achieve the desired financial reporting quality among LGAs, leaders must be trained on the importance of complying with laws, accounting standards, regulations and policies related to public sector financial reporting practices. Since financial reporting quality emanates from compliance with applicable accounting standards, rules and regulations, financial reporting quality will be guaranteed when LGAs' management is strongly equipped with this. Generally, since the preparation and presentation of quality financial reports is the duty of those charged with governance (the management team of LGAs), it is essential to reform the leadership practices of various LGAs. This signifies that leadership practices in LGAs should be strengthened to incorporate dimensions of leadership capacity (accountability, rule-following, and network governance leadership). In doing so, the intended role of LGAs, mainly related to providing social services among communities, will be improved.

5.4 Policy implications

This study offers implications for policymakers to revisit the structure and political set-up of LGAs in developing countries, particularly Tanzania, by embracing professionalism in the full council and its various committees. Since LGAs are highly inclined to political interventions, policymakers should revisit the composition of the full council, which is recognised as an oversight board in the LGAs. This implies that professionalisation should be highly encouraged and recognised in various policies and regulations governing the composition of the full council. To achieve this, there is a need for the governments in developing countries to establish another oversight body which will replace the position of councillors in LGAs while embracing the need for strong corporate governance practices. In doing so, various LGAs' activities and operations, including the quality of public sector financial reporting, will be improved, and conducive working environments for delivering social services among LGAs will be ensured. Also, this perspective will strengthen financial management practices, including auditing, budgeting, accounting and financial reporting. Therefore, establishing special institutions for managing LGAs, which will replace councillors, is unavoidable. This will aid in attaining numerous SDGs among LGAs, such as poverty and corruption reduction and improved access to basic social services. Finally, policymakers should introduce an accounting professional development policy among LGAs. This will ensure that various council management teams, accountants, and internal auditors in Tanzanian LGAs are allowed, as well as sponsored and administratively supported, to attend various professional development programmes. This, in turn, will assist in creating reliable and strong network governance leadership, enhancing professional practices in financial reporting.

6. Limitations and areas for further research

Even though our study provides essential contributions to understanding the link between leadership capacity and LGAs' financial reporting quality, it is limited by some limitations, which call for further studies. Since our study focused on examining the direct link between financial reporting quality and rule-following, accountability, network governance and political loyalty leadership, the study suggests modifications of the model incorporate other variables. The current study recommends the introduction of councillors' managerial competencies and political connections as moderating variables. In doing so, the expanded conceptual model will help to offer new and comprehensive insights into our findings. Furthermore, to test the robustness of our results, it is proposed that the conceptual model be replicated in the settings and contexts of other local governments in developing countries. This is indispensable as the administrative, cultural and legal set-up of various LGAs differs from country to country, necessitating further examination of the proposed connections through different national and cultural settings. To address the practical challenges and political sensitivity of our study, including response bias and access to reliable responses from respondents in LGAs, this study recommends using secondary data for future studies. This will also solve limitations related to using accountants and auditors to rate financial reporting quality, since they are the preparers and auditors of financial statements. Finally, as the existing study engaged quantitative approaches in examining LGA's financial reporting quality, it is recommended that subsequent studies should apply qualitative approaches. Such methods involve interviews and focus group discussions. In doing so, respondents' inner perceptions and insights on the quality of LGAs' financial reports will be gained. Based on this, explanations of the drivers of LGAs' financial reporting quality from qualitative perspectives will be generated using a comprehensive approach.

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