Accounting Analysis Journal 12(2) (2023) 144-154

Accounting Analysis Journal

https://journal.unnes.ac.id/sju/index.php/aaj

Board of Directors and Financial Restatement: Evidence from The Two-Tier System

Ni Wayan Rustiarini [1]✉, Ni Putu Shinta Dewi [2], and Ni Made Sunarsih [3]

[1,2,3]Department of Accounting, Faculty of Economics and Business, Universitas Mahasaraswati Denpasar, Indonesia

ARTICLE INFO

Article History:
Submitted May 24th, 2023
Revised June 15th, 2023
Accepted November 17th, 2023
Published November 28th, 2023

Keywords:
Director; Female; Restatement

ABSTRACT

Purpose : This study investigates the role of the characteristics of the Board of Directors (BoD) on financial restatements. The characteristics are reviewed based on board tenure, board size, board independence, female board, foreign board member, board level education, board accounting expertise, and dual board position.
Method : The research sample is a manufacturing company on the Indonesia Stock Exchange for 2017-2021. The analytical tool used is logistic regression.
Findings : This study found that five board characteristics negatively affect financial restatements: board tenure, board size, board independence, female board, and board accounting expertise. On the other hand, a dual position has a positive effect on financial restatements. Meanwhile, foreign board and board education do not significantly affect financial restatements.
Novelty : First, considering BoD as a decision maker in the company, board characteristics influence group dynamics in collaboration and communication to implement corporate governance. Second, studies that analyze the impact of executive boards on financial statements still need to be expanded, especially in Indonesia, which adheres to a two-tier system. Third, previous studies that examine the role of BoD and financial restatements have provided contradictory evidence, and many studies still need to prove the effectiveness of the BoDs' characteristics on financial restatements.

INTRODUCTION

Financial restatement is an aggressive topic in accounting and auditing. The restatement indicates a company's failure to comply with generally accepted accounting principles or that the financial statements contain material misstatements (Mohammad et al., 2018). Financial restatement indicates that companies have weaknesses in accounting and financial reporting practices, ineffective internal control systems, or earning management (Hasnan et al., 2020; Rezaee et al., 2021). The misstatement forced the company to make restatements and reissue previous financial statements (Hasnan et al., 2020).

The phenomenon of financial restatements highlights the role of the Board of Directors (BoD) in maintaining the quality of financial reports. After the accounting scandals committed by Enron and Worldcom, the role of the board of directors in the corporate governance system became the center of public attention worldwide (Sun & Bhuiyan, 2020). The board is essential in making company decisions, especially regarding financial reporting. Nonetheless, the effectiveness of the board of directors in corporate governance depends on the characteristics of the board itself (Besar et al., 2017). Therefore, this study identifies eight BoD characteristics: board tenure, board size, board independence, female board, foreign board member, board level education, board accounting expertise, and dual board position.

This study has three reasons underlying the importance of this topic. First, financial restatements are a red flag that companies do not have strong corporate governance (Hasnan et al., 2020). Considering BoD as a decision maker in the company, board characteristics influence group dynamics in collaboration and communication to implement corporate governance (Abbott et al., 2012). Referring to the Upper Echelon Theory, The characteristics of an executive board not only create a combination of competencies, skills, and demographic characteristics that enhance the board's effectiveness in financial reporting and represent the directors' values (Sun & Bhuiyan, 2020).

* *E-mail: rusti_arini@unmas.ac.id*
Address: Jalan kamboja No 11 A Denpasar, Indonesia

DOI 10.15294/aaj.v12i2.68995 p-ISSN 2252-6765 e-ISSN 2502-6216

Second, this study focuses on the function of the BoD in a two-tier system. This structure separates the roles and responsibilities of the board of directors as the executive board in corporate governance. Nevertheless, this system has weaknesses. The two-tier system gives executive board members more information on managing the company than the supervisory board. Information asymmetry tends to cause the executive board to be more dominant in decision-making, including increasing opportunities for misleading information to occur in financial reporting. In addition, a two-tier system is prone to create agency conflict due to the complexity of interaction and communication between the executive and supervisory boards (Bezemer et al., 2014). Nevertheless, to the best of the author's knowledge, studies that analyze the impact of executive boards on financial statements still need to be completed, especially in the context of a two-tier system.

Third, some studies have identified the role of the BoD and financial restatements. Nevertheless, previous studies have provided contradictory evidence, and many studies still need to prove the effectiveness of BoDs' characteristics on financial restatements. Several studies have found no relationship between financial restatement and board tenure (Hasnan et al., 2017; Hasnan & Marzuki, 2017), board size (Hasnan et al., 2020; Putri et al., 2021), and board independence (Hasnan et al., 2017, 2020; Hasnan & Marzuki, 2017). Additionally, previous studies could not prove the impact of female and foreign board members on financial restatements (Hasnan et al., 2017; Hasnan & Marzuki, 2017). Some studies find an insignificant relationship between board accounting expertise and financial restatement (Altarawneh et al., 2020; Hasnan et al., 2017; Hasnan & Marzuki, 2017). Likewise, several studies cannot empirically prove the relationship between the dual position of CEO and financial restatement (Hasnan et al., 2020; Hasnan & Marzuki, 2017). Meanwhile, studies have not explored the relationship between board-level education and financial restatement. These inconclusive findings motivate this study to explore the relationship between BoDs' characteristics and financial restatements.

This study was conducted in Indonesia, which adheres to a two-tier system. This rule states that the organs of a company consist of a general meeting of shareholders, directors, and a board of commissioners. The directors are fully responsible for the operational and management activities of the company, while the board of commissioners performs general supervision and provides advice to the directors. This provision implies a clear boundary between the directors and the commissioners. Nonetheless, the directors and commissioners have an equal position because they are both responsible for the general meeting of shareholders. This condition raises concerns that the commissioners cannot effectively supervise the directors because of their equal position. As a result, the two-tier system provides leeway for directors in presenting financial statements.

This study examines the role of BoDs' characteristics on financial restatements. The board characteristics are reviewed based on board tenure, board size, board independence, female board, foreign board member, board level education, board accounting expertise, and dual board position. This study found that five characteristics have a negative effect on financial restatements, namely board tenure, board size, board independence, female board, and board accounting expertise. In contrast, a duality board position positively affects financial restatements. Meanwhile, foreign board members and board education do not significantly affect financial restatements.

The results contribute to the development of theory and practical decision-making within companies. Theoretically, this study confirms the Upper Echelon Theory introduced by Hambrick & Mason (1984), which reveals that BoDs' characteristics affect financial restatements. The findings are expected to provide feedback to several parties interested in the financial reporting of public companies in Indonesia. The results also are expected to reduce the potential for financial restatements and improve the quality of financial reporting.

The upper-echelon theory reveals that strategy formulation and decision-making in organizations cannot be separated from the characteristics of the individuals involved in these activities. The critical aspect is that individual management characteristics influence strategic decision-making, which impacts organizational performance (Neely et al., 2020; Wang et al., 2016). Several researchers have confirmed the role of the Upper Echelon Theory in underlying various empirical studies in accounting. The meta-analytic study conducted by Plöckinger et al. (2016) reports that executive characteristics significantly affect the quality of financial statement disclosure. Other studies also use the Upper Echelon Theory to explain the effect of manager characteristics on financial restatements (Besar et al., 2017).

In the context of financial reporting, the phenomenon of financial restatements indicates the occurrence of misstatements in the financial statements, and the companies need to revise financial statements that have been previously issued. Even though financial restatements aim to protect users of financial statements (Besar et al., 2017), this condition indicates weaknesses in corporate governance. The Upper Echelon theory provides an understanding that individual character influences decision-making, including in the presentation of financial statements. Thus, the company's financial statements indirectly reflect top management's characteristics (Plöckinger et al., 2016).

Board tenure is one of the many BoD characteristics discussed in the Upper Echelon Theory. Tenure relates to commitment, experience, and decision-making patterns (Altarawneh et al., 2020). Board members with longer tenure are assumed to have accumulated experience, expertise, and commitment that influence economic decision-making (Kim et al., 2014), including financial reporting. Studies by Besar et al. (2017) reveal a negative relationship between CEO tenure and financial restatement. Nonetheless, several studies have reported mixed results. A group of researchers stated that increasing the tenure of board members and directors would reduce critical thinking and give constructive arguments in decision-making (Jia, 2017). The CEO's long tenure also reduces the quality of internal control oversight, and it tends to lead to earnings management (Bravo & Reguera-Alvarado, 2018; Lin et al., 2014; Sun & Bhuiyan, 2020) and financial restatement (Altarawneh et al., 2020). Another study that identified the relationship between board tenure and financial reporting quality (using indicators of accrual quality, abnormal accruals, C-scores, and restatements) found an inverted U-shaped relationship (Huang & Hilary, 2018).

Meanwhile, other studies are needed to empirically prove the relationship between board tenure and financial restatements (see Hasnan et al., 2017; Hasnan & Marzuki, 2017). Even though there are inconclusive findings, this study assumes that the top management team with long tenure has good internal business knowledge to improve the quality of financial reporting. The first hypothesis is as follows:

H_1: Board of director tenure reduces financial restatements

The board of directors' size also affects the quality of financial reporting. According to the Upper Echelon Theory, larger boards will have more external resources. Many directors also provide additional business knowledge and expertise to improve the quality of financial reporting (Hasnan, 2017). A group of studies documented a negative relationship between board size and earnings management (Aygun et al., 2014; Obigbemi et al., 2016). In line with these findings, a study by Hasnan et al. (2017) proves that board size has a negative effect on financial restatement.

Conversely, other studies provide conflicting empirical evidence. The director's size does not affect earnings management (Al Azeez et al., 2019) and financial restatement (Hasnan et al., 2020). This study assumes that many directors will conduct the internal control function effectively to minimize errors in financial statements. The second hypothesis is as follows:

H_2: Board of director size reduces financial restatements

The independent director's role is to ensure all corporate activities are suitable with applicable statutory provisions. The existence of an independent position from company executives allows independent directors to conduct objective assessments and decision-making (Al Azeez et al., 2019). Thus, the presence of an independent director could increase the relevance of presenting accounting information and reduce the possibility of financial restatement (Hasnan et al., 2020). However, these results have received some debate. Previous studies reported that independent directors could not control earnings management activities because they could not access company-specific information (Uwuigbe et al., 2018). In line with these findings, other studies have also failed to empirically prove a relationship between board independence and financial restatement (Hasnan et al., 2017, 2020; Hasnan & Marzuki, 2017). Although there are mixed findings, this study considers that independent directors have a practical function. They do not have psychological or economic ties that could hinder their ability to perform their functions (Abbott et al., 2012). The third hypothesis is as follows:

H_3: Board of director independence reduces financial restatements

The quality of financial reporting is inseparable from the heterogeneity of BoD, one of which is the presence of female directors. Sociological literature reveals that heterogeneous groups have an advantage in decision-making. Female directors are less likely to be involved in earnings management than male directors. Women tend to be more conservative, risk-averse, and less tolerant of opportunistic behavior (Chen et al., 2016). Therefore, the presence of female directors has a negative effect on financial restatement (Abbott et al., 2012; Putri et al., 2021). However, other studies provide contradictory results. Companies with a higher proportion of female directors tend to be involved in earnings management, reducing the quality of financial reporting (Arun et al., 2015) and increasing financial restatement (Altarawneh et al., 2020). Other studies have failed to identify a significant relationship between female directors and financial restatements (Hasnan et al., 2017; Hasnan & Marzuki, 2017). This study assumes that the presence of female directors reduces the financial restatements. The fourth hypothesis is as follows:

H_4: Female director reduces financial restatements

Globalization requires multinational companies to design global business strategies. This condition encourages companies to hire foreign directors. Besides having experience and global business networks, foreign directors have better governance capabilities, which are transferred to local board members (Miletkov et al., 2017). Geographically diversified boards contribute to better disclosure quality. Foreign directors generally adhere to cultural values that emphasize the importance of transparency (Dobija & Puławska, 2022; Oxelheim et al., 2013) and have an independent position to conduct their function effectively (Giannetti et al., 2015; Oehmichen et al., 2017). Therefore, the presence of foreign directors reduces the potential for financial misstatements (Dobija & Puławska, 2022). Nevertheless, other studies suggest that foreign board members tend to miss board meetings, making it difficult to make decisions. Their absence will increase the possibility of misstatement in financial statements (Dobija & Puławska, 2022; Masulis et al., 2012; Suh et al., 2018), such as earnings management activities (Hooghiemstra et al., 2019). Other studies fail to empirically prove foreign directors' influence on financial restatements (Hasnan et al., 2017; Hasnan & Marzuki, 2017). This study considers that foreign directors have better governance experience, reducing the potential for financial restatements. The fifth hypothesis is as follows:

H_5: Foreign director members reduce financial restatements

Education is a formal process to improve one's cognitive abilities. Education is interpreted as acquiring knowledge, skills, and technical expertise (Besar et al., 2017). Educated directors are seen as easier to understand, analyze, and provide solutions to complex problems (Jiang et al., 2016). Directors with higher education can transfer knowledge to their board colleagues, contributing positively to company performance (Terjesen et al., 2016). Studies by Nguyen et al. (2015) prove a positive relationship between board education and company performance. However, other studies have found no significant relationship between education level and firm performance (Daily & Dalton, 1994; Rose, 2007). Studies by Bennouri et al. (2018) report that director education is negatively correlated with market performance but positively correlated with accounting performance. Other studies reveal that higher CEO education positively affects financial statements (Besar et al., 2017). Despite the inconclusive findings, this study presumes that a more highly educated board of directors potentially detects financial misstatements. The sixth hypothesis is as follows:

H_6: Board of Director Education reduces financial restatement

A critical element in presenting financial statements is the presence of accounting experts on the BoD. Regarding the Upper Echelon Theory, CEOs with accounting expertise produce quality financial reports (Matsunaga et al., 2013). CEOs deeply understand accounting concepts and practices and tend to be more conservative in presenting financial reports. They share more knowledge in complex accounting calculations, reducing the potential for accounting misstatements. If there is a mistake in the presentation of financial statements, the board provides appropriate accounting arguments and rhetoric to justify the mistake (Rezaee et al., 2021). Previous studies have proven that board accounting expertise increases board conservatism (Matsunaga et al., 2013). This implies that accounting expertise enhances the CEO's ability to reduce material errors and mitigate audit risk. Boards with accounting expertise also improve internal control functions on financial reporting (Oradi et al., 2020; Salehi et al., 2018) and reduce the possibility of financial restatement (Rezaee et al., 2021). Nevertheless, other studies have found a non-significant relationship between board accounting expertise and financial restatement (Altarawneh et al., 2020; Hasnan et al., 2017; Hasnan & Marzuki, 2017). This study assumes that a BoD with accounting expertise will reduce errors in presenting financial statements. The seventh hypothesis is as follows:

H_7: Board of director accounting expertise reduces financial restatement

Multiple roles indicate the existence of multiple director positions in several companies. This phenomenon is common among directors, considering the limited number of independent directors in Asian public companies (Fadzilah, 2017). However, this practice raises two opposite effects. On the one hand, multiple roles provide much experience for directors to improve their abilities in managing and making company decisions (Fama & Jensen, 1983). On the other hand, multiple roles lead to high activity, so the director cannot conduct the monitoring function effectively (Emmanuel et al., 2014).

Consequently, several empirical studies document mixed findings. Hasnan et al. (2017) study shows that directors with multiple roles effectively reduce financial statements. Contrarily, Baatour et al. (2017) revealed that multiple directorships positively affect real earnings management but do not significantly affect accrual-based earnings management. Other studies cannot empirically prove the relationship between the dual position of the CEO and the likelihood of financial restatement (Hasnan et al., 2020; Hasnan & Marzuki, 2017). Although there are inconsistencies in the findings, this study assumes that multiple roles reduce the effectiveness of directors in supervising financial reporting, thereby increasing the possibility of a financial restatement. The eighth hypothesis is as follows:

H_8: Dual director position increases financial restatement

RESEARCH METHODS

The research population is manufacturing companies listed on the Indonesia Stock Exchange. There are two reasons for using manufacturing companies. First, the corporate sector that dominates Indonesian public companies is manufacturing. Second, manufacturing companies have a larger business scale and diverse sectors. Thus, the results of this study can be generalized to other sectors. The research period is for the last five years, 2017-2021. During this period, several adjustments were made to Indonesia's financial accounting standards statement. As a result, several companies made financial restatements to adjust these policies. The total number of manufacturing companies in Indonesia is 146 companies. Based on the purposive sampling data collection method, eight companies did not have the required characteristic BoD data; therefore, 138 companies were obtained. Thus, there are 690 data observations for this study.

The dependent variable is a financial restatement, while the independent variable is a BoD characteristic in terms of eight characteristics, namely board tenure, board size, board independence, female board, foreign board member, board level education, board accounting expertise, and dual board position. This study also uses four financial ratios as control variables: return on assets, debt to equity ratio, current ratio, and firm size. The description and measuring of variables are presented in Table 1.

This study uses logistic regression analysis to test the effect of the BoD on diversity and financial statements. Logistic regression techniques are used to test models with dichotomous dependent variables. The dependent variable is a financial restatement with two categories (restatement and non-restatement). This analysis requires prerequisite tests, namely model feasibility tests (Hosmer and Lemeshow Tests) and overall model fit.

RESULTS AND DISCUSSIONS

This study shows descriptive statistics consisting of Panel A and Panel B in Table 2. These panels contain the mean, standard deviation, mean difference, and t-value for 690 samples. Meanwhile, Panel B presents the frequencies and percentages for the independent variables using dichotomous variables. Table 2 presents descriptive statistics for the variables. Panel A shows that companies that conduct financial restatements have a lower average value of board tenure and board size variables than those that do not. Panel A also reveals a significant difference in the mean values for two variables. The same goes for the other elements of board diversity. Panel B shows that companies that make financial restatements have lower mean values for board independence, board female, foreign board member, board education, and board financial expertise variables. Contrarily, the average value for the duality board position variable is higher for companies that conduct financial restatements than those that do not. Also,

Table 1. The description and measuring of variables

Variable	Measurement	Reference
Financial restatement	Dichotomous variable, which is a value of 1 for companies that conducted financial restatements and 0 otherwise.	Abbott et al. (2012), Hasnan et al. (2017), Hasnan & Marzuki (2017)
Board tenure	The average number of years of service for the board of directors.	Hasnan et al. (2017), Hasnan & Marzuki (2017)
Board size	Total number of board of directors.	Abbott et al. (2012)
Board independence	Dichotomous variable, namely the value of 1 if the company has at least one independent director and 0 otherwise.	Beasley (1996), Hasnan et al. (2017)
Female board	Dichotomous variable, namely the value of 1 if the company has at least one female director and 0 otherwise.	Abbott et al. (2012), Hasnan et al. (2017), Hasnan & Marzuki (2017)
Foreign board member	Dichotomous variable, namely the value of 1 if the company has at least one foreign director and 0 otherwise.	Rustiarini et al. (2023)
Board level education	Dichotomous variable, namely a value of 1 if the company has at least one director with a postgraduate level of education and 0 otherwise.	Besar et al. (2017)
Board accounting expertise	Dichotomous variable is a value of 1 if the company has at least one director with education or experience in accounting and 0 otherwise.	Hasnan et al. (2017), Hasnan & Marzuki (2017)
Dual board position	Dichotomous variable, namely the value 1 if there is at least one director who holds multiple positions in another company and 0 otherwise.	Hasnan et al. (2017), Hasnan & Marzuki (2017)
Return on asset	Net profit divided by total assets.	Alfonso et al. (2018), Rustiarini et al. (2021)
Debt to equity ratio	Total debt is divided by total equity.	Liu and Elayan (2015), Rustiarini et al. (2021)
Current ratio	Current assets are divided by current liabilities.	Alfonso et al. (2018)
Firm size	The natural logarithm of the company's total assets.	Altarawneh et al. (2020)

Source: The Processed Data (2023)

Table 2. Statistik deskriptif

Panel A: Continuous Variables

	Financial Restatement Firms		Non Financial Restatement Firms			
	(N = 43)		(N = 647)			
Variable	**Mean**	**Std Dev**	**Mean**	**Std Dev**	**Mean Diff**	**t-value**
Board tenure	2.442	1.881	3.09	2.215	-0.648	-1.873***
Board size	3.674	1.267	4.794	2.108	-1.12	-3.442**
Return on asset	0.469	0.262	0.524	0.27	-5.495	-1.299
Debt to equity ratio	1.221	0.564	0.948	0.594	27.223	2.921*
Current ratio	1.142	0.554	1.604	0.834	-46.195	-3.578*
Firm size	11.113	2.057	11.23	1.896	-11.692	-0.389

Panel B: Dichotomous Variables

Variable	**Frequency of "1" (%)**	**Frequency of "0" (%)**	**Mean of FR**	**Mean Non-FR**	**Mean Diff**	**t-value**
Board independence	241 (34.90%)	449 (65.10%)	0.14	0.363	-0.224	-2.994**
Female board	297 (43.00%)	393 (57.00%)	0.093	0.453	-0.36	-4.681*
Foreign board member	221 (32.00%)	469 (68.00%)	0.256	0.325	-0.069	-0.935
Board education	499 (72.30%)	191 (27.70%)	0.581	0.733	-0.151	-2.150**
Board accounting expertise	637 (92.30%)	53 -7.70%	0.698	0.938	-0.241	-5.868*
Duality board position	394 (57.10%)	296 (42.90%)	0.814	0.709	0.105	1.472

Note: *, **, *** significance at 1%, 5%, and 10%

Source: researcher calculation (2023)

there are significant differences in the average scores for board independence, board female, board education, and board accounting expertise variables. Panel B also reports that the sample has a variable frequency of independent directors (34.90%), female boards (43.00%), and foreign board members (32.00%), which is relatively low because it is below 50%. Nonetheless, most companies have directors with postgraduate education (72.30%) and accounting expertise (92.30%). Meanwhile, most BoD has concurrent positions in other companies (57.10%).

Before testing the research hypotheses, this study conducted a model feasibility test using the Hosmer and Lemeshow Tests. Table 3 presents a Chi-Square value and a significance of 4.997 and 0.758, indicating that the research model follows the observation data. The results of the overall model fit also show a decrease in the initial and final LogLikelihood (-2LL) values, and it can be concluded that the hypothesized regression model fits the data. Table 4.2 also presents the Nagelkerke R Square value of 0.314, which means that the variability of the dependent variable that the independent variables can explain is 31.40%. In comparison, other variables outside the model explain the remaining 68.60%. Additionally, this regression model can predict the possibility of financial restatement of 94.20%.

Table 3 presents a logistic regression model that produces coefficient and significance values for each tested variable. Statistical test results reveal that five board characteristics have a negative effect on financial restatements, namely board tenure, board size, board independence, female board, and board accounting expertise. Meanwhile, a duality board position positively affects financial restatements. The results support H_1, H_2, H_3, H_4, H_7, and H_8. Nevertheless, foreign board members and board education variables do not significantly affect the financial restatement, so they do not support H_5 and H_6.

The results of the first hypothesis test reveal that board tenure has a negative effect on financial restatement at a significance level of ten percent. This result suggests that the term of office of the BoDs reduces the possibility of a financial restatement. Referring to the Upper Echelon Theory, board tenure is a top management characteristic that impacts decision-making (Sun & Bhuiyan, 2020). Board tenure is related to the experience and commitment of the directors to the company. Directors with longer tenures are seen as having in-depth knowledge of the company's internal business, so they better understand how to manage the company based on their experience (Huang & Hilary, 2018). Directors collect more information regarding the company's business environment as constructive input to improve company performance. Previous studies document that a CEO gains more power when in a position for a long time (Mishra & Nielsen, 2000). In financial reporting, directors with long tenures have greater power to over-

Table 3. Hypothesis testing result

Variable	B	S.E	Wald	Sig.
Board tenure	-0.213	0.113	3.57	0.059***
Board size	-0.317	0.115	7.534	0.006**
Board independence	-1.389	0.514	7.3	0.007**
Female board	-2.48	0.632	15.409	0.000*
Foreign board member	0.635	0.464	1.872	0.171
Board education	-0.149	0.397	0.141	0.707
Board accounting expertise	-2.466	0.502	24.135	0.000*
Duality board position	1.33	0.486	7.484	0.006**
ROA	-0.012	0.007	2.636	0.104
DER	0.007	0.004	3.852	0.051***
CR	0.002	0.003	0.239	0.625
FS	0.001	0.001	0.386	0.534
Chi-Square		4.997		
-2 Log Likelihood (Block Number = 0)		321.955		
-2 Log Likelihood (Block Number = 1)		235.947		
Nagelkerke R Square		0.314		
Overall percentage (%)		94.2		

Note: *, **, *** significance at 1%, 5%, and 10%

Source: researcher calculation (2023)

see the process of preparing financial reports. Boards with longer terms of office have a greater chance of detecting misuse of accounting principles to reduce misleading financial statements (Donoher et al., 2007).

Additionally, management will use their prior expertise and experience to make accounting decisions (Gounopoulos & Pham, 2018). These findings support a study by Besar et al. (2017) that revealed a negative relationship between CEO tenure and financial restatement. Meanwhile, these findings do not support previous empirical studies which revealed that long tenure of CEOs reduces the quality of internal control oversight so that it tends to lead to earnings management (Bravo & Reguera-Alvarado, 2018; Lin et al., 2014; Sun & Bhuiyan, 2020) and financial restatement (Altarawneh et al., 2020).

Statistical test results for the second hypothesis reveal that board size has a negative effect on financial restatements. From an agency perspective, a large board is assumed to support a practical function because it has many experienced directors. These results are consistent with the Upper Echelon Theory, which reveals that a large board size provides additional sources of business knowledge and expertise to improve the quality of financial reporting. The results of this hypothesis test are consistent with previous studies, which revealed that board size is negatively related to earnings management (Aygun et al., 2014; Obigbemi et al., 2016) and financial restatement (Hasnan et al., 2017).

The results of the third hypothesis test reveal that the proportion of board independence reduces financial restatement. The presence of independent directors is essential in corporate governance. They share knowledge and experience outside the company and provide objective considerations to reduce agency problems (Al Azeez et al., 2019; Huang & Hilary, 2018). Additionally, independent directors are not involved in operational activities and do not have psychological or economic ties with internal company parties. This position allows them to monitor effectively (Abbott et al., 2012). Beasley (1996) argues that independent directors have incentives to maintain their reputation, and they try to minimize the occurrence of financial restatements. Thus, it is assumed that a board with an independent director minimizes the possibility of a financial restatement. These findings support previous empirical evidence that independent directors increase relevance in presenting accounting information and reduce financial restatement (Hasnan et al., 2020).

Based on a gender perspective, the female board has a vital role in reducing the possibility of financial restatement. Several kinds of literature reveal that women's presence on the BoD creates heterogeneity in decision-making. Women are generally introspective and conservative, so they avoid risks and carefully make decisions (Abbott et al., 2012). Women also tend to exhibit ethical behavior and a low tolerance for opportunistic behavior (Chen et al., 2016). This characteristic causes them to be less likely to be involved in earnings management activities.

Additionally, female directors generally hold fewer directorships, thereby contributing positively to the effectiveness of monitoring financial reporting. Studies by Abbott et al. (2012) report that the presence of at least one female director reduces financial restatements. This finding is consistent with previous research, which found a negative relationship between female directors and financial restatements (Abbott et al., 2012; Putri et al., 2021). However, these findings contradict previous studies, which reported that the proportion of women is positively related to earnings management (Arun et al., 2015) and financial restatement (Altarawneh et al., 2020).

