Commissioner Diversity and Financial Restatement

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ABSTRACT

The phenomenon of financial restatement raises public questions regarding the effectiveness of corporate governance, particularly the role of commissioners as supervisory boards. One of the factors that influence the supervisory function is the diversity of commissioners. The research aims to analyze the role of the diversity of commissioners on financial restatements. Diversity is viewed from three aspects, namely independent commissioners, foreign commissioners, and female commissioners. The sample consists of 126 companies listed on the IDX. Data were analyzed using logistic regression. Statistical tests show that there are two variables that affect the financial restatement, namely foreign commissioners and female commissioners. However, the two variables have opposite directions. The existence of female commissioners empirically reduces financial restatements, while foreign commissioners increase the potential for financial restatements. Conversely, independent commissioners have no effect on the financial restatement.

Keywords: Commissioner; Diversity; Female

Commissioner Diversity and Financial Restatement

ABSTRAK

Fenomena financial restatement menimbulkan pertanyaan publik terkait efektivitas corporate governance, khususnya peran komisaris sebagai dewan pengawas. Salah satu faktor yang memengaruhi fungsi pengawasan adalah keberagaman komisaris. Penelitian bertujuan untuk menganalisis peran keragaman komisaris terhadap financial restatement. Keberagaman ditinjau dari tiga aspek, yaitu komisaris independen, komisaris asing, dan komisaris perempuan. Sampel terdiri dari 126 perusahaan terdaftar di BEI. Data dianalisis menggunakan regresi logistik. Uji statistik menunjukkan bahwa terdapat dua variabel yang mempengaruhi financial restatement, yaitu komisaris asing dan komisaris wanita. Namun demikian, kedua variabel tersebut memiliki arah yang berlawanan. Keberadaan komisaris perempuan secara empiris mengurangi financial restatement, sedangkan komisaris asing meningkatkan potensi financial restatement. Sebaliknya, komisaris independen tidak berpengaruh terhadap financial restatement.

Kata Kunci: *Komisaris; Keberagaman; Perempuan*

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INTRODUCTION

Financial statements are the final product of the accounting cycle. At the same time, financial statements reflect the company's activities' results for making economic decisions. Therefore, financial reports must contain reliable and relevant information (Rustiarini et al., 2021). Nevertheless, some financial statements do not meet these requirements due to errors in applying generally accepted accounting principles or containing material misstatements. These conditions forced the company to correct previously published financial statements and make financial restatements (Luo & Song 2022).

In Indonesia, several companies conduct financial restatements. In 2016, PT. Hanson Internasional, Tbk was proven to have overstated revenue recognition, so the company was subject to sanctions and had to restate (CNBC Indonesia 2021). Two years later, the IDX suspended the trading of PT Tiga Pilar Sejahtera Food, Tbk's securities due to a failure to disclose company information. Financial Services Authority also asked the management to restate their financial report due to manipulation of financial statements (overstated receivables) (Katadata.co.id 2020). Likewise, PT Goodyear, Tbk made a restatement due to changes in accounting rules for recording income. This condition requires adjusting the amount reported in the financial statements (Erniasih & Wijayati 2023). Ironically, the financial restatement phenomenon also occurs in a state-owned airline, PT Garuda Indonesia, Tbk. In 2018, the company was proven to have made an error in recording revenue, so the regulator asked the company to improve and restate the financial statements (CNBC Indonesia 2019).

The phenomenon of financial restatements raises public questions regarding corporate governance effectiveness. As we know, Indonesia's governance has a two-tier board system: that separates supervisory and management functions (Tulung & Ramdani 2018). The board of commissioners performs the supervisory function, while the board of directors performs the management function. The commissioner must guarantee that directors have applied good corporate governance (Setiawan et al., 2019). In financial reporting, the commissioner's role is to oversee preparing financial reports to reduce potential misstatements. This study discovers the role of commissioners' diversity in reducing the potential for financial restatements.

This study has two research motivations. First, the commissioners conduct a collective supervisory role. One of the factors affecting the oversight function is the commissioners' diversity. Diversity is the existence of social, cultural, and environmental differences that influence individual thoughts and behavior (Harvey & Allard 2015). From an organizational perspective, diversity is believed to increase board effectiveness and positively impact the company (Joenoes & Rokhim 2019). This study reviewed the diversity from three characteristics: independent, foreign, and female commissioners. Independent commissioners are expected to increase objectivity in decision-making (Zakaria et al., 2022), while the presence of foreign commissioners signals that the company emphasizes corporate transparency to the public (Junus, Harymawan, Nasih & Anshori 2022). Additionally, female commissioners positively associate with board effectiveness (Lückerath-Rovers 2011). Thus, the commissioners' diversity will enrich the ideas, knowledge, and approaches used for decision-making within the company, including financial reporting.

Second, previous research about commissioners' diversity and company performance has mixed results. In terms of the existence of independent commissioners, several studies report that independent commissioners can increase financial reports' integrity (Permatasari et al., 2019) and (Mais & Nuari 2016), reduce earnings management (Hastuti et al., 2020), (Rajeevan & Ajward 2020), (Setiawan et al. 2019), and (Talb et al., 2015), as well as reducing the possibility of financial restatement (Putri et al., 2021). Conversely, other studies reveal that independent commissioners do not affect company performance (Zakaria et al. 2022) and financial restatement (Butar 2018), (Siregar & Rahayu 2018). The research results on the role of foreign commissioners also show inconsistency. A group of studies concluded that nationality diversity increases financial performance (Zakaria et al. 2022), (Joenoes & Rokhim 2019), (Sunday & Godwin 2017) and company value (Onasis & Robin 2016), (Velnampy 2013). However, other studies report that foreign commissioners have no impact on company performance (Ambarwati 2021) and (Suhardjanto et al., 2017). Research by Widagdo et al. (2022) concludes that female commissioners have a negative impact on earnings management. Meanwhile, other scholarships have reported that female commissioners have no significant effect on earnings quality (Fitriana & Sugiri 2018) and earnings management (Soebyakto et al., 2018) and (Fransisca & Hery 2015).

This study analysis commissioners' diversity on financial restatements. Independent, foreign, and female commissioners review the diversity. This study provides a theoretical contribution, namely confirming the Resource Dependence Theory, which emphasizes the importance of company resources to support company success, including improving the quality of financial reports. These findings also make a practical contribution emphasizing the commissioner's function in corporate governance practices, especially to avoid financial restatements.

Resource Dependence Theory reveals that the company's resources are one of the factors that determine the success of the company. Companies will gain a sustainable competitive advantage if they have value-added resources which differentiate other companies (Ozturk 2021). The commissioner is one of the human resources supervising the company's operational activities, including financial reporting. Resource Dependence Theory expands the argument by revealing that the diversity of commissioners supports interaction and sharing of ideas between board members to meet the demands of increasingly diverse stakeholders (Ilaboya & Ashafoke 2017) and (Mishra & Jhunjhunwala 2013). Diverse board members are considered to understand the presentation of financial statements better. They can perform a practical oversight function to reduce financial restatement.

Applying the two-tier board system causes the company to have a supervisory team, namely the board of commissioners. The Financial Services Authority Regulation Number 57/POJK.04/2017, concerning the Implementation of Governance of Securities Companies Conducting Business Activities as

Underwriters and Broker-Dealers, requires that companies have independent commissioners of at least 30% of the commissioner number.

The presence of an independent commissioner indirectly reflects the company's readiness to implement transparency and accountability in financial reporting (Junus et al. 2022). Independent commissioners have no interest in the company, so they conduct the oversight function effectively. The effectiveness of the supervisory function will produce quality information that can improve the integrity of financial reports (Mais & Nuari, 2016) and (Permatasari et al., 2019). In addition, independent commissioners have been shown to have a negative effect on earnings manipulation (Hastuti et al., 2020), (Rajeevan & Ajward, 2020), and (Talbi et al., 2015). Other scholarships report that an independent commissioner reduces the possibility of financial restatements (Putri et al. 2021). This study formulates the hypothesis.

H_1: Independent commissioners negatively affect financial restatements.

Based on Resource Dependence Theory, foreign commissioners that measure by foreign citizenship are also a measure of diversity. Foreign commissioners are generally found in companies in developing countries that receive funding from foreign investors (Joenoes & Rokhim 2019). The existence of foreign commissioners gives a signal that the management is ready to implement good corporate governance (Ambarwati 2021). In addition to having international business knowledge, competence, and experience (Masulis et al., 2012), and (Quarato et al., 2017), foreign commissioners reduce agency conflicts and information asymmetry that trigger directors to take opportunistic actions (Ambarwati 2021). Foreign commissioners also have an independent position to provide objective assessments and conduct oversight functions effectively.

Liargovas & Skandalis (2010) state that heterogeneity in citizenship will have diverse perspectives to improve company performance. Several studies have concluded that foreign commissioners positively affect financial performance (Zakaria et al. 2022), Joenoes & Rokhim 2019), and (Sunday & Godwin 2017) and company value (Onasis & Robin 2016), (Velnampy 2013). However, the study's results from Suhardjanto et al. (2017) show that diversity does not influence financial performance. In presenting financial statements, foreign commissioners have independence in overseeing financial reporting to minimize the possibility of financial statements containing material misstatements. Thus, this study formulates the following hypothesis.

H_2: Foreign commissioners negatively affect financial restatements.

One aspect that is also considered to increase the oversight function in financial reporting is female commissioners. Resource Dependence Theory emphasizes that gender diversity causes differences in policymaking preferences (Arun et al., 2015) and (Francis et al., 2015). Females are conservative and avoid risks (Bear, Rahman & Post 2010). This character causes females to be more detailed and thorough in making decisions (Galbreath 2018). Regarding financial reporting, female commissioners have a high degree of independence, making it possible to conduct effective oversight (Abbott et al., 2012). Female commissioners also encourage transparency to improve the quality of financial reports.

Several empirical studies report that female commissioners make a significant contribution to performance. The presence of female commissioners has

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been shown to reduce earnings management (Widagdo et al. 2022). In addition, female commissioners presented intensive oversight functions, especially regarding financial reporting (Trisanti 2021). Female commissioners' presence also increases accounting conservatism, reducing the company's opportunities to perform financial restatements. Thus, this study formulates the following hypothesis.

H_3: Female commissioners negatively affect financial restatements.

RESEARCH METHOD

The research uses all manufactured companies in the Indonesia Stock Exchange for 2019-2021. This study excludes companies in the financial services sector because they have special regulations issued by Bank Indonesia and the Financial Services Authority. Based on purposive sampling, the sample comprises 126 companies. Data is collected from annual reports published on Stock Exchange or the company's website.

The dependent variable is a financial restatement, which are corporate actions that reissue financial reports due to material misstatements or errors in applying generally accepted accounting principles. Variable measurements use dichotomous variables), (companies that conduct restatements will get a value of 1 and otherwise get a value of 0 (Putri et al. 2021) and (Abbott et al. 2012). The independent variable uses commissioner diversity in terms of three indicators: independent commissioners, foreign commissioners, and female commissioners. Measurements for independent commissioners use the number of independent commissioners. Meanwhile, the variable measurement of foreign and female commissioners uses a dichotomous variable with a value of 1 if the sample companies have foreign and female commissioners. A value of 0 otherwise is given a value. This measurement refers to previous research (Rahma & Aldi 2020). In addition, this study uses two control variables, i.e., commissioner tenure and commissioner size. This study uses these two variables to prevent bias in the study results. Previous studies have revealed that commissioner tenure and size affect financial restatements (Jovani et al., 2022) and (Siregar & Rahayu 2018).

Research data were analyzed using logistic regression. This regression is appropriate, considering that the dependent variable in this study uses dichotomous variables. This analysis does not require classical assumption tests on independent variables. The overall model fit and feasibility tests must be conducted to be considered in decision-making. The hypothesis is accepted if it has a significance value of less than 0.05.

RESULTS AND DISCUSSION

There are 378 firm-year observations. The descriptive statistical analysis in this study is shown in Table 1.

Table 1. Descriptive statistics

Variable	N	Min	Max	Mean	Std. Dev
Financial restatement	378	0.000	1.000	0.013	0.114
Independence commissioner	378	1.000	5.000	1.722	0.874
Foreign commissioner	378	0.000	1.000	0.278	0.449
Female commissioner	378	0.000	1.000	0.357	0.480
Commissioner tenure	378	1.000	17.000	2.886	2.314
Commissioner size	378	2.000	14.000	4.064	1.748

Source: Processed Data, 2023

Table 1 shows the average number of companies conducting financial restatements is 0.013 or 1.3 percent. This figure indicates that only a few companies (less than 5%) have made financial restatements over the past three years. This data also reveals that the supervisory role has effectively reduced the possibility of a financial restatement. The independent commissioner average is 1.722, indicating the number of members ranges from 1-2 people. Meanwhile, the mean values for foreign and female commissioners are 0.278 (27.80%) and 0.357 (35.70%). This figure reflects a low average value, less than 50%. Finally, the company has a mean value of commissioner tenure of 2.886 (2-3 years) and commissioner size of 4.064 (4-5 people). The next step is to conduct a model feasibility test. The Hosmer and Lemeshow's test results provide a Chi-Square value of 40.063 and a significant probability of 0.080 > 0.05. These figures imply that the model is accepted.

Then, the entire regression model was assessed using a comparison of values at -2 log-likelihood. The initial number is 53.188, which decreased after including the five independent variables in the model to 40.731. This decrease in value indicates that the regression model fits more with the data used. The Nagelkerke R Square value of 0.247 means that the independent variables of 24.7% explain the variability of the dependent variable. The predictive power to predict financial restatement of 98.7%. Meanwhile, the results of hypothesis testing are presented in Table 2.

