

-RESEARCH ARTICLE-

## FINANCIAL RESTATEMENT AND EQUITY VALUE: MODERATING ROLE OF OWNERSHIP DIVERSITY

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### —Abstract—

Financial restatement represents a company's endeavor to produce trustworthy financial statements or fraudulent behavior, including the abuse of financial data. Using a panel

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regression analysis of 1,155 firm-years of publicly traded Malaysian enterprises, this study concludes that financial restatement is value enhancing and ethnic diversity of ownership further increases the equity valuation of the restatement. The results support the value relevance and upper-echelon theories, which assert that ethnic diversity of ownership increases shareholder value. The findings also benefit regulators and policymakers when examining and modifying governance policies to improve ethnic diversity and inclusion.

**Keywords:** Financial restatement, Equity value, Ethnic diversity, Ownership, Malaysia

## 1. INTRODUCTION

This study investigates how ethnic diversity of ownership moderates the link between financial restatements and the stock market value in Malaysian publicly traded companies. Anecdotal evidence reveals that publicly traded companies inflate the reported income in their financial accounts to give shareholders a bright picture of their enterprises ([Internal Auditor, 2017](#)). For instance, Enron, WorldCom, Tyco, and Adelphia attempted to record their income favorably ([Robbani et al., 2005](#)), resulting in forced financial restatements by the regulators. Enron utilized special purpose vehicles (SPVs) and special purpose entities (SPEs) to buy assets or conduct other businesses without disclosing debts on its financial statements ([Thomas, 2002](#)). WorldCom disguised expenses as investments to inflate earnings by approximately \$3 billion in 2001 and \$797 million during the first quarter of 2002. ([The New York Times, 2002](#)). From 2016 to 2018, Kraft Heinz Company overstated the cost of goods sold by 181 million USD ([CFO, 2019](#)). In 2021, FTE Network Inc. was discovered to have reported \$12.5 million in revenue from non-existent construction contracts and concealed debts totalling \$92 million ([CNBC, 2021](#); [Securities and Exchange Commission, 2022](#)).

Similarly, in Malaysia, it is common for publicly traded companies to restate their financial accounts, either as required by regulators or voluntarily to fix inaccuracies in the previous year's reported data ([Qasem et al., 2020](#)). Serba Dinamik Holdings Bhd, CSM Corporation Bhd, Oil Corp Bhd, Aktif Lifestyle Bhd, Goh Ban Huat Bhd, and Transmile Group are well-known financial restatements in Malaysia ([E. A. Abdul Wahab et al., 2014](#); [Shafie and Zainal, 2016](#); [The Edgemarkets, 2022](#)). During the 2006 fiscal year, Transmile incurred losses of RM126.3 million (about USD\$32 million) but declared a profit of RM157.5 million (approximately USD\$39 million). For the 2005 fiscal year, the company sustained losses of RM369.6 million (about \$92.4 million), yet its financial accounts showed profits of RM84.4 million (roughly \$21.1 million) ([The Edgemarkets, 2020](#)). In 2021, Serba Dinamik increased its sales and accounts receivable balances by RM4.02 billion (about \$920 million) ([The Edgemarkets, 2022](#)). From 2005 to 2014, there were 915 financial restatement instances in Malaysia, a substantial number ([Qasem et al., 2020](#)), and from 2015 to 2016, there were 142 cases ([Altarawneh et al., 2020](#)). This is anticipated to continue into the foreseeable future due to lax regulatory

enforcement and the absence of severe fines imposed on the firms, as authorities cannot prove the presence of fraudulent behavior due to a lack of constructive evidence (Hasnan and Hussain, 2015). In addition, the freedom provided by accounting standards permits corporations to participate in financial restatements when management has control over the accounting policy chosen to compile financial statements (Sanjay Kumar Kar, 2021).

Managers may engage in financial restatements to meet or surpass market expectations. They manipulate accounting statistics to provide a more favorable picture of the firm's financial status, for instance, recognizing revenue prematurely or understating expenses so that profits appear more than they are. In addition, "channel stuffing," the technique of convincing distributors to purchase more goods than they can sell to inflate short-term revenues (Lai et al., 2011), is another instance of accounting number manipulation. This technique, however, might result in an inflated inventory level, a rise in returns, and a decline in future product demand, eventually damaging the company's long-term financial position. 03079777284

This study will investigate the influence of financial restatement on the stock price. This is significant because, in the event of a financial restatement, affected companies would experience a loss in revenue and an increase in fines and legal fees. When investors rely on the accuracy of financial statements and accounting practices, the restatement erodes their confidence in the stock market. In the context of reversing future cash flow following the restatement, for instance, the restated financial facts impact the present value of shares (Qiu et al., 2019; Robbani et al., 2005). Then, investors will modify their expectations for the company's earnings and growth prospects, decreasing share prices (Huang et al., 2020).

Financial restatement occurs when a company revises its financial reporting from the prior year, voluntarily or at the request of auditors or authorities (General Accounting Office, 2006). Unintentional and intentional financial restatements are considered major financial reporting errors because investors relying on financial statement information to evaluate investment decisions could be misled by the reported inaccurate statistics. In addition, the top management of a restating corporation may be viewed as incompetent if they cannot or do not assure the reporting of reliable and accurate financial statement statistics. Hence, financial restatements with a significant net income loss may result in senior management's dismissal (Agrawal and Cooper, 2017; Azzali and Mazza, 2020). For instance, the removal of the Chief Executive Officer (CEO), Chief Financial Officer (CFO), or members of the audit committee who are responsible for the financial reporting process (Marne et al., 2006). Hence, the capacity of management to limit the frequency of financial restatements is considered while developing the compensation structure and selecting candidates for the top positions (Kryzanowski and Zhang, 2013; Zhang et al., 2018). Thus, the goal of businesses to recruit and retain highly trained people to enhance the quality of financial reporting may necessitate a national reform of

employment and dismissal regulations (Call et al., 2017; Emerson, 1988; Lin et al., 2020).

There are two causes of financial restatement (Qasem et al., 2020). The first is attributable to unintentional errors and misinterpretations. From a professional's perspective, errors emerge when the company's financial accounts have been subjected to rigorous inspection (IPOhub, 2018). This includes the situations of conversion from reviewed to audited financial statements (AICPA, 2016), initial public offerings (IPOhub, 2018), and change of auditor appointment (AICPA, 2016). (CPA, 2017). The second factor is an intentional deception, such as the company's attempts to manipulate results to achieve the executives' incentive objective (Cheng and Farber, 2008), which is motivated by managerial opportunism. Hence, managers are compelled to participate in financial restatement through managed earnings to divert a portion of shareholder-attributable returns into their pockets.

Financial restatement, particularly when it entails earnings-decreasing restatement, harms a company's share market valuation upon announcement, according to previous research (Ueng and Koehn, 2016). While the restatement is indicative of poor financial reporting quality, the disclosure generates an unfavorable perception of expected future cash flow, which harms the share price (Amiram et al., 2018; Dechow et al., 1996; Kinney Junior et al., 1989; Robbani et al., 2005). Hence, investors may lose faith in the market and transfer to other markets in search of more appealing and profitable investment options or possibilities. This will make it harder for public companies to raise capital through the stock market to fund their operations and strategy implementation (Ong et al., 2020). However, evidence of the impact of the financial restatement on equity value in the Malaysian context, particularly for publicly traded Malaysian companies, is scarce. We, therefore, question whether financial restatement can impact the share value of publicly traded Malaysian companies.

This study's primary objective is to determine whether the extent of ethnic diversity among owners affects the connection between financial restatements and the stock's market value. Multiethnicity is one of the most prominent aspects of the Malaysian people, signifying variances in the country's cultural characteristics. Thus, the research is crucial to the Malaysian setting. Malaysian public companies are dominated by two major ethnic groupings, namely the Malays and the Chinese (N. Y. Ali et al., 2020). In 1970, in reaction to the ethnic riots in 1969, the Malaysian government implemented the New Economic Strategy to lessen the economic disparity between Malays and non-Malays (Tam and Tan, 2007). As the largest ethnic group in the country, the Malays were excluded from the economic mainstream, contributing to their discontent. To redistribute wealth to the Malays, they were granted 30% corporate ownership and several benefits such as business contracts, subsidies, and access to money (Johnson and Mitton, 2003). This affirmative action in favor of Malay entrepreneurs was also reflected in the formulation of policies (Gomez et al., 1999). Similarly, Jomo (2004) asserts that

Malay support for government policies is more prevalent than Chinese preference for laissez-faire economic policies.

Yet, government interference produces political costs for minority ethnic groups (Ball et al., 2003), which drives heterogeneity of cultural characteristics within the accounting practices of ethnic groups. For instance, the Chinese value secrecy highly, resulting in less exposure. This contradicts the Malays, who often disclose more information to government and regulatory agencies (Salleh et al., 2006). This is consistent with Haniffa and Cooke's (2005) results on the parallel direction of the relationship between Malay-dominated boards and disclosure, as Malay-controlled corporations employ voluntary disclosure as a valid lobbying technique. In contrast, the government-related political costs faced by Chinese-controlled businesses result in poor profit reports (Ball et al., 2003). Thus, differences in the extent of the disclosure can result in financial restatement (Ball et al., 2003; Roszaini Mohd Haniffa et al., 2005), and the subsequent restatement can harm the firms' reputation (Gomulya and Boeker, 2014) as market participants lose faith in the firm's ability to produce reliable and accurate financial statements.

As the controlling shareholders will have top-down influence over the firms' operations, enterprises dominated by diverse ethnicities are likelier to have a management team with diverse backgrounds than firms controlled by a single ethnic group (Paligorova and Xu, 2012). Diversity in the ethnic background in a board gives a variety of cultures, ideas, and experiences to the workplace, which can help firms become more resilient and effective due to the variances in values, customs, and personality features among ethnic groups (World Economic Forum, 2019). Therefore, it is suggested that diversity in social and ethnic backgrounds is crucial for hiring top management team members and succession planning (Financial Reporting Council, 2018). The possession of a variety of information sources, skills, and socio-cognitive abilities among business owners with varied cultural backgrounds ultimately results in variances in the dynamics of decisions and guidance (Baran and Forst, 2015), as well as the bases for decision and judgment (Gray, 1988; Tran et al., 2020). This is pertinent in the Malaysian context because of the multiethnic qualities of Malaysia's colorful population. For instance, Chinese shareholder demands a lower degree of disclosure (high secrecy) can be counterbalanced by Malay shareholders' requests for a higher level of disclosure (low secrecy) (Salleh et al., 2006). While there is a disclosure trade-off between different ethnicities, we wonder if the ethnic diversity of Malaysian public companies' ownership moderates the relationship between financial restatement and stock value.

Diversity in ownership increases both the quality of board decisions and oversight. When shareholders from various backgrounds form a diverse board of directors, board members who have access to broader pools of information than a board with homogenous backgrounds create a "de facto" requirement for new and innovative ideas and solutions rather than "falling victim" to the "groupthink" mentality prevalent in boardrooms. The share price reflects investors' reaction to information released by the

company. In addition, since diversity in the ownership of a business provides an opportunity to create a diverse management team that can effectively serve both current and future investors, the results provide additional empirical evidence to support the upper echelon theory, i.e., that diverse background characteristics of the top management team contributed to the firm's market value (Anifowose et al., 2017; Rost et al., 2010).

This study is of the utmost importance because it proves, through empirical evidence, that financial restatement has a large and favorable effect on the equity value of companies, particularly those with ethnically diverse ownership. The findings of this study also indicate to regulators and policymakers, particularly in multiethnic contexts, that encouraging ethnic diversity is an effective technique for enhancing good corporate governance and boosting public confidence in the information released by publicly traded companies.

Since the upper echelon theory suggests that the diversity of senior management, including shareholders, can substantially impact a company's performance and success, the findings of this study contribute to the body of evidence supporting this view. Following the notion of the upper echelon, the data demonstrate that varied top-level shareholders can significantly enhance stock value. In addition, this study's findings corroborate the value relevance hypothesis, which assists investors in comprehending the informational content of financial statements and how it affects market expectations and share prices.

The remainder of this study is organized as follows: Section 2 contains the literature review and creation of hypotheses. Part 3 subsequently describes the research design. Following this section will be the section discussing the results. Section 5 finally closes the paper.

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Tan and Young (2015), who examined XBRL (eXtensible Business Reporting Language)<sup>1</sup> filing with the SEC between 2009 to 2011, identified and categorized restatements based on the materiality of the transactions. The restatement is considered substantial if, for example, it involves the concealment of illegal transactions, the transformation of a loss into a profit, or a fundamental change in the investor's perception of the company's financial status. Little r and Big R are the two types of the restatement. The "little r" refers to immaterial errors that build over a year due to an insignificant misrepresentation, necessitating accounting adjustment and disclosure in the footnotes of current financial statements, but not a withdrawal of the auditor's opinion (Tan and

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<sup>1</sup> XBRL is referred to as the "bar code for reporting" and is a method of submitting financial statements and other business information to the *Securities and Exchange Commission (SEC)*. It is presented in a standardized and electronic format using computer readable tag that enhances the legibility of financial data (Ahmi and Mohd Nasir, 2019).

Young, 2015). The auditors of "little r" organizations are eager to detect minor misstatements, such as recording inaccuracy or departure from accounting norms, because the detection indicates a high-quality audit (Keune and Johnstone, 2012).

On the other hand, the "Big R" refers to a major mistake that mandates the re-issuance of prior financial statements, which include notes that reflect the corrections made to fix the inaccuracy (Chung and McCracken, 2014). In keeping with this, the probit regression study conducted by Tan and Young (2015) reveals that the "small r" firms are more profitable, have lower debt, have a higher proportion of independent directors, and have more effective internal controls than the "Big R" enterprises. In a similar vein, Myers et al.'s (2013) study using logistic regressions on 1,773 restatements made by US firms during the period 2003-2008 indicates that firms with a high analyst following or institutional ownership will adopt a more conservative approach to restatement disclosure and will disclose restatement news in an 8-K filing.<sup>2</sup>

Investors will respond favorably to the disclosure if the restatement does not harm income or if it does not include updated financial statements.

In contrast, a restatement involving accounting irregularity or fraud may cause a decline in anomalous market returns, an increase in SEC enforcement actions, and the departure of the CEO and CFO (Z.-V. Palmrose et al., 2004). In addition, revenue and spending account restatements may result in shareholder litigation (Z. V. Palmrose et al., 2004). As a remedy for the detrimental effects of restatements, an audit committee with experience in accounting was established (Das et al., 2022). Since the audit committee is frequently in charge of restatement inquiry and remediation (Hoffman and Rockoff, 2014), an audit committee with accounting expertise can oversee and conduct a pre-audit of financial statements (Caskey and Laux, 2017). In addition, the audit committee can inform the board if the restatements are due to managerial error or accounting complexity (Peterson, 2012). Hence, accounting knowledge inside the audit committee will lessen the negative effects of restatements, resulting in a smaller unfavorable stock market reaction and a reduced likelihood of CEO replacement (Das et al., 2022).

Current research on financial restatement in Malaysia focuses on the causes and determinants of financial restatements in annual reports (Hasnan and Hussain, 2015), adjustments to quarterly unaudited results (Ismail and Abd Rahman, 2011), and the implications of financial restatements (Qasem et al., 2020). Few studies study the influence of financial restatement on stock value in Malaysia (M. M. Ali et al., 2018). Since that stock value is driven by shareholder sentiment (Sun et al., 2020), it is vital to investigate shareholders' valuation on financial restatement within the specific attribute

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<sup>2</sup> 8-K filing is the report used by United States Public companies to notify the *Securities and Exchange Commission (SEC)* about major events that shareholders should know about. Firms that restate with an 8-K filing reflect higher transparency disclosure policy and better materiality judgement of the managers (Reilly, 2006).

of shareholders, such as ethnicity. Consequently, given the unique multi-ethnic characteristic of firm ownership in Malaysia (Jani et al., 2015; Katan and Nor, 2015), investigating the moderating role of the ethnic diversity of ownership on the relationship between financial restatement and equity value within Malaysian public-listed firms permits an inference as to whether the unique ownership characteristic matters for the shareholders' equity valuation of firms' financial restatement. This study examines the relationship between financial restatement and equity value and the moderating effect of ethnic diversity on the observed association.

## 2.1 Impact of the Financial Restatement on the Market Value of Equity

The term "financial restatement" refers to the process of revising previously released financial statements to repair errors or update earlier financial statement items, whether willingly or as a result of compulsion by authorities or auditors (Chang et al., 2016; General Accounting Office, 2006). Voluntary financial restatement can assist investors and the capital market by reducing information asymmetry by ensuring that information presented to shareholders is accurate and fair (Chod and Lyandres, 2021; Frankel and Li, 2004; Gajewski and Li, 2015; Leuz and Wysocki, 2016; Lev, 2018; Rahmanian et al., 2016). In contrast, mandatory financial restatement provides insight into management's aggressive accounting policy selection, misuse of Generally Accepted Accounting Standards (GAAP), and inconsistencies (Abbott et al., 2004; Burton and Tanyi, 2019). Hence, financial restatement can increase the utility and relevance of the information for shareholders (Lev, 2018). For instance, the restatement of a company's earlier estimates on accruals and asset valuation permits more precise estimations of asset values provided in the financial statements (Lundholm, 1999).

Moreover, the detection and disclosure of errors committed accidentally by the company imply robust internal controls, a vigilant and independent board of directors, and oversight by the audit committee (Z. V. Palmrose and Scholz, 2004). Thus, financial restatement can result in more relevant and useful information being communicated to shareholders due to correcting incorrect financial statement items. Financial restatement may be associated with firms run by managers who engage in income smoothing and transfer of wealth for personal use through insider trading and additional performance-related rewards, in which the activities result in unverifiable future cash flows and uncanny past performance (Rahmanian et al., 2016). As a result, shareholders may be concerned about the accuracy of the reported financial statement statistics, which could harm stock value when shareholders react to the financial restatement. However, Guerber and Anand (2019) suggest that financial restatement can increase corporate transparency and accountability by allowing shareholders to evaluate a company's financial situation appropriately and, as a result, accurately estimate the company's prospects. In this situation, corporations may be compelled to fix the error in the financial statements due to the impact of shareholders' investment decisions on the firm's share price and future financial outlook.

A financial restatement may also imply that the people in charge of the company's governance could not detect errors or fraud (Zalata et al., 2018). This raises questions about the clarity and accuracy of a company's financial reporting (Akhigbe et al., 2005; Corona and Randhawa, 2018). For instance, income-decreasing restatements raise suspicions of tax cheating (Y. Lim, 2011) or aggressive recognition of income inflation in prior years (Ettredge et al., 2012). Similarly, mandatory restatements to remedy clerical errors and misunderstandings of complicated accounting laws (Plumlee and Yohn, 2010) suggest a lack of skills and competence on the part of management (Rubin and Segal, 2019). Since value relevance theory explains that the market value of a firm is determined by the book value of equity and earnings derived from financial statements (Ohlson, 1995; Onali et al., 2017), financial restatement can create a negative perception regarding the firm's future financial prospects and market value (Krismiaji and Raharja, 2018). This is especially true when respectable auditors initiate news regarding the restatement of historical results (Ji, Kumar et al., 2019).

Hence, shareholders' appraisal of a financial restatement might be unclear and ambiguous. Positively, shareholders increasingly value financial restatement because it promotes the sense that information asymmetry is decreasing and that there are responsible agents in the firms capable of discovering, disclosing, and correcting problems in financial statements (Frankel and Li, 2004; Gajewski and Li, 2015; Leuz and Wysocki, 2016). In contrast, shareholders may devalue a financial restatement in their valuation if it implies governance issues, management's inability to assure the veracity of the information provided to shareholders for the first time, and/or fraudulent behavior (Zalata et al., 2018). Consequently, this raises concerns over the firm's financial reporting transparency and quality (Akhigbe et al., 2005; Corona and Randhawa, 2018). Given the contradictory views regarding the effect of the financial restatement on the market value of equities, Hypothesis 1 (H1) is formulated without a prediction of direction as follows:

*H<sub>1</sub>: Financial restatement significantly affects Malaysian public-listed firms' market value of equity.*

## **2.2 Moderating Role of The Ethnic Diversity of Ownership on the Relationship Between Financial Restatement and Market Value of Equity**

The shareholders' impression of a financial restatement may rely on their confidence level in the company's management (Hamilton et al., 2018). Following the agency theory, the influence of trust on shareholders is significantly tied to the governance practice, through which excellent governance implies reduced conflicts of interest and consequently generates guarantees for increasing shareholder value (Kurniati, 2019). Yet, stockholder views vary significantly due to differences in value, experience, and expertise (Mohamad et al., 2017). This is consistent with the belief of the higher echelons that the managerial backgrounds of the top management team impact organizational

outcomes. It is more likely that a diversified top management team will adopt new practices and policies than a homogenous management team. Although people from various origins, including ethnicity, have different upbringings (Bhugun, 2017), each ethnic group's distinct ideas and practical values might result in differing approaches to accounting concerns (Mohd Iskandar and Pourjalali, 2000). It is consequently anticipated that ethnic diversity of ownership significantly moderates the association between financial restatement and stock market value. The examination of individual differences in a secure, constructive, and nurturing atmosphere, along with understanding and tolerance, broadens the scope of arguments in the context of ownership diversity, so facilitating the resolution of non-routine and complex issues (Cletus et al., 2018; Gul et al., 2016; Hambrick et al., 1984). Consequently, ethnic variety in corporate ownership affords opportunities for the coordination of diverse ideas, alignment of risk preferences, and infusion of cognitive values during the evaluation of firm performance during financial restatement events.

Diversity ethnicity in ownership helps mitigate shareholders' negative perceptions of a financial restatement, as the restatement suggests aggressive accounting policy choices by management (Burton and Tanyi, 2019). The ethnic diversity of ownership can mitigate the negative effects of the income-increasing financial restatement on equity value, as shareholders from different cultural backgrounds embrace each other's views, feelings, and beliefs, leading to tolerance and understanding of opposing viewpoints (Lieberman et al., 2017; Lozano and Escrich, 2017; Trepte and Loy, 2017; Van Knippenberg et al., 2004). Hence, tolerance can strengthen the connection between moral reasoning and ethical behavior (Stewart et al., 2018; Weisbrod, 2009). Similarly, J. A. Ho (2010) conducted a two-stage semi-structured interview with ethnic Malay, Chinese, and Indian participants from medium-sized proprietary companies to large public-listed organizations and multinationals in Malaysia to determine the cultural values influencing their ethical perception. The researchers discovered a major difference between Malay and Chinese moral consciousness and culture of ethical decision-making. The Malays believe in preserving peace and collectivism due to their religious conviction forbidding nature's destruction (Uddin, 2003). On the other hand, the Chinese value maintaining a person's dignity and social status so as not to shame them in front of others (Ang and Leong, 2000). Hence, the synchronization of moral reasoning and ethical conduct can serve as a check on management's discretionary behavior, as well as re-evaluation of misbehavior and decisions to safeguard the shareholders' views on integrity (Carter et al., 2003; Goodstein, 2000; Houdek, 2020; Thorne et al., 2004). This governance mechanism can be positively perceived by shareholders following the assurance that owners of diverse ethnicities can question management to ensure compliance with governance regulation and other fiduciary duties in firms' efforts to increase shareholder value (Labelle et al., 2010; O'Connell and Ward, 2020). Hence, the ethnic diversity of ownership may impact the equity valuation of corporations undergoing a financial restatement.

Similarly, an adverse effect of the financial restatement on stock market value can be mitigated by ownership with various ethnicities following the coordination of differing disclosure requirements for financial reporting. Higher levels of disclosure by Malays in Malaysia are associated with efforts to maintain influence at the governmental and institutional levels (Roszaini Mohd Haniffa et al., 2005). Conversely, the Chinese in Malaysia choose restricted reporting procedures to meet the bare minimum of legal requirements (Rozaini Mohd Haniffa and Cooke, 2002); hence, a lower disclosure level is practiced (Che Ahmad et al., 2006). To fulfill their social obligations, the highly secretive approach of Chinese shareholders, who prefer a lower degree of transparency, can compensate for the less secretive approach of Malay shareholders, who prefer a higher level of disclosure (Alexander et al., 2018). Consequently, with a balanced disclosure level, financial restatement can be viewed as a technique for coping with uncertainties in meeting social requirements (Y. Kim et al., 2021), and this may alleviate worries regarding accounting information quality (Gleason et al., 2008). Yet, the ethnic diversity of ownership may diminish the favorable benefits of the financial restatement on the stock's market value if ethnic diversity necessitates additional negotiations to resolve cultural disparities (Giannetti and Yafeh, 2012). For instance, the Malays believe that the pursuit of wealth should not come at the price of the community (Wong, 2008).

In contrast, the Chinese are motivated by monetary rewards and achieving predetermined goals (L. Lim, 2001). Thus, the agreements between the Malay and Chinese directors may restrict the flow of information from the company to the market (Merkley et al., 2020). Although financial restatement may reflect a truthful and fair perspective of a company's financial outcomes, which should be reported to shareholders promptly (Jadallah, 2018; Lev, 2018), enterprises with different ethnic ownership may extend the decision-making process. In addition, challenges in harmonizing typical individualistic beliefs that reflect a herd mentality with tendencies to deal solely with individuals of the same ethnicity can contribute to the drawn-out procedure (Hegde and Tumlinson, 2014). This argument is consistent with the social categorization theory, which posits that subgroup development inside a larger group can lead to inter-subgroup biases and troublesome frictions, which can result in protracted discussions in response to the needs of various stakeholders and disputes (Findik, 2020; Guest, 2019; Van Knippenberg et al., 2004). For instance, disagreements may develop over earnings quality since the Chinese favor lower profit reporting to reduce taxable income, while the Malays are likely to declare bigger profits to satisfy compensation plan requirements (Hashim et al., 2019; Jow et al., 2007). This discrepancy might result in negative repercussions of ethnic variety of ownership due to competing preferences and rationales, reducing the managers' ability to meet the owners' expectations (Giannetti and Yafeh, 2012). Hence, shareholders may discount a financial restatement when the ethnicities of the owners are diverse (Lev, 2018; Lundholm, 1999). Thus, compared to firms with homogeneous ethnic composition in ownership, firms with diverse ethnicity in ownership may handle non-routine challenges well, as diverse cultural background

ensures inclusivity of ideas and perspectives, and this can moderate the effects of shareholders' valuation on financial restatements based on the perception that the restatement is an effort to correct the management's previous poor competency level (Gul and Zhang, 2016; Zalata et al., 2018). In addition, diverse ethnic ownership may mitigate the negative effect of the restatement on the market value of equity if the announcement of the restatement is perceived as a result of the scrutiny of owners from diverse ethnicities to check on the management's misbehavior to preserve good corporate governance practice (Labelle et al., 2010; O'Connell and Ward, 2020) and to ensure that the disclosure of financial restatement is at the appropriate level in responding to investor concerns (Y. Kim et al., 2021). Yet, bias and disagreements among varied ethnic members may extend the bargaining process, delaying the investors' ability to reap the benefits of a financial restatement (Lev, 2018). Hence, it is non-directionally hypothesized that:

*H<sub>2</sub>: Ethnic diversity of ownership significantly moderates the relationship between financial restatements and the market value of equity of Malaysian public-listed firms.*

### 3. RESEARCH DESIGN

#### 3.1 Measurement of Financial Restatement

Following existing research, this study defines financial restatement as adjusting a company's past financial statements (S. N. Abdullah et al., 2010; Hasnan et al., 2017; Wan Mohammad et al., 2018). The data is encoded using a dichotomous measure, with "1" denoting the occurrence of a financial restatement stated in the annual report and "0" denoting the absence of such an event. The disclosure is evaluated using three terms related to financial restatement: "restatement," "restate," and "prior-year adjustments" (S. N. Abdullah et al., 2010; M. M. Ali et al., 2018).

#### 3.2 Measurement of Ethnic Diversity of Ownership

Ethnic variety of ownership refers to the distribution of stock ownership among four ethnic groups in Malaysia, including Malays, Chinese, Indians, and others (N. Y. Ali et al., 2020; Azlan, 2019). As the variable is a continuous measure, the dispersion of ethnic diversity across stockholders is calculated using the coefficient of variation, as shown in Equation 1:

$$EDO_{it} = \frac{SD_{OWNit}}{\bar{X}_{it}} \text{ (Equation 1)}$$

where  $EDO$  is ethnic diversity of ownership,  $SD_{OWN}$  is standard deviation of percentage of shareholding between four ethnic categories, and  $\bar{x}$  is the mean of 30 largest shareholding between the four ethnic categories. As ethnic diversity data is only relevant to individuals, institutional shareholding is excluded from the measurement.

### 3.3 Regression Models

This study's data are calculated using panel regression models. The base model is Ohlson's (1995) value relevance model, in which accounting information is hypothesized to be relevant to shareholders' pricing and equity is hypothesized to be a function of book value of equity, profit, dividend, and a series of control variables (Horton, 2008; O'Hanlon and Taylor, 2007; Vrinda, 2018). We broaden the model by incorporating financial restatement and racial diversity in ownership. This study controls firm-specific characteristics such as leverage (Fajaria and Isnaita, 2018), auditor (Challen and Siregar, 2012), earnings management (Mufidah et al., 2020), foreign sales (Bauman and Shaw, 2008; Likitwongkajon and Vithessonthi, 2020), and capital intensity (Firmansyah and Febriyanto, 2018; Mills et al., 1998) Model 1 predicts the following effects of financial restatement on the market value of firms' equity:

$$MVE_{it+3} = \beta_0 + \beta_1 BVE_{it} + \beta_2 PBT_{it} + \beta_3 FR_{it} + \beta_4 LEV_{it} + \beta_5 AUD_{it} + \beta_6 EM_{it} + \beta_7 FS_{it} + \beta_8 CAPINT_{it} + \beta_9 DIV_{it} + \beta_{9+k} \sum_{k=1}^8 IND_{it} + \varepsilon_{it} \quad (\text{Model 1})$$

Since value relevance of accounting information is affected by market inefficiency, market returns of future risk adjusted price changes will result in delayed market reactions (Aboody et al., 2002; Naimah, 2012). Therefore,  $MVE_{it+3}$  is the market value of equity three months after the financial year-end to reflect the time lag of information disclosed to the shareholders (Lee, 2020).  $BVE$  is the book value of equity.  $PBT$  is the profit before tax.  $FR$  is a dichotomous measure of financial restatement.  $LEV$  is the leverage measured by scaling long-term debts with total assets.  $AUD$  is a dichotomous measure of the audit firm, i.e., "1" for Big-4 and "0" for otherwise.  $EM$  is earnings management measured by scaling the excess profit before tax over cash flow from operating with total assets.  $FS$  is the foreign sales measured using the percentage of foreign sales over total sales.  $CAPINT$  is the capital intensity measured using the gross machinery and equipment ratio to total assets.  $DIV$  is the dividend pay-out measured as the ratio of dividend per share over earnings per share, and  $IND$  is an industry dummy variable for each industrial sector. All continuous variables are scaled with total assets to control for size effect (Ozcan et al., 2017). To test for the moderating effects of the ethnic diversity of ownership on the link between financial restatement and market value of equity, Model 1 is expanded by adding an interaction variable between  $FR$  and ethnic diversity of ownership as in Model 2:

$$MVE_{it+3} = \beta_0 + \beta_1 BVE_{it} + \beta_2 PBT_{it} + \beta_3 FR_{it} + \beta_4 EDO_{it} + \beta_5 FR\_EDO_{it} + \beta_6 LEV_{it} + \beta_7 AUD_{it} + \beta_8 EM_{it} + \beta_9 FS_{it} + \beta_{10} CAPINT_{it} + \beta_{11} DIV_{it} + \beta_{11+k} \sum_{k=1}^8 IND_{it} + \varepsilon_{it} \quad (\text{Model 2})$$

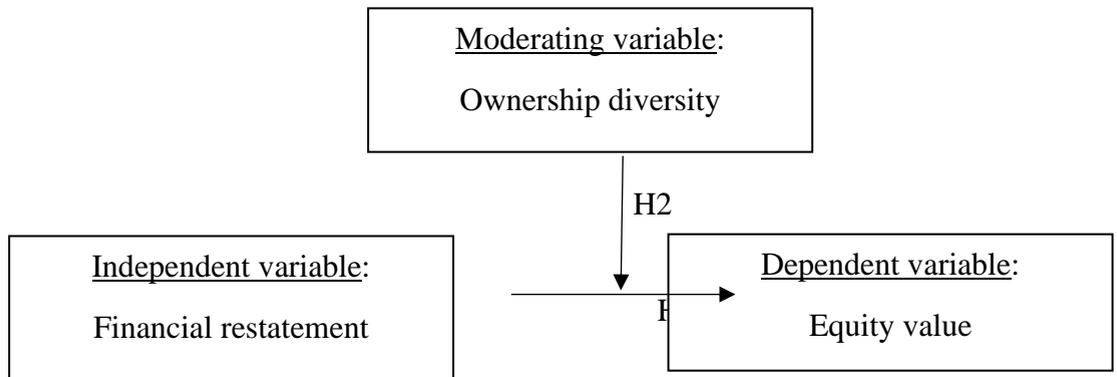
$EDO$  is the ethnic diversity of ownership measured using Equation 1, and  $FR\_EDO$  is the interaction variable between  $FR$  and  $EDO$ . Table 1 summarises the variable measurements.

**Table 1. Variable Measurements**

Variable	Description	Measurement (From 2013-2019)	Previous literature
Dependent variable:			
MVE <sub>it+3</sub>	The market value of equity	The market value of the firm 3 months after year-end scaled with total assets	(Lee, 2020)
Independent variable:			
FR	Financial restatement	Coded as 1 for restatement, 0 otherwise	(S. N. Abdullah et al., 2010)a
FR_EDO	The ethnic diversity of ownership interacts with the financial restatement	The ethnic diversity of ownership multiplied with the financial restatement	
Control variables:			
BVE	Book value of equity	Book value of equity scaled with total assets	(O'Hanlon and Taylor, 2007)
PBT	Profit before tax	Profit before tax scaled with total assets	(Horton, 2008)
EDO	The ethnic diversity of ownership	Equation 1	
LEV	Leverage	The ratio of long-term liabilities over total assets	(Fajaria and Isnalita, 2018)
AUD	Auditor	Coded as 1 for big 4 audit firms, 0 otherwise	(Challen and Siregar, 2012)
EM	Earnings management	Profit before tax – cash flow from operating activities over total assets	(Mufidah et al., 2020)
FS	Foreign sales	The ratio of foreign sales over total assets	(Bauman and Shaw, 2008; Likitwongkajon and Vithessonthi, 2020)
CAPINT	Capital intensity	The ratio of gross machinery and equipment over total assets	(Firmansyah and Febriyanto, 2018)
DIV	Dividend payout	The ratio of dividend per share over earning per share	(Al-Shawawreh, 2014)
IND	Industry	Dichotomous measure for each industrial sector	(O'Hanlon and Taylor, 2007)

The following conceptual framework will illustrate the relationship between financial restatement, the market value of equity, and ethnic diversity of ownership.

### *Conceptual framework*



The following conceptual framework demonstrates that the study's independent variable is the financial statement, while the dependent variable is the firm's equity value. Ownership diversity is anticipated to moderate the association between financial restatement and business equity value.

### **3.4 Sample and Data**

This study's sample consists of nonfinancial Bursa Malaysia-listed companies from 2013 to 2019. Since all Bursa Malaysia public-listed corporations were required to comply with Malaysian Financial Reporting Standards (MFRS) beginning in January 2013, 2013 is picked to control for bias in reporting standards. The year 2019 reflects the most recent data available during data collection. Banking institutions were omitted to control for variances in financial reporting rules (Aziz et al., 2017). To create a well-balanced panel (Baltagi, 2008) and to account for the potential association between missing data and stock market value stock, firms with incomplete annual reports were also eliminated from the sample (Wansbeek and Meijer, 2007). This study additionally eliminates companies with a negative book value of equity to prevent bias in interpreting the results due to the negative economic worth (Phillips, 2003).

Following the existing literature on financial restatements, this study used a matched-pair sample approach to account for the low base rate of occurrence, which includes financial restatements (S. N. Abdullah et al., 2010; Harris and Bromiley, 2007; Qasem et al., 2020; Xu et al, 2021). Matched-pair sampling systematically compares restating and non-stating enterprises with comparable industry and size profiles. It helps to neutralize potential determinants of performance variance, thereby elucidating the influence of independent variables on the dependent variable (Allouch et al., 2008). The matched-pair control group in this study consists of firms that did not restate their

financial statements during 2013-2019 and meet three criteria: similar industry to the examined firms, similar fiscal year-end to the examined firms, and total assets value within 40 percent of the restating firms (S. N. Abdullah et al., 2010). The sample selection procedure yields an initial sample of 176 enterprises, including 88 financial restatement firms and 88 control firms. Table 2 is an example of reconciliation.

**Table 2. Sample Reconciliation**

Details	n
Non-financial restating firms from Bursa Malaysia listed throughout 2013-2019	185
Negative book value of equity	(1)
Change of accounting year-end	(2)
Change of industrial sector	(5)
Un-matched firms based on industry and total assets	(89)
Restating firms	88
Non-restating firms	88
Initial sample	176
Firm-year (7 years)	1232
Outliers	(77)
Final sample in firm-year	1155

The Refinitiv Eikon Datastream is used to collect financial data. Due to the absence of electronic data, financial restatement, and corporate governance data are gathered manually from the firm's annual reports. Bursa Malaysia's industry classification determines the category of the industry.

## 4. RESULTS AND DISCUSSIONS

### 4.1 Descriptive Statistics

Before doing the multivariate analysis, observations with  $r > |2|$  ( $n=77$ ) are filtered out to compensate for outliers using studentized residual (N. S. Abdul Wahab et al., 2018; Hair et al., 2006). This method identifies and eliminates significant data elements that can bias the research and lead to inaccurate conclusions. This yielded a final sample of 1,155 firm years or 165 businesses. The complete sample's descriptive statistics are presented in Table 3. Most of the businesses are involved with industrial items (37.6%), consumer products and services (21.2%), and real estate (11.2%). (17 percent). The remaining firms are comprised of plantation (8.5%), construction (5.5%), technology (3.6%), transportation and logistics (3%), energy (2.4%), and utilities (2%). (1.2 percent). The mean total assets of the sample are RM1,196 million (about USD\$299 million), ranging from RM34 million (approximately USD\$9 million) to RM24.5 billion (approximately USD\$6,125 million). While the average profit before tax is RM49 million (about

USD\$12 million), the biggest profit before tax was RM2 billion (approximately USD\$505 million), and the lowest was RM2.3 billion (USD\$572 million) in losses before tax. There are 139 observations of financial restatements, demonstrating that financial restatement is not a persistent occurrence among the restating enterprises across the seven years. The mean EDO is 1.52, indicating a heterogeneous ethnic makeup of sampled firm ownership.

**Table 3. Descriptive Statistics**

n=1155	Mean	Std. Dev.	Min	Max
Profit before tax (RM'mil)	48.7101	188.6910	-2,286.6070	2,020.5580
Total assets (RM'mil)	1,196.4150	2,439.5990	33.5430	24,500.0000
<b>Dependent variable:</b>				
MVE <sub>it+3</sub>	0.5776	0.4576	0.0076	3.7137
<b>Independent variables:</b>				
FR	0.1203	0.3255	0.0000	1.0000
FR_EDO	0.1851	0.5077	0.0000	1.7400
<b>Control variables:</b>				
BVE	0.6217	0.1836	0.0144	0.9946
PBT	0.0369	0.0858	-0.6320	0.5101
EDO	1.5189	0.3164	0.0000	1.7500
LEV	0.0774	0.1016	0.0774	0.9830
AUD	0.4814	0.4999	0.0000	1.0000
EM	-0.0062	0.0872	-0.6327	0.4048
FS	21.0532	31.0459	0.0000	100.0000
CAPINT	1.4637	26.1950	0.0000	784.4235
DIV	19.4320	29.7575	0.0000	323.0000

MVE<sub>t+3</sub> = Market value of equity, FR = Financial restatement, FR\_EDO = Interaction variable between FR and EDO, BVE = Book value of equity, PBT = Profit before tax, EDO = Ethnic diversity of ownership, LEV = Leverage, AUD = Auditor, EM = Earnings management, FS = Foreign sales, CAPINT = Capital intensity, DIV = Dividend pay-out

## 4.2 Multiple Regression Results

In addition to outliers, the models are tested for multicollinearity. Multicollinearity is present when two or more independent variables in a model are highly correlated and can result in unstable parameter estimates, inflated standard errors, and reduced precision in the model (Hair et al., 2006). Table 4 presents the bi-variate correlation coefficients between the variables of the models. As expected, initial significant multicollinearity is found between *FR* and *FR\_EDO*, where the Pearson coefficient is larger than 0.8000 (Cooper and Schindler, 1998; J. H. Kim, 2019). This aligns with large VIF values of *FR* and *FR\_EDO*, i.e., VIF>10 (Hair et al., 2006). Subsequently, following Aiken et al. (1991), *FR* and *EDO* are centered before performing the

interaction of both variables in measuring  $FR\_EDO$ .<sup>3</sup> Next, VIF analysis is re-performed to re-test the multicollinearity. The VIF mean value of the re-test is below 10, indicating insignificant multicollinearity (Hair et al., 2006), i.e., VIF mean of 1.28 with values of  $FR$  and  $FR\_EDO$  are 1.02 and 1.06, respectively.

The subsequent diagnostic test is the heteroscedasticity analysis, which determines if the error terms of regression models are regularly distributed. Heteroscedasticity can lead to biased and wasteful estimations of the regression coefficients, hence diminishing the model's precision and reliability (Gujarati et al., 2012). The experiments used the Breusch-Pagan/Cook-Weisberg and White models (White, 1980). Both tests demonstrate significant Chi-squared values at the p0.01 level, indicating that the data exhibit strong heteroscedasticity. The models are therefore estimated with Huber-White adjusted t-statistics (Huber, 2004; White, 1980)<sup>4</sup>.

For generating conclusions for coefficients and hypothesis tests, Huber-White adjusted t-statistics account for the data's heteroscedasticity.

The results of the regression estimations are shown in Table 5. Column 2 presents the multivariate outcomes of Model 1's testing of the null hypothesis H1 that predicts a significant association between financial restatement and the market value of equity. Column 3 contains the results of evaluating the hypothesized significant moderating effects of the ethnic diversity of ownership on the connection between financial restatement and market value of equity using the Model 2 estimate. Model 1's estimation results suggest a statistically significant positive association between financial restatement and market value of equity ( $p < 0.05$ ), supporting hypothesis 1. Using the results of Table 5 from Model 1 (Column 2) in the Malaysian context, the Malaysian Accounting Standards Board (MASB) has made it mandatory for Malaysian public-listed companies to adopt MFRS beginning in 2013 so that high-quality financial reporting standards consistent with international best practice are produced for the users, preparers, auditors, and general public in Malaysia (MASB, 2020). This involves rectifying substantial prior period errors retrospectively in the first set of financial statements authorized for issuance by restating the relative amount for the prior period(s) where the error occurred (MFRS 108, Para 42). In addition, the MFRS stipulates that any potential current period errors detected within the same time must be rectified before the financial statements may be made public. Hence, mathematical and typographical errors may be a common cause of financial report changes among Malaysian publicly traded companies (Ismail et al., 2011). The restatements are performed to correct accounting treatments following the change in accounting standards and reclassification so that companies can accurately and fairly represent their financial status (Qasem et al., 2020).

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<sup>3</sup> In centring the variables, the means of the variables are deducted from the respective actual magnitude (Aiken et al., 1991).

<sup>4</sup> The Chi-squared is presented in Table 5.

