“Do ESG and ownership structures matter for financial restatements? The moderating role of board independence”

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ARTICLE INFO	Erma Setiawati, Eskasari Putri, Shinta Permata Sari, Lulu Hardina, Nurlita Arum S. and Pