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OWNERSHIP STRUCTURE AND FINANCIAL RESTATEMENT IN EMERGING MARKETS: A STUDY FROM INDONESIA[4]

Financial restatements have been shown to cause anxiety among capital market players due to perceived weaknesses in corporate governance oversight, especially in developing countries. An effective ownership structure can fortify corporate governance, particularly in nations where a robust legal framework is yet to be established, such as Indonesia. The primary focus of this study is to investigate the influence of managerial ownership, institutional ownership, public ownership, and concentrated ownership in financial restatements. The study examines manufacturing firms listed on the Indonesia Stock Exchange over the period 2017 to 2021, employing logistic regression for data analysis. The study reveals that managerial ownership does not exert a significant influence on financial restatements. In contrast, both institutional ownership and public ownership are found to have a negative correlation with financial restatements. Furthermore, the existence of concentrated ownership is associated with a decreased likelihood of financial restatements.
Keywords: Fraud; concentrated ownership; institutional ownership; public ownership
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1. Introduction

Financial statements serve as a public record of a company's stewardship over its resources, aimed at stakeholders. They present an overview of the company's financial status and operational performance over a specific period (Ningsih, 2016). These reports also offer critical financial data that assist shareholders in making economic decisions. However, with the surge in fraud scandals, financial statements can be counterproductive, potentially containing material misstatements that misguide and skew the decisions of users

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(Harymawan, Nurillah, 2017; Li, 2016). Furthermore, subpar financial statements often compel companies to resort to financial restatements.

Financial restatements represent a significant issue in financial reporting activities. They signal that the preceding financial report contains misstatements resulting from incorrect application of generally accepted accounting principles (Hasnan et al., 2020; Mohammad et al., 2018), or they can indicate fraudulent activities leading to material misstatements in published reports (Abdillah et al., 2019; El-Gazzar, Finn, 2017; Luo, Song, 2022). A prior study demonstrated that the complexity of business transactions is a contributing factor to negative reporting outcomes such as financial restatements (Chychyla et al., 2019). Shareholders' involvement in corporate governance practices bolsters reporting oversight, primarily to minimize accounting restatements (Piosik, Genge, 2019).

Numerous scholars have devoted considerable attention to the phenomenon of financial restatement. Their consensus is that robust corporate governance practices significantly aid in maintaining the quality of financial reports (Ismail et al., 2021). Most studies explore the role of governance elements, such as the board of directors (Davis, Garcia-Cestona, 2021; Hasnan et al., 2020; Putri et al., 2021; Street, Hermanson, 2019) and the board of commissioners (Putri et al., 2021), in mitigating financial restatements. Others delve into the roles of the audit committee (Das et al., 2021; Hasnan et al., 2020; Kolev et al., 2019; Oradi, Izadi, 2020) and external audit in relation to financial restatements (Hasnan et al., 2020; Velte, 2022). While research on corporate governance and financial restatements has become extensive, studies focusing on the role of ownership structure in financial restatements are relatively sparse. Consequently, this study seeks to explore the relationship between ownership structure and financial restatement.

This research holds significant value for several reasons. Firstly, financial restatements trigger concerns among capital market players regarding corporate governance oversight (Luo, Song, 2022), particularly in developing countries. Numerous empirical studies report the necessity for developing countries to provide adequate investor protection. The ownership structure is perceived as a mechanism for strengthening corporate governance, especially in countries lacking a solid legal environment (Alhababsah, 2019). Within the realm of financial reporting, an effective shareholder monitoring process is anticipated to decrease the likelihood of financial restatements.

Secondly, there is a scarcity of studies examining the role of ownership structure in financial restatements. This study aims to identify the influence of internal and external share ownership in steering company policies, particularly in financial reporting. The ownership structures play a significant role in determining the effectiveness of governance monitoring quality (Hong, Linh, 2022), inclusive of financial reporting practices. Aziz et al. (2017) revealed that an appropriate ownership structure could deter financial restatements, as shareholders also supervise the preparation of financial reports. Previous research strongly advocates for considering diverse types of ownership due to their varying investment strategies, incentives, and monitoring capabilities (Lim et al., 2014). This study takes into account three types of ownership (managerial, institutional, and public) to mitigate financial restatement.

Thirdly, the concept of ownership structure encompasses not only internal and external parties but also the concentration of shareholdings among certain parties. Research indicates that public companies in Asia, including Indonesia, tend to have a concentration of shares held by a small number of shareholders (Claessens et al., 2000). In the context of corporate governance, the concentration of ownership plays a pivotal role in protecting shareholder wealth (Shleifer, Vishny, 1997). However, empirical studies suggest that concentrated ownership has dual conflicting effects. On one side, large ownership plays a significant monitoring role in corporate governance, thereby reducing agency issues (Jensen, Meckling, 1976; Shleifer, Vishny, 1997). Conversely, a substantial shareholding can enable shareholders to manipulate management to cater to their interests (Tran, Le, 2020). The scenario may facilitate collusion between the majority shareholder (block holder) and management, leading to financial statement fraud (Smaili et al., 2022). These contrasting perspectives have motivated the authors to delve deeper into the impact of concentrated ownership on financial restatements.

This study was conducted within the framework of a developing economy, specifically Indonesia. Previous research has indicated that the governance practices of public companies in Indonesia lag behind those of other countries (Nys et al., 2015; Utama et al., 2017). Indonesia's unique social, political, and business environment significantly influences the growth of its capital market (Moin et al., 2020) and is also associated with weak regulation and investor protection. The focus of this study is the manufacturing sector, which represents a large proportion of companies listed on the stock exchange. Several economists from the World Bank have suggested that Indonesia implement a strategy of economic diversification within the manufacturing sector. This sector has demonstrated resilience in the face of crisis shocks (Moin et al., 2020) and contributes significantly to the Indonesian economy (Handriani, Robiyanto, 2019). Prior research has primarily focused on family and government ownership types that dominate Indonesian public companies (Setiawan et al., 2016; Utama et al., 2017), with limited analysis of other types of ownership, such as managerial, institutional, and public ownership. Thus, this study examines these three types of ownership within the Indonesian context.

The objective of this study is to elucidate the role of ownership structure, namely managerial ownership, institutional ownership, and public ownership, in financial restatements. It also investigates the impact of concentrated ownership on financial restatements. The study was carried out on public companies listed on the Indonesia Stock Exchange. The findings reveal that managerial ownership does not significantly influence financial restatements. Conversely, both institutional ownership and public ownership negatively impact financial restatements, while the existence of concentrated ownership reduces financial restatements.

This research offers both theoretical and practical contributions. Theoretically, it narrows the gap in literature discussing the role of ownership structure and financial restatement, particularly within the context of developing countries like Indonesia. It also strengthens the agency theory and contributes to corporate governance literature regarding ownership structures. From a practical practice, this study sheds light on the role of shareholders in financial reporting practices, highlighting how the type of share ownership can determine the effectiveness of monitoring the company's internal control system.

This paper is organized into five sections. The second section presents the literature review that underpins this study and formulates the hypotheses. The third section details the research methodology, and the fourth section presents and discusses the research findings on the relationship between ownership structure and financial restatements. The final section summarizes the findings discusses implications and limitations, and suggests directions for future research.

2. Literature Review and Hypothesis Development

2.1. Agency Theory

The Agency theory is a cornerstone of corporate governance literature. This theory is rooted in the divergence of interests between company owners and management (Jensen, Meckling, 1976). The separation of corporate resource management and supervisory functions can potentially lead to agency conflicts. To align these interests, managers are often incentivized with ownership, thereby aligning their interests with those of the shareholders (Denis et al., 1999; O'Callaghan et al., 2018). Additionally, share ownership is extended to external parties such as institutional investors and the public, who are perceived as independent entities capable of executing more effective monitoring functions (Rustiarini et al., 2021).

In the context of financial reporting, financial restatements are indicative of weaknesses in the internal control structure and external governance mechanisms (Luo, Song, 2022; Putri et al., 2021). Four conditions typically prompt companies to undertake financial restatements (Eilifsen, Messier Jr, 2000): (1) the occurrence of material misstatements due to inherent risk; (2) internal control failures in preventing or detecting misstatements; (3) auditor failures in identifying or rectifying misstatements on the client's financial statements; (4) the publication of financial reports containing misstatements, necessitating a financial restatement. Financial restatements are mandated when a company must make material corrections to previously issued reports (Luo, Song, 2022).

Financial restatements also signify a low quality of financial reporting as companies fail to prevent misreporting (Christensen et al., 2016; Rustiarini et al., 2023; Wahid, 2019). The ownership structure should bolster the corporate governance system in overseeing the company's financial reporting process (Panda, Bag, 2019). The share ownership by external parties assists in monitoring financial reporting practices. Concentrated ownership also plays a more effective monitoring role than smaller ownership structures (Tran, Le, 2020). Larger shareholders have greater access and voting rights, allowing them to significantly influence company policy. Therefore, ownership structure is a critical component of corporate governance in monitoring financial reporting activities.

2.2. Managerial Ownership and Financial Restatement

Managerial ownership refers to the proportion of share ownership held by a company's internal parties, especially the board of directors (Shan et al., 2019). According to agency theory, a rise in the number of shares owned by management can enhance the alignment

between shareholders and company management's objectives. This alignment, achieved through managerial ownership, can simultaneously reduce the potential for management to deviate in disclosing financial restatements (Hogan, Reid, 2022). Companies with robust intra-organizational trust are likely to exhibit higher internal control quality, a reduced likelihood of misstatement, and superior accrual quality (Garrett et al., 2014; Ilmas et al., 2018).

In the realm of financial reporting, the prospect of financial restatements can exacerbate agency issues between shareholders and company management. Cases of financial restatement can undermine the management's credibility by revealing their unreliability in financial reporting practices (Bhuiyan, Ahmad, 2022). Financial restatements challenge shareholders' trust in the accounting information presented, leading to an increase in information asymmetry. However, findings regarding the relationship between managerial ownership and financial restatements have been inconsistent. On the one hand, a negative association has been observed between the number of shares held by management and financial restatements (Aziz et al., 2017). Managerial ownership has effectively curtailed opportunistic behaviour by management (Dimmock et al., 2015). Other studies have demonstrated a U-shaped relationship between managerial ownership and financial restatements (Zhang, Ma, 2011).

Conversely, some studies have revealed that managers may seek to maximize personal benefits with excessive discretion (Denis et al., 1999; Hogan, Reid, 2022). This opportunity may prompt managers to manipulate financial figures to meet investors' expectations, leading to potential misreporting (Kempf et al., 2017). Users of financial reports generally believe that management oversees the compilation and preparation of financial statements. Hence, any errors in preparing financial statements are often perceived as deliberate attempts to mislead users of financial reports (Bhuiyan, Ahmad, 2022). Therefore, managerial ownership influences the quality of financial reports. This study operates on the assumption that management will strive to meet stakeholders' interests to maintain their reputation. They are unlikely to make material misstatements that necessitate financial restatements. Thus, the first hypothesis is formulated as follows:

H1: Managerial ownership negatively impacts financial restatements.

2.3. Institutional Ownership and Financial Restatement

Institutional ownership refers to the share ownership by external parties of a company, such as banks, insurance companies, pension funds, financial institutions, or other financial entities (Rustiarini et al., 2021). Institutional investors play a crucial role in monitoring to alleviate agency conflicts. Generally more resistant to internal company pressure, institutional investors can reduce the likelihood of misreporting. Several studies have found a negative correlation between institutional ownership and financial restatements (Baber et al., 2015; Myers et al., 2013). This finding suggests that the practical monitoring function of institutional investors increases the transparency and quality of financial information (Hogan, Reid, 2022). The presence of institutional investors strengthens the oversight of the audit committee, preventing financial restatement (Zhang, 2012). Therefore, institutional investors

are instrumental in reducing the potential for directors to present misleading financial reports (Lin et al., 2014).

However, some studies have found that institutional investors exert pressure on management to meet specific objectives, which can lead to unethical behaviour (misreporting) by management to meet the expectations of these institutional investors. This phenomenon points to differences in investment horizons. Institutional investors focused on short-term financial performance may incentivize management to engage in misreporting (Guldiken, 2015). On the other hand, Aziz et al. (2017) found that institutional ownership has no significant effect on financial restatements.

Despite these inconsistencies, institutional investors are incentivized to perform effective monitoring. This type of ownership is likely to demand improved financial reporting quality (Alhababsah, 2019). External oversight is believed to increase disclosure transparency (Hogan, Reid, 2022). Therefore, institutional investors can decrease the potential for financial restatement. This leads to the formulation of the second hypothesis as follows:

H2: Institutional ownership negatively impacts financial restatement.

2.4. Public Ownership and Financial Restatement

Public ownership refers to the ownership of shares by the general public in a publicly-traded company. As shareholders, the public necessitates management to uphold the company's credibility. In this respect, the company must present transparent and accountable financial information as a form of responsibility for the funds invested by the public. Additionally, the provision of accurate financial information is a fundamental basis for shareholders' economic decision-making. Previous research has demonstrated that the public has become sophisticated in monitoring management behaviour (Roulstone, 2003). However, empirical study findings have been mixed. One survey found that the public generally does not focus on detecting fraud or intentional misreporting (Brown et al., 2015), implying no relationship between the two. Another study suggested that the public's inability to detect earnings management resulted from asymmetric information provided by managers prior to financial restatements (Michael et al., 2018). Despite these conflicting findings, this study posits that public ownership can effectively monitor the financial reporting process, thereby reducing the potential for financial restatements. The third hypothesis is formulated as follows:

H3: Public ownership negatively impacts financial restatement.

2.5. Concentrated Ownership and Financial Restatement

Concentrated ownership pertains to the largest shareholders who control a significant proportion of company shares (Chu, Cheah, 2006). The presence of concentrated ownership can have dual contrasting effects. On one hand, significant ownership can exert control over management and reduce agency problems. As per agency theory, concentrated ownership possesses substantial control to prevent accounting errors (Aziz et al., 2017). Prior research has found that concentrated ownership enhances the monitoring function to align the interests

of agents and shareholders (Jensen, Meckling, 1976; Shleifer, Vishny, 1997). Another study suggests that the executive board strives to enhance financial reporting to prevent controlling shareholders from divesting their shares (Dou et al., 2018). Therefore, concentrated ownership motivates management to improve the quality of financial reporting.

On the other hand, concentrated ownership can significantly influence fraudulent financial reporting, even colluding with management to further their interests (Smaili et al., 2022). Concentrated ownership can lead to the emergence of controlling shareholders. Large shareholdings enable these controlling shareholders to monitor all shareholders and control the company's management (Chen et al., 2018). These controlling shareholders have significant power to collude with management in adopting aggressive accounting policies (La Porta et al., 1999). Majority shareholders may exploit minority shareholders to achieve their objectives (Smaili et al., 2022). Conversely, other studies have found no significant correlation between blockholders and financial restatements (Baber et al., 2015). This study posits that majority shareholders are incentivized to monitor managers to reduce the risk of financial restatement. Concentrated ownership serves as an additional control mechanism in corporate governance. Thus, the fourth hypothesis is formulated as follows:

H4: Concentrated ownership negatively impacts financial restatements.

3. Methodology

3.1. Sampling

The population for this study comprises all manufacturing companies listed on the Indonesia Stock Exchange over five consecutive years, specifically from 2017 to 2021. The focus on manufacturing companies as the research subjects stems from their majority representation on the stock exchange. The manufacturing sector plays a critical role in enhancing investment value and exports, thereby making a significant contribution to national economic growth. Furthermore, this sector is a major employer of local workers. Given the pivotal role of manufacturing in the Indonesian economy, this sector is highly attractive to investors.

The sampling procedure employed in this study is purposive sampling. This method involves selecting samples using specific, research-relevant criteria. The criteria adopted are as follows: (1) the company publishes complete financial and annual reports, and (2) the company has managerial ownership, institutional ownership, public ownership, and concentrated ownership. Based on these criteria, this study derived 475 firm-year observations. The data were sourced from financial and annual reports published on the website of the Indonesia Stock Exchange.

3.2. Measurement of Variables

The dependent variable in this study is financial restatement. Four conditions typically prompt companies to undertake financial restatements (Eilifsen, Messier Jr., 2000): (1) the occurrence of material misstatements due to inherent risk; (2) internal control failures in preventing or detecting misstatements; (3) auditor failures in identifying or rectifying

misstatements on the client's financial statements; (4) the publication of financial reports containing misstatements necessitating a financial restatement. Financial restatements are mandated when a company must make material corrections to previously issued reports (Luo, Song, 2022). In line with previous studies, the measurement for financial restatement uses a dummy variable, coded as 1 if the company commits a financial restatement and 0 otherwise (Guldiken, 2015; Putri et al., 2021).

This study employs four independent variables: managerial ownership, institutional ownership, public ownership, and concentrated ownership. Managerial ownership refers to the proportion of share ownership held by a company's internal parties, particularly the board of directors (Shan et al., 2019), measured using the percentage of share ownership. Institutional ownership represents the percentage of share ownership by institutional entities, such as banks, pension funds, investments, and other financial companies (Rustiarini et al., 2021; Rustiarini, Sudiartana, 2021). Similarly, public ownership is measured using the percentage of public share ownership in public-traded companies (Utama et al., 2017). For the measurement of the concentrated ownership variable, this study uses the percentage of share ownership by the largest shareholder as an indicator, as employed in previous studies (Chu, Cheah, 2006). A significant number of shares indicates control by certain parties over management.

This study incorporates four control variables: profitability, leverage, liquidity, and firm size. Profitability is measured using the return on assets, calculated as net income divided by total assets. Leverage is measured using the debt-to-equity ratio, calculated as total debt divided by total assets. Liquidity is measured using the current ratio, calculated as current assets divided by current liabilities. Meanwhile, firm size is measured using the natural logarithm of total assets.

3.3. Data Analysis Technique

The data analysis technique employed in this study is logistic regression, as the dependent variable is a dummy variable. Certain prerequisite tests or data quality checks need to be conducted in logistic regression analysis, such as the overall model fit and the model feasibility test using the Hosmer and Lemeshow Test. Therefore, this analysis does not necessitate a classical assumption test for normality and heteroscedasticity. The regression models are formulated as follows:

$$FR = \alpha + \beta 1\ MO + \beta 2\ IO + \beta 3\ PO + \beta 4\ CO + \beta 5\ Pro + \beta 6\ Lev + \beta 7\ Liq + \beta 8\ FS + \varepsilon \ldots\ldots\ldots \quad (1)$$

Where:

FR = Financial Restatement
MO = Managerial Ownership
IO = Institutional Ownership
PO = Public Ownership
CO = Concentrated Ownership
Pro = Profitability
Lev = Leverage
Liq = Liquidity
FS = Firm size

4. Result and Discussion

4.1. Result

The dataset consisted of 475 firm-year observations. The results of the descriptive statistical analysis are presented in Table 1.

Table 1. Descriptive statistics

	Restating Firms (N = 41)		Non-Restating Firms (N = 434)		Independent Sample t-test	
Variable	Mean	Std Dev	Mean	Std Dev	Mean Diff	t-value
MO	18.844	23.089	9.696	15.502	9.148	0.000*
IO	25.311	11.578	57.459	22.966	-32.148	0.000*
PO	18.344	8.172	27.397	14.816	-9.053	0.000*
CO	34.107	12.371	54.074	19.748	-19.968	0.000*
Pro	0.861	0.587	0.754	0.630	0.107	0.286
Lev	1.854	2.595	1.273	1.599	0.581	0.034**
Liq	1.936	1.924	2.426	2.360	-0.489	0.188
FS	11.623	2.327	11.284	2.104	0.339	0.318

*Note: *, ** indicate significance at the 1%, 5% levels respectively, in a two-tailed test*
MO = managerial ownership; IO = institutional ownership; PO = public ownership;
CO = concentrated ownership; Pro = profitability; Lev = leverage; Liq = liquidity; FS = firm size.
Source: Researcher's calculation (2023).

Table 1 presents the descriptive statistics for 41 companies that committed financial restatements, and 434 that did not. Companies that committed financial restatements have a higher average managerial ownership (MO) than those that did not. Conversely, companies that did not commit restatements have higher average institutional (IO) and public ownership (PO) than those that did. The average concentrated ownership (CO) is also higher in companies that did not commit restatements. Next, Table 2 presents the coefficient correlation values for the variables.

Table 2. Coefficient correlation

	Coefficient Correlation								
	FR	MO	IO	PO	CO	Pro	Lev	Liq	FS
FR	1.000								
MO	-0.308	1.000							
IO	-0.259	0.227	1.000						
PO	-0.249	0.222	0.036	1.000					
CO	-0.177	0.069	-0.380	0.113	1.000				
Pro	-0.123	0.181	0.128	0.153	0.033	1.000			
Lev	-0.152	-0.056	-0.023	0.069	0.219	0.142	1.000		
Liq	-0.179	-0.055	0.060	0.249	0.112	0.029	0.395	1.000	
FS	-0.669	-0.006	0.068	-0.273	-0.225	-0.279	-0.172	-0.202	1.000

Source: Researcher's calculation (2023).

Table 2 demonstrates that the correlation value between variables is less than 0.8, suggesting the absence of multicollinearity symptoms among the variables. The next step involves conducting a model feasibility test. As shown in Table 3, the Chi-Square value is 3.636,

implying that the model is capable of predicting the value of its observations, thereby making the model acceptable. Following this, the coefficient of determination is tested to gauge the model's ability to explain the variation of the dependent variable. The Nagelkerke R Square value of 0.398 indicates that the independent variables can explain 39.8% of the variance in the dependent variable. The model's predictive power in forecasting financial restatements is 80.7%.