**Table 4. Pearson Correlation Coefficients**

n=1155	MVE <sub>it+3</sub>	BVE	PBT	FR	EDO	FR_EDO	LEV	AUD	EM	FS	CAPINT	DIV
MVE <sub>it+3</sub>	1.0000											
BVE	0.3374***	1.0000										
PBT	0.4808***	0.1808***	1.0000									
FR	-0.0028	-0.0390	-0.0215	1.0000								
EDO	-0.1277***	0.2264***	0.0441	0.0226	1.0000							
FR_EDO	0.0063***	-0.0198	-0.0171	0.9862***	0.0662**	1.0000						
LEV	-0.2695***	-0.5064***	-0.1483***	0.0546*	-0.1559***	-0.0332	1.0000					
AUD	0.0098	-0.0604**	0.0361	0.0537*	-0.1972***	0.0409	0.1823***	1.0000				
EM	0.1219***	0.0598**	0.6248***	-0.0395	0.0707**	-0.0372	-0.0495*	-0.0461	1.0000			
FS	0.1978***	0.1474***	0.0991***	0.0191	0.0952***	-0.0247	-0.1584***	-0.0926***	-0.0309	1.0000		
CAPINT	-0.0028	0.0547*	0.0018	-0.0146	-0.0067	0.0144	-0.0297	-0.0370	0.0262	-0.0171	1.0000	
DIV	0.3863***	0.1418***	0.3342***	-0.0500*	-0.0584**	-0.0435	-0.1244***	0.1191***	0.1130***	0.0726**	-0.0259	1.0000

\*\*\*, \*\*, \* indicate significance at 1%, 5% and 10% levels, respectively.

MVE<sub>it+3</sub>=Market value of equity, BVE = Book value of equity, PBT = Profit before tax, FR = Financial restatement, EDO = Ethnic diversity of ownership, FR\_EDO = Interaction variable between FR and EDO, LEV = Leverage, AUD = Auditor, EM = Earnings management, FS = Foreign sales, CAPINT = Capital intensity, DIV = Dividend pay-out.

Because restatements have minimal or no impact on earnings, investors may view the accounting error as an isolated incident rather than endemic financial fraud (Das et al., 2022). As a result, the market value of equities will increase, as demonstrated by the results of this study. Similarly, since Malaysian firms that practice good corporate governance will voluntarily disclose the corporate information to improve transparency and corporate communication (P. L. Ho and Taylor, 2013), investors will react positively to the announcement of firms that correct errors in the financial reports if they expect to acquire shares from good firms with effective oversight function (Altarawneh et al., 2020).

The results of Table 5 for Model 1 (Column 2) indicate that shareholders place an added value on financial restatements. When a profitable firm announces a "little r" restatement, it may be perceived that the financial restatement can protect shareholders' interests (Tan and Young, 2015), particularly when the financial restatements are believed to be related to the management's efforts to comply with statutory regulations, such as IFRS and MFRS (Shahwan, 2019). The financial restatement may also be viewed favorably as a result of the inference that the revisions indicate an ethical work culture in which the management is perceived to be dedicated, qualified, and professional in minimizing technical or ethical errors, including those made for shareholders' decision-making purposes (Calderon et al., 2018). In the context of voluntary restatement, the positive valuation by shareholders may be attributable to favorable socially responsible assumptions on the part of management (Tolmie et al., 2020), such as management's good intention to correct clerical errors to ensure shareholders' informed decision-making (Choudhary et al., 2021; Plumlee and Yohn, 2010), diligent board of directors and effective audit committees (Z. V. Palmrose and Scholz, 2004). Similarly, Flammer et al. (2021) assert that financial restatement fosters shareholder confidence due to corporations enhanced true and fair presentation of accounting information. Following the value relevance hypothesis, the financial restatement is important to stock valuation since the adjustments reflect assurance of accurate estimates and valuations (Badu and Appiah, 2018; Lundholm, 1999). Estimates of Model 2 (Column 3) reveal a positive and statistically significant (p0.05) moderating effect of the ethnic diversity of ownership on the link reported in Model 1. In examining the impact of ethnic variety of ownership in enhancing the relationship between financial restatement and market value of equities, the results support Hypothesis 2. With relation to the discussion of Model 1 results (Column 2), the announcement of a restatement by higher performing firms is warmly received by investors, and in the Malaysian context, these good firms have more ethnically diverse board members (Cheong and Sinnakkannu, 2014). Malaysian investors prefer enterprises with ethnically diverse directors brought in by shareholders from diverse ethnic groups because such firms are more likely to prioritize racial equity and equal economic prospects (S. N. Abdullah and Ku Ismail, 2017).

In response to announcements pertinent to investment valuation, shareholders evaluate the quality of financial information based on their perceptions of the management's effectiveness in delivering messages about the firms' financial prospects (Aaker and Jacobson, 1994; Asgari and Joibary, 2018; Doval, 2019). According to the ideas of the upper echelon, the demographic features of the top management team affect organizational performance and outcomes. Effective governance incorporates a balanced background composition of the owners to ensure diversity and inclusivity in the decision-making process (De Cremer and De Schutter, 2021; Hambrick and Mason, 1984). This explains the moderating effect of ethnic diversity on shareholders' valuation of a financial restatement. Due to considerations afforded to a broad base of shareholders' interests, this variety increases independence in the decision-making process, which can effectively reduce agency problems (I. Kim et al., 2013). Moreover, ethnic variety improves access to knowledge and networks to achieve organizational objectives and manage uncertainty (Bryant and Davis, 2012). The moderating effect of ethnically diverse ownership also necessitates a balance between ethnic groups' transparency requirements (Rozaini Mohd Haniffa and Cooke, 2002). Therefore, the ethnic diversity of ownership strengthens shareholders' valuation of financial restatement as a result of the reputation of diversity as a contributor to firms' financial value and the credibility of diverse ethnic owners in enhancing financial reporting quality to promote transparency and accountability (Cook and Glass, 2014; Williams, 2015).

Estimates of BVE, PBT, and FS positively and significantly affect equity value in both Model 1 and Model 2. A company having a greater book value (BVE) is more likely to be viewed as financially solid (Sari, 2021). This can increase trust in the company's ability to weather economic downturns and deliver long-term shareholder value. Similarly, a larger profit before taxes (PBT) indicates that a company's business is lucrative and likely sustainable (McGuire et al., 2013). Similarly, a business with larger foreign sales (FS) is growing its customer base and perhaps diversifying its revenue streams to generate greater stability and long-term growth chances (Tolstoy et al., 2016). Estimate of EM has a substantial and unfavorable effect on equity value in both Models 1 and 2. The reversed results show that shareholders are likely to react unfavorably to corporations manipulating financial statements to attain the targeted earnings target, as they view the reported results as inaccurate and opaque (Hasnan et al., 2013).

The estimate of CAPINT reveals a negligible impact on equity value in Model 1 but a substantial and positive impact in Model 2. Several companies in Malaysia may prioritize innovation and intellectual property over physical capital investment to achieve revenue growth and profitability. Hence, capital intensity (CAPINT) may not be viewed as a key business value component (Powell et al., 2015). Nonetheless, the ethnic diversity of a capital-intensive company's management may reflect various perspectives and experiences, which can foster creativity and a commitment to long-term prosperity.

LEV, AUD, and DIV effect stock value insignificantly in both Model 1 and Model 2. Investors in Malaysia may be less sensitive to debt levels due to the prominence of family-controlled and government-affiliated businesses. Investors may be less concerned about these companies' debt level (LEV) because they have access to multiple sources of financing (N. Abdullah and Pok, 2015). Most publicly traded companies in Malaysia employ the Big Four or other respected auditing firms. Hence, investors may not view enterprises' use of a Big Four auditor (AUD) as a unique element for enhancing the trustworthiness of financial reporting and thereby strengthening the firm's fundamentals (Abba and Sadah, 2020). As a developing nation, many Malaysian businesses are still in the expansion phase. So, they may prioritize reinvesting their profits in the company over paying dividends. As a result, investors may not place a premium on dividend payments (DIV) when assessing a company's performance and future prospects (DeAngelo and DeAngelo, 2006).