Contrary to the previous result, the fifth hypothesis reveals that the foreign board member does not significantly affect financial restatement. Foreign board members are essential in transferring international knowledge and experience to local directors (Dobija & Puławska, 2022; Miletkov et al., 2017). Nonetheless, this study revealed an insignificant relationship between foreign board members and financial restatements. This is possibly due to three conditions. First, foreign directors have been unable to monitor financial reports effectively due to language and cultural differences. These differences potentially raise communication and coordination problems related to understanding the client's internal business (Hooghiemstra et al., 2019).

The different cultural characteristics and backgrounds may cause conflicts among board members (Suh et al., 2018). Second, there is a possibility that foreign directors are in different locations and time zones, so they cannot perform functions effectively, allowing for higher reporting misstatements (Masulis et al., 2012). Third, the main objective of recruiting foreign directors is to develop business strategies for foreign markets so they are less involved in presenting financial reports (Suh et al., 2018). The findings support several other studies that report that foreign directors have no significant effect on financial restatements (Hasnan et al., 2017; Hasnan & Marzuki, 2017). Contrarily, this finding does not support previous studies that reported that foreign directors' presence reduces the potential for financial misstatements (Dobija & Puławska, 2022).

Statistical test results for the sixth hypothesis also failed to provide empirical evidence for the relationship between board education and financial restatements. Theoretically, directors with a higher education level play a role in transferring knowledge to their colleagues and contributing positively to company performance (Terjesen et al., 2016). However, this study presents findings that are contrary to ideal conditions. This is likely due to several reasons. First, the education level is not correlated with the accounting field but adjusts to a particular field or industry sector. Thus, the board must gain knowledge and competence in presenting financial statements. Second, the level of education only partially reflects a person's cognitive ability and social construction, especially on a homogeneous board profile. The educational level is often used to legitimize a person's position or position in an organization (Bennouri et al., 2018; Singh et al., 2015). This study supports previous studies that did not find a significant relationship between the director's education and firm performance (Daily & Dalton, 1994; Rose, 2007).

The statistical results for the seventh hypothesis proved that directors with accounting expertise could reduce financial restatement. The Upper Echelon theory reveals that individual characteristics determine decision-making within a company, including the director's expertise in accounting. CEOs with financial experts have the knowledge and competence to understand complex accounting issues as well as the process of preparing financial reports (Altarawneh et al., 2020). Directors with accounting expertise also have experience monitoring the company's internal control system, thereby reducing the possibility of material misstatements. A director with accounting expertise provides appropriate arguments and rhetoric to explain the reasons (Rezaee et al., 2021). This finding is in line with previous research, which reported that financial expertise increases the CEO's role in internal control (Oradi et al., 2020; Salehi et al., 2018), improves the quality of financial reporting (Gounopoulos & Pham, 2018), and financial restatement (Rezaee et al., 2021).

Finally, the eighth hypothesis test results show a positive relationship between duality board position and financial statements. Duality position is common among public company directors, especially in Asia (Fadzilah, 2017). This study reports that a duality board position does not increase the tendency for financial statements. Several reasons support the results of this hypothesis test. First, boards with positions in other companies will have a high activity level, so they lose focus on presenting financial reports. Second, the duality position causes the board to feel stressed and overwhelmed in managing work, reducing the director's productivity. As a result, the board cannot identify possible misstatements in the financial statements. The results support a study by Baatour et al. (2017) that found that multiple directorships positively affect real earnings management. Nevertheless, this finding contradicts previous studies which reported that dual directorships were negatively related to financial restatement (Hasnan et al., 2017).

CONCLUSIONS

Financial statements are red flags that the company does not have strong corporate governance. At the same time, the board of directors is the company's decision-making center in the two-tier governance system. Financial statements indicate the board of directors' failure in financial reporting, so they cannot produce high-quality financial reports. Referring to the Upper Echelon Theory, this study examines the role of BoD characteristics on financial statements. The characteristics are reviewed based on eight elements: board tenure, board size, board independence, female board, foreign board member, board level education, board accounting expertise, and dual board position. The results found that five characteristics have a negative effect on financial restatements, namely board tenure, board size, board independence, female board, and board accounting expertise. This finding confirms that boards with a longer term of office and a more significant number of members have a greater chance of detecting misuse of accounting principles. The independent's and female directors help the board to avoid disclosing misleading financial statements.

Meanwhile, a director with accounting expertise will minimize the material misstatements in the financial statements. Nevertheless, the duality of the director position increases the tendency for financial statements. The multiple positions create high activity and make them unable to prepare financial reports effectively. Contrary to the previous result, foreign directors do not significantly affect financial statements because they have different languages and cultures. Hence, they need help understanding company financial reporting. Additionally, the director's education does not correlate with the accounting field, and they must have the knowledge and competence to present financial reports.

This study has implications for theory, practice, and policy. Theoretically, the results confirm the Upper Echelon Theory, which emphasizes that the BoD characteristics shape the perceptions and choices of their actions. The characteristics represent the individual values implemented by the BoD in corporate governance. This study also strengthens the role of the Upper Echelon Theory in accounting literature, especially in preparing financial statements. The results emphasize the importance of independent directors, female directors, and directors with accounting expertise. These characteristics contribute to reducing financial restatement. In policy-making, this study implies that regulators or standard setters should pay attention to the demographic and academic backgrounds of top management positions. This improves the quality of financial reporting.