Table 3. Logistic regression test result

Variable	B	S.E	Wald	df	Sig.
MO	-0.008	0.009	0.832	1	0.362
IO	-0.056	0.012	21.473	1	0.000*
PO	-0.075	0.023	11.038	1	0.001**
CO	-0.025	0.014	3.109	1	0.078***
Pro	-0.038	0.377	0.010	1	0.919
Lev	-0.020	0.078	0.062	1	0.803
Liq	-0.164	0.119	1.896	1	0.168
FS	0.132	0.105	1.584	1	0.208
Constant	1.591	1.277	1.552	1	0.213
Chi-Square			3.636		
Nagelkerke R Square			0.398		
Overall Percentage (%)			80.7		

*Note: *, **, *** indicate significance at the 1%, 5%, and 10% levels, respectively*
Source: Processed data (2023).

The last test involves hypothesis testing as presented in Table 3. The results indicate that managerial ownership does not impact financial restatements ($\rho = 0.362$), hence not supporting H1. The test results for institutional ownership ($\rho = 0.000$) and public ownership ($\rho = 0.001$) reveal that these two variables negatively affect financial restatements, thereby supporting H2 and H3. Meanwhile, concentrated ownership has a significance value of 0.078, indicating support for H4 at the 10% significance level. The test results for the control variables – profitability, leverage, liquidity, and firm size – show that they do not influence financial restatements.

4.2. Discussion

4.3. Managerial Ownership and Financial Restatement

The statistical test results for the first hypothesis reveal that managerial ownership does not impact financial restatements, leading to the rejection of the first hypothesis. According to agency theory, an increase in the number of shares owned by management aligns with the objectives of shareholders and management. Shareholders oversee managerial actions in company management (Denis et al., 1999), which reduces the potential for management to commit irregularities in the disclosure of financial restatements (Hogan, Reid, 2022).

However, this study could not establish empirical evidence of a relationship between managerial ownership and financial restatement. This outcome could be due to an imperfect monitoring mechanism within the company that fails to observe managerial actions (Denis

et al., 1999). There is a tendency for management to avoid actions that conflict with shareholders' interests. Managers who are more stakeholder-oriented, especially towards employees and customers, tend to refrain from reporting material misstatements (Guo et al., 2016). To safeguard shareholders, managers will keep transparent financial reports confidential (Hogan, Reid, 2022). Thus, management that is more oriented towards stakeholders tends to keep material misstatements confidential from financial restatements.

The results contradict previous research, which indicated that the number of shares owned by management is negatively associated with earnings management (Piosik, Genge, 2019) and financial restatement (Aziz et al., 2017; Dimmock et al., 2015). The findings are also inconsistent with research proposing that managers maximize personal benefits when granted excessive discretion (Hogan, Reid, 2022). This discretion encourages managers to manipulate financial figures to meet investors' expectations, ultimately leading to financial restatements.

4.4. Institutional Ownership and Financial Restatement

The test results for the second hypothesis indicate that institutional ownership negatively influences financial restatements. From an agency theory perspective, institutional investors play a pivotal role in bolstering the corporate governance system (Shleifer, Vishny, 1997). Institutional investors possess the power, incentive, and specific knowledge and analytical skills to conduct effective supervision (Alhababsah, 2019). They are likely to execute aggressive and systematic monitoring to curb management's opportunistic behavior, especially if the primary funding source for a company's operational activities is banking (Iwasaki et al., 2022; Piosik and Genge, 2019). Thus, the presence of institutional investors reduces the probability of financial restatement.

These results align with previous evidence that the existence of institutional investors strengthens audit committee oversight to prevent financial restatement incidents (Zhang, 2012). The findings also corroborate previous studies showing a negative correlation between institutional ownership and financial restatements (Baber et al., 2015; Myers et al., 2013). Institutional monitoring enhances the transparency and quality of financial information disclosure (Hogan, Reid, 2022). Therefore, institutional investors play a crucial role in mitigating the likelihood of misleading financial reports (Lin et al., 2014) and enhancing the quality of financial reporting (Alhababsah, 2019; Raimo et al., 2020).

4.5. Public Ownership and Financial Restatement

The results for the third hypothesis show that public ownership negatively impacts financial restatements. Public ownership refers to the percentage of shares owned by the public in a publicly traded company. Companies with a high level of public ownership are expected to be more sensitive to transparency issues in financial reporting, reflecting the company's responsibility for the funds invested by the public (Raimo et al., 2020). Disclosure of information also signifies the company's commitment to maintaining quality financial reporting practices.