### 4.3 Robustness tests

The models are re-estimated for alternative periods of the market value of equity post-financial year-end, annual regression, and fixed-effects estimation to test the sensitivity of the results presented in Table 5.<sup>5</sup> The dependent variable used in estimating Model 1 and Model 2 is the market value of stock three months after the end of the fiscal year to account for the time lag between the disclosure of information and its reception by shareholders (Kross and Schroeder, 1984). Capital markets are susceptible to swings such as changes in government policy, interest rate changes, and exchange rate variations, which can impact companies' profitability and growth prospects (Fischer and Merton, 1984). Several variables may also influence the connection between financial restatement and equity valuation. By extending the analysis's duration, the findings' robustness can be evaluated in light of changes in market conditions to determine if the association observed in the first regressions persists over time. Models 1 and 2 are re-estimated using the market value of equity four and six months after the end of the fiscal year to examine the results' sensitivity to a longer timeframe (N. S. Abdul Wahab et al., 2012; Di Lullo et al., 2020; Horton, 2008). We find qualitatively similar results between the initial results presented in Table 5 and the re-estimation results, suggesting that the importance of financial restatement and the moderating role of the ethnic diversity of ownership in shareholder valuation of financial restatement are robust during different post-financial year-end periods. Models 1 and 2 are then re-estimated annually to better understand the strength of the linkages across time. While the initial results of the association between financial restatement and the stock market value are maintained in 2019, the importance of ethnic diversity of ownership in reducing the relationship in 2013 is apparent.

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<sup>5</sup> In the interest of economy, the results are available from authors upon request.

**Table 5. Regression Estimations**

DV=MVE <sub>it+3</sub>	Model 1 Effect of FR on MVE <sub>it+3</sub>	Model 2 The moderating role of FR_EDO to FR on MVE <sub>it+3</sub>
Independent variable coefficients:		
FR	0.0439**	0.0348*
	<i>2.02</i>	<i>1.74</i>
EDO		-0.0927
		<i>-0.85</i>
FR_EDO		0.3398**
		<i>2.54</i>
Control variable coefficients:		
BVE	0.4910***	0.5084***
	<i>4.41</i>	<i>4.66</i>
PBT	1.7353***	1.7322***
	<i>6.34</i>	<i>6.28</i>
LEV	-0.1572	-0.1672
	<i>-1.03</i>	<i>-1.09</i>
AUD	0.037	0.0273
	<i>1.05</i>	<i>0.8</i>
EM	-0.3445**	-0.3454**
	<i>-2.51</i>	<i>-2.49</i>
FS	0.0014**	0.0014**
	<i>2.33</i>	<i>2.30</i>
CAPINT	-0.0001	-0.0001*
	<i>-1.27</i>	<i>-1.67</i>
DIV	0.0007	0.0007
	<i>1.53</i>	<i>1.51</i>
Constant	0.6576	0.6007
	<i>1.52</i>	<i>1.59</i>
Industry dummy	Yes	Yes
R-squared	42.28%	44.60%
Wald	101.54***	117.44***
Breusch-Pagan	297.17***	329.96***
White	237.65***	359.88***
n	1,155	1,155

Italicized figures represent Huber-White adjusted t-statistics.

\*\*\*, \*\*, \* indicate significance at 1%, 5% and 10% levels, respectively.

MVE<sub>it+3</sub> = Market value of equity, FR = Financial restatement, EDO = Ethnic diversity of ownership, FR\_EDO = EDO \* FR, BVE = Book value of equity, PBT = Profit before

tax, LEV = Leverage, AUD = Auditor, EM = Earnings management, FS = Foreign sales, CAPINT = Capital intensity, DIV = Dividend pay-out.

In contrast, financial restatement and the moderating influence of ethnic diversity of ownership in 2014, 2015, 2016, 2017, and 2018 have no bearing on the market value of equity. This suggests the possibility of unobservable differences throughout the studied periods and that the data is time-sensitive. To assess the sensitivity of the results to firm-specific effects, we reestimate the models with fixed-effects estimation. This method enables the study to isolate the variation within each firm over time and estimate the independent variable's effect on the dependent variable while maintaining constant all-time-invariant components that vary between firms. The re-estimation aims to corroborate the results while controlling for the association between firm-specific heterogeneity and equity market value. The findings of fixed-effects estimation are qualitatively comparable to the original results of both models shown in [Table 5](#), indicating the robustness of the initial results concerning the multiple regression specifications.

## 5. CONCLUSIONS

This study investigates how ethnic diversity of ownership moderates the relationship between financial restatement and the stock's market value. Utilizing 1,155 firm-years of Malaysian non-financial public-listed enterprises from 2013 to 2019, this analysis demonstrates that shareholders increasingly appreciate firm financial restatement and that ethnic diversity in ownership amplifies the observed link. This study contributes to the body of knowledge by giving additional data to support the value relevance theory that financial restatement boosts shareholders' equity valuation. The data also give additional evidence supporting the upper echelon theory, which states that the top management's diversified shareholders boost shareholder value. In the context of this study, the ethnic variety of owners is relevant to promoting good governance from an investors' perspective.

From a practical standpoint, this study contributes to the industry and market participants by providing empirical proof that the stock's market value correlates positively with the financial restatement and that the benefit is greater in enterprises with ethnically diverse shareholders. To make investing decisions, investors require relevant and dependable data. An announcement of a financial restatement that results in higher reporting earnings or a stronger financial position can raise investors' confidence in the company's future financial prospects, resulting in a share price gain. This means that, from a practical standpoint, investors should give these companies a higher weighting when analyzing their investment portfolios. Applying the findings to the organization, management should prioritize openness in financial reporting to avoid the need for "Big R" financial restatement, which can harm shareholder trust and equity's market value. Also, management should seek to establish a diversified ownership structure to improve

decision-making and relationships with stakeholders.

In a similar line, policymakers require effective economic growth and stability programs. This study is useful to policymakers because it demonstrates that financial restatement has a significant impact on equity value and that ethnic diversity of ownership can be an effective mechanism for promoting good corporate governance in a market that is complex and rapidly changing, given the importance of boosting public confidence in the information disclosed by publicly traded companies. Hence, policymakers can promote more financial reporting transparency by implementing legislation requiring companies to disclose more information regarding their financial performance and accounting processes. Moreover, policies that encourage diversity in the corporate ownership structure can be rewarded through tax benefits or other financial incentives for enterprises having a varied ownership structure. Education and training initiatives can also be adopted to promote diversity in corporate leadership and ownership to maintain a stable economy for all stakeholders.

The originality of this study resides in the conclusion that ethnic variety of ownership can improve inclusion and representation in multiethnic communities. When enterprises are controlled by owners from diverse ethnic groups, decision-making and power are shared among varied groups, resulting in a more inclusive and egalitarian society. The conclusions of this study can be applied to other nations when evaluating the reaction of equity markets to the disclosure of financial information, particularly in multiethnic nations. Because this study focuses on the ethnic diversity of ownership in the financial restatement, the finding may not apply to other indicators of financial reporting quality, such as earnings management. Thus, future research can duplicate this work to experimentally examine the impact of the ethnic diversity of ownership utilizing different financial reporting measures. Further research could also be undertaken to confirm the findings of this study in various contexts, such as across firm sizes and stock exchanges.

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