Table 2. Hypothesis Test Results

Variables	B	S.E	Wald	df	Sig.
Independence commissioner	-0.982	1.803	0.296	1	0.586
Foreign commissioner	2.170	0.995	4.754	1	0.029*
Female commissioner	-2.387	1.161	4.224	1	0.040*
Commissioner tenure	-0.267	0.300	0.789	1	0.374
Commissioner size	-0.327	0.896	0.134	1	0.715
Chi-Square	40.063				
Nagelkerke R Square	0.247				

Note: * significance at 5%
Source: Processed Data, 2023

Table 2 reveals two diversity variables significantly affecting the financial restatement: foreign commissioners (α = 0.029) and female commissioners (α = 0.040). Contrarily, the independence commissioner variable has no significant effect (α = 0.586). Nevertheless, foreign variables and female commissioners have opposite directions. The foreign commissioner variable is proven to increase the potential for restatement, while the female commissioner variable reduces the financial restatement. Thus, this finding does not support H_1 and H_2 but accepts

H_3. Meanwhile, the statistical test results for the control variables show that the commissioner's tenure and size variables do not affect financial restatements.

The results of the H_1 show the independent commissioner does not affect financial restatement. Independent commissioners have no affiliation with internal company parties. This position allows the independent commissioner to oversee the oversight function effectively, particularly in financial reporting. Nonetheless, the findings failed to prove a significant influence between independent commissioners and financial restatements. There are several reasons why this might happen. First, independent commissioners cannot play an active role in the company. This condition is because the independent commissioners come from external parties, so they have limitations in accessing company data. Additionally, the number of independent commissioners is relatively tiny, namely 1-2 people, so they do not have a strong influence in making decisions related to financial reporting. Second, there is a possibility that independent and non-independent commissioners have weak integration (Levrau & Van den Berghe 2007), so they cannot monitor the financial reporting. Third, the appointment of an independent commissioner is only aimed at fulfilling regulatory requirements so that the company does not seek to streamline the role of the independent commissioner in the company. The results support previous studies which stated that independent commissioners do not affect accrual earnings management (Hastuti et al. 2020), financial performance (Zakaria et al. 2022), or financial restatement (Butar 2018) and (Siregar & Rahayu 2018).

Based on Resource Dependence Theory, nationality diversity is also a benchmark for board diversity. Previous studies revealed that foreign commissioners signal a company's readiness to implement good corporate governance. Foreign commissioners are also seen as reducing information asymmetry that encourages management to engage in opportunistic behavior (Ambarwati 2021). Nonetheless, this study reports that foreign commissioners potentially increase financial restatement. Several conditions can cause this. First, foreign commissioners are generally due to companies obtaining funding from foreign investors. The existence of funding from external parties forces the company to present good performance. One effort that can be done is to manipulate financial reports to improve company performance. The company must revise and restate the financial report if a misstatement is detected. Therefore, foreign commissioners increase the potential for financial restatements. Second, foreign commissioners sometimes have a different mindset from local commissioners. This condition tends to cause conflicts and divisions between board members, resulting in ineffective decision-making (Lückerath-Rovers 2011). It will lead to ineffective financial reporting supervision, thereby increasing the possibility of a financial restatement.

The female commissioners have charm in implementing good corporate governance in Indonesia. Resource Dependence Theory emphasizes that gender diversity causes differences in policymaking preferences (Arun et al. 2015), (Francis et al. 2015). Women have characteristics that are conservative and careful in making corporate decisions. In the context of financial reporting, female commissioners can monitor the presentation of financial reports in detail and thoroughly to minimize the occurrence of misstatements in financial reports

(Trisanti 2021). Also, female commissioners have a high degree of independence, enabling effective oversight and decreasing financial restatement (Abbott et al. 2012). Research from Widagdo et al. (2022) also reports that female commissioner has a negative effect on earnings management. Finally, the control variable test results show that the commissioner's tenure and size do not affect financial restatement.

CONCLUSION

This study explores commissioners' diversity, namely independent, foreign, and women commissioners, in the financial restatement. The result shows that only two diversity variables affect financial statements, namely foreign commissioners and female commissioners. Nevertheless, the two variables have opposite directions. The variable presence of female commissioners has been empirically proven to reduce restatement potential. This finding suggests that the existence of female commissioners encourages financial report transparency.

Nevertheless, foreign commissioners increase the restatement. Foreign commissioners are usually due to companies obtaining funding from foreign investors, which impacts efforts to manipulate financial reports. As a result, foreign commissioners increase the potential for financial restatements. Conversely, independent commissioners do not influence financial restatements. The presence of an independent commissioner is purely a formality, so they cannot conduct effective oversight of financial reporting.

This study has limitations. There is only one aspect of diversity that affects financial statements. This result is also confirmed by the Nagelkerke R-Square value of 24.7%. This number shows that 75.3% of other variables affect the variability of the financial statement. Thus, future research should enhance other variables, such as accounting expertise (experience), education, or age.

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