The findings of this study support previous evidence that the public, acting as sophisticated analysts, effectively monitors management behaviour (Roulstone, 2003). The findings also confirm that the presence of the public as analysts enhances supervisory efficiency. This finding is reinforced by Myers et al.'s (2013) study, which shows that the number of analysts following a company is positively related to the potential for a company to increase financial transparency, but negatively related to the incidence of financial restatements (Elayan et al., 2008).

4.6. Concentrated Ownership and Financial Restatement

The test results for the fourth hypothesis indicate that concentrated ownership negatively impacts financial restatements. Concentrated ownership refers to the largest shareholders who control a significant portion of the company's shares (Chu, Cheah, 2006). These controlling shareholders can exercise their control rights in the company's operational activities, including financial reporting (Anafiah et al., 2017). According to agency theory, a high concentration of ownership establishes a robust accounting control program to prevent accounting restatement (Aziz et al., 2017). Typically, concentrated ownership constitutes the majority shareholder. The larger the number of shares owned by shareholders, the stronger their incentive to monitor management, making concentrated ownership an additional control function in governance practices (Jensen, Meckling, 1976; Shleifer, Vishny, 1997). Another study suggests that the executive board aims to enhance the quality of financial reporting to prevent controlling shareholders from selling their shares (Dou et al., 2018). Therefore, concentrated ownership has a negative effect on financial restatements.

This finding aligns with Fan and Wong's (2002) study, which unveiled an alignment effect in ownership concentration. The alignment effect motivates controlling shareholders to improve management oversight to produce credible financial reports. Controlling shareholders aims to avoid significant risks resulting from the company's failure to maintain credibility (Anafiah et al., 2017). The greater the shareholders' ownership, the more substantial their positive role in curtailing management's opportunistic behaviour. However, these results do not support previous research, which suggested that concentrated shareholders might collude with management to adopt aggressive accounting policies (La Porta et al., 1999) and pursue their interests (Smaili et al., 2022).

4.7. Robustness Test

This study conducted a robustness test using discretionary accruals as an alternative variable for financial restatements. The concept of discretionary accruals offers an opportunity for company management to engage in earnings manipulation (Altarawneh et al., 2020). A high value of discretionary accruals implies a low quality of financial reporting. We conducted a robustness test to investigate the effect of ownership structure on discretionary accruals using multiple linear regression analysis. The test results are presented in Table 4.

Table 4. Robustness test result

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
Managerial ownership	-0.328	0.151	-0.097	-2.177	0.030**
Institutional ownership	-0.529	0.138	-0.228	-3.832	0.000*
Public ownership	0.149	0.162	0.039	0.921	0.357
Concentrated ownership	0.447	0.160	0.160	2.795	0.005**
Profitability	1.103	1.384	0.035	0.797	0.426
Leverage	0.029	1.438	0.001	0.020	0.984
Liquidity	-0.002	1.049	0.000	-0.002	0.998
Firm size	2.161	1.105	0.082	1.955	0.051***
Adjusted R Square	0.221				
F significant value	0.000				

*Note: *, **, *** indicate significance at the 1%, 5%, and 10% levels, respectively*
Source: Processed data (2023).

The robustness test results in Table 4 demonstrate that managerial and institutional ownership has a negative relationship with discretionary accruals, which aligns with the results of tests on financial restatement variables. However, public ownership does not significantly impact discretionary accruals. This finding suggests that the general public, as shareholders, needs to focus on detecting earnings management, hence the lack of a relationship between the two. The public may prioritize preparing financial reports that comply with generally accepted accounting principles, primarily to reduce the potential for financial restatements. Other studies reveal no relationship between public ownership and discretionary accruals due to information asymmetry, which causes the public to fail in detecting earnings management (Michael et al., 2018).

Conversely, the robustness test results related to the role of concentrated ownership in fulfilling corporate governance's oversight function have produced inconsistent findings. The statistical test results shown in Table 4 demonstrate that concentrated ownership expands management's opportunity to engage in earnings management. This finding contradicts the primary test results (see Table 3), which indicate that concentrated ownership reduces the possibility of a financial restatement. Referring to previous studies, the presence of concentrated ownership in corporate governance carries two conflicting implications. On the one hand, controlling shareholders are incentivized to monitor agent behaviour (Jensen, Meckling, 1976; Shleifer, Vishny, 1997), effectively curtailing discretionary accruals. On the other hand, a significant number of shares afford majority shareholders opportunities to augment their wealth and assume control over company assets (Utama et al., 2017). The robustness test results on the concentrated ownership variable are in line with the latter implication, suggesting that concentrated ownership tends to expropriation to pursue their interests (Tran, Le, 2020). Consequently, this condition heightens management's potential to engage in earnings management.

Simultaneously, three control variables, namely profitability, leverage, and liquidity, do not significantly impact discretionary accruals. These results are consistent with the test results (see Table 3) stating that company characteristics do not influence financial restatements. However, the test for the firm size variable is significant at the 10% level. These findings

suggest that the larger the company size, the greater the potential for the company to manage earnings.

5. Conclusion, Implication and Limitation

This study aimed to identify the role of ownership structure in financial restatements in public companies listed on the Indonesia Stock Exchange. Indonesia's unique social, political, and business environment results in weak regulation and investor protection. Furthermore, previous research focused primarily on the types of family and government ownership that dominate Indonesian public companies. Therefore, this study considered three types of ownership – managerial, institutional, and public – to reduce the likelihood of financial restatement. The results indicated that the type of ownership affects the monitoring function of financial reporting practices. Managerial ownership was not found to significantly impact financial restatement. Company managers tend to be more stakeholder-oriented, particularly towards employees and customers. They are inclined not to report material misstatements to protect shareholders (and themselves).

Conversely, the test results revealed that institutional and public ownership have a negative effect on financial restatement. These results suggest that institutional and public shareholders effectively monitor the process so that the financial statements presented by company management do not contain misstatements. This finding also indicates that these two types of ownership in the company assure the quality of accounting information. Hence, the supervision by institutional and public ownership reduces the potential for companies to conduct financial restatements. Similarly, concentrated ownership provides an incentive to monitor managerial actions, thereby creating a robust accounting control program to prevent financial restatements.

However, the robustness test results only partially corroborate the primary results. The robustness test results reveal that only institutional ownership consistently reduces both financial restatements and discretionary accruals. In contrast, both managerial and public ownership demonstrate mixed findings. Similarly, the concentrated ownership variable presented contrasting implications. These diverse findings suggest that each type of ownership has varying degrees of monitoring effectiveness, determined by the specific conditions within the company. While institutional and public supervision has been proven to reduce financial restatements, in the case of earnings management, only managerial and institutional ownership prove effective in reducing discretionary accruals. Concentrated ownership also performs disparate monitoring functions in relation to earnings management and financial restatement. These findings indicate that each type of ownership has distinctive incentives and interests, resulting in varying levels of effectiveness of the monitoring function.

This study offers both theoretical and practical implications. From a theoretical standpoint, the findings bolster agency theory, emphasizing the significance of the ownership structure as a component of the corporate governance mechanism in financial reporting practices. The results bolster previous studies on the importance of corporate governance mechanisms, particularly the role of institutional and public ownership in decreasing the likelihood of

financial restatement in Indonesian public companies. Both types of ownership effectively prompt management to produce high-quality financial reports.

From a practical viewpoint, this study indicates that different types of ownership have unique incentives in executing their supervisory roles. Managerial ownership tends to favour the interests of specific shareholders, which may lead to the withholding of financial statements containing misstatements. Conversely, institutional and concentrated ownership, typically holding significant shares, are driven to monitor closely. Public ownership also anticipates increased sensitivity from company management towards financial reporting transparency to improve the quality of financial reports. The findings also offer policy implications. Regulatory bodies may leverage the results of this study to bolster governance effectiveness, notably in ownership structures, to prevent financial restatements. As such, this study could serve as a valuable reference for policy-making efforts directed at enhancing governance practices.

This research has three limitations. Firstly, one of the variables is managerial ownership, which is quantified using the percentage of share ownership by company management. The test results indicate that managerial ownership does not influence financial restatements, as managers may have stakeholder orientations different from those of company owners. This limitation opens avenues for further research to reevaluate the role of managerial ownership using different indicators, such as stakeholder orientation indicators. Secondly, this study utilized a concentrated ownership variable, quantified using the most substantial percentage of shares in the company. The authors did not ascertain whether insiders or outsiders hold concentrated ownership. Future research should consider the origin of share ownership to minimize bias in the research results. Lastly, the sample selection technique in this study employed a purposive sampling method. Although this method ensures that the sample characteristics align with the research objectives, it does not represent the entire study population. Consequently, further studies could encompass all business sectors listed on the stock exchange to extend the research results to the entire population.

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