This study has two limitations. First, this initial study was conducted on a two-tier corporate governance system, explicitly using the perspective of the board executive (director). These results need to be complemented by the perspective of the supervisory board (commissioners) or the audit committee. This is confirmed by the Nagelkerke R Square value of 0.314, which means that the independent variables can explain the variability of the dependent variable by only 31.4%. Future research recommended using other elements of governance, such as the characteristics of the board of commissioners, audit committee, or external auditors who play a role in the company's financial reporting. Second, most independent variables were measured using dichotomous variables to accommodate more research samples. As a result, this study could not calculate specific data variations related to the variables studied. Future researchers can use continuous variables to accurately measure and present variable data's value and variation, such as the percentage of female board, independent board, and foreign board.

REFERENCES

Abbott, L. J., Parker, S., & Presley, T. J. (2012). Female board presence and the likelihood of financial restatement. Accounting Horizons, 26(4), 607-629.

Alfonso, E., Christie, A., Hollie, D., & Yu, S. C. (2018). Determinants and economic consequences of cash flow restatements. Journal of Accounting and Public Policy, 37(1), 82-97.

Altarawneh, M., Shafie, R., & Ishak, R. (2020). Chief executive officer characteristics and financial restatements in Malaysia. International Journal of Financial Research, 11(2), 173-186.

Arun, T. G., Almahrog, Y. E., & Aribi, Z. A. (2015). Female directors and earnings management: Evidence from UK companies. International Review of Financial Analysis, 39(5), 137-146.

Aygun, M., Ic, S., & Sayim, M. (2014). The effects of corporate ownership structure and board size on earnings management: Evidence from Turkey. International Journal of Business and Management, 9(12), 123-132.

Al Azeez, H. A. R., Sukoharsono, E. G., & Andayani, W. (2019). The impact of board characteristics on earnings management in the international oil and gas corporations. Academy of Accounting and Financial Studies Journal, 23(1), 1-26.

Baatour, K., Ben Othman, H., & Hussainey, K. (2017). The effect of multiple directorships on real and accrual-based earnings management: Evidence from Saudi listed firms. Accounting Research Journal, 30(4), 395-412.

Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. Accounting review, 71(4), 443-465.

Bennouri, M., Chtioui, T., Nagati, H., & Nekhili, M. (2018). Female board directorship and firm performance: What really matters?. Journal of Banking & Finance, 88(8), 267-291.

Besar, S.S.T., Ali, M.M. & Ghani, E.K. (2017), Examining upper echelons managers' characteristics on financial restatements. Journal of International Studies, 10 (4), 179–191.

Bezemer, P. J., Peij, S., De Kruijs, L., & Maassen, G. (2014). How two-tier boards can be more effective. Corporate governance, 14(1), 15-31.

Bravo, F., & Reguera-Alvarado, N. (2018). Do independent director's characteristics influence financial reporting quality?. Spanish Journal of Finance and Accounting/Revista Española de Financiación y Contabilidad, 47(1), 25-43.

Chen, Y., Eshleman, J. D., & Soileau, J. S. (2016). Board gender diversity and internal control weaknesses. Advances in accounting, 33(6), 11-19.

Daily, C. M., & Dalton, D. R. (1994). Bankruptcy and corporate governance: The impact of board composition and structure. Academy of Management journal, 37(6), 1603-1617.

Dobija, D., & Puławska, K. (2022). The influence of board members with foreign experience on the timely delivery of financial reports. Journal of Management and Governance, 26(1), 287-313.

Donoher, W. J., Reed, R., & Storrud-Barnes, S. F. (2007). Incentive alignment, control, and the issue of misleading financial disclosures. Journal of Management, 33(4), 547-569.

Emmanuel, U., Ayorinde, B., & Babajide, O. (2014). Audit committee multiple directorships and financial reporting quality in Nigeria: An evaluation of the interconnectedness using empirical evidence. Mediterranean Journal of Social Sciences, 5(20), 628-637.

Fadzilah, N. S. B. M. (2017). Board of directors□ characteristics and earnings management of family owned companies. Inter-

national Journal of Accounting & Business Management, 5(2), 68-83.
Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. The journal of law and Economics, 26(2), 301-325.
Giannetti, M., Liao, G., & Yu, X. (2015). The brain gain of corporate boards: Evidence from China. the Journal of Finance, 70(4), 1629-1682.
Gounopoulos, D., & Pham, H. (2018). Financial expert CEOs and earnings management around initial public offerings. The International Journal of Accounting, 53(2), 102-117.
Hambrick, D. C., & Mason, P. A. (1984). Upper echelons: The organization as a reflection of its top managers. Academy of management review, Academy of management briarcliff manor, NY 10510, 9(2), 193-206.
Hasnan, S., & Marzuki, H. (2017). Board of directors' characteristics and financial restatement. The Journal of Muamalat and Islamic Finance Research, 14(1), 1-22.
Hasnan, S., Marzuki, H., & Shuhidan, S. M. (2017). Effects of board characteristics on financial restatement in Malaysia. Pertanika Journal of Social Sciences and Humanities, 25(5), 255-264.
Hasnan, S., Mohd Razali, M. H., & Mohamed Hussain, A. R. (2020). The effect of corporate governance and firm-specific characteristics on the incidence of financial restatement. Journal of Financial Crime, 28(1), 244-267.
Hooghiemstra, R., Hermes, N., Oxelheim, L., & Randøy, T. (2019). Strangers on the board: The impact of board internationalization on earnings management of Nordic firms. International Business Review, 28(1), 119-134.
Huang, S., & Hilary, G. (2018). Zombie board: Board tenure and firm performance. Journal of Accounting Research, 56(4), 1285-1329.
Jia, N. (2017). Should directors have term limits?–Evidence from corporate innovation. European Accounting Review, 26(4), 755-785.
Jiang, W., Wan, H., & Zhao, S. (2016). Reputation concerns of independent directors: Evidence from individual director voting. The Review of Financial Studies, 29(3), 655-696.
Kim, K., Mauldin, E., & Patro, S. (2014). Outside directors and board advising and monitoring performance. Journal of accounting and economics, 57(2-3), 110-131.
Lin, Y. C., Wang, Y. C., Chiou, J. R., & Huang, H. W. (2014). CEO characteristics and internal control quality. Corporate Governance: An International Review, 22(1), 24-42.
Liu, Z., & Elayan, F. A. (2015). Litigation risk, information asymmetry and conditional conservatism. Review of Quantitative Finance and Accounting, 44(4), 581-608.
Masulis, R. W., Wang, C., & Xie, F. (2012). Globalizing the boardroom—The effects of foreign directors on corporate governance and firm performance. Journal of Accounting and Economics, 53(3), 527-554.
Matsunaga, S. R., Wang, S., & Yeung, P. E. (2013). Does appointing a former CFO as CEO influence a firm's accounting policies?. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2206523.
Miletkov, M., Poulsen, A., & Wintoki, M. B. (2017). Foreign independent directors and the quality of legal institutions. Journal of International Business Studies, 48(2), 267-292.
Mishra, C. S., & Nielsen, J. F. (2000). Board independence and compensation policies in large bank holding companies. Financial management, 29(3), 51-69.
Wan Mohammad, W. M., Wasiuzzaman, S., Morsali, S. S., & Zaini, R. M. (2018). The effect of audit committee characteristics on financial restatements in Malaysia. Journal of Asia-Pacific Business, 19(1), 4-22.
Neely Jr, B. H., Lovelace, J. B., Cowen, A. P., & Hiller, N. J. (2020). Metacritiques of upper echelons theory: Verdicts and recommendations for future research. Journal of Management, 46(6), 1029-1062.
Nguyen, D. D., Hagendorff, J., & Eshraghi, A. (2015). Which executive characteristics create value in banking? Evidence from appointment announcements. Corporate Governance: An International Review, 23(2), 112-128.
Obigbemi, I. F., Omolehinwa, E. O., Mukoro, D. O., Ben-Caleb, E., & Olusanmi, O. A. (2016). Earnings management and board structure: Evidence from Nigeria. Sage Open, 6(3), 1-15.
Oehmichen, J., Braun, D., Wolff, M., & Yoshikawa, T. (2017). When elites forget their duties: The double□ edged sword of prestigious directors on boards. Journal of Management Studies, 54(7), 1050-1078.
Oradi, J., Asiaei, K., & Rezaee, Z. (2020). CEO financial background and internal control weaknesses. Corporate Governance: An International Review, 28(2), 119-140.
Oxelheim, L., Gregori□ , A., Randøy, T., & Thomsen, S. (2013). On the internationalization of corporate boards: The case of Nordic firms. Journal of International Business Studies, 44(3), 173-194.
Plöckinger, M., Aschauer, E., Hiebl, M. R., & Rohatschek, R. (2016). The influence of individual executives on corporate financial reporting: A review and outlook from the perspective of upper echelons theory. Journal of Accounting Literature, 37(1), 55-75.
Putri, N. K. W., Rustiarini, N. W., & Dewi, N. P. S. (2021). Board characteristic and financial restatement. Jurnal Keuangan Dan Perbankan, 25(3), 492-507.
Rezaee, Z., Asiaei, K., & Delooie, T. S. (2021). Are CEO experience and financial expertise associated with financial restatements?. Revista de Contabilidad-Spanish Accounting Review, 24(2), 270-281.
Rose, C. (2007). Does female board representation influence firm performance? The Danish evidence. Corporate governance: An international review, 15(2), 404-413.
Rustiarini, N.W., Gama, A.W.S. & Werastuti, D.N.S. (2021). Board of director characteristics, institutional ownership, and accounting conservatism. The Indonesian Journal of Accounting Research, 24(2), 289–320.
Rustiarini, N. W., Kirani, N. P. I. C., & Asih, N. W. E. P. (2023). Commissioner Diversity and Financial Restatement. E-Jurnal Akuntansi, 33(5), 1174–1184.
Salehi, M., Lari Dasht Bayaz, M., & Naemi, M. (2018). The effect of CEO tenure and specialization on timely audit reports of Iranian listed companies. Management Decision, 56(2), 311-328.
Singh, V., Point, S., Moulin, Y., & Davila, A. (2015). Legitimacy profiles of women directors on top French company boards. Journal of Management Development, 34(7), 803-820.

Suh, J., Lee, H. Y., & Lee, H. (2018). The association between foreign directors and opportunistic financial reporting. Investment Management and Financial Innovations, 15(4), 98-112.

Sun, X. S., & Bhuiyan, M. B. U. (2020). Board tenure: A review. Journal of Corporate Accounting & Finance, 31(4), 178-196.

Terjesen, S., Couto, E. B., & Francisco, P. M. (2016). Does the presence of independent and female directors impact firm performance? A multi-country study of board diversity. Journal of Management & Governance, 20(3), 447-483.

Uwuigbe, U., Felix, E. D., Uwuigbe, O. R., Teddy, O., & Falola, I. (2018). Corporate governance and quality of financial statements: a study of listed Nigerian banks. Banks & bank systems, 13(3), 12-23.

Wang, G., Holmes Jr, R. M., Oh, I. S., & Zhu, W. (2016). Do CEOs matter to firm strategic actions and firm performance? A meta-analytic investigation based on upper echelons theory. Personnel Psychology, 69(4), 775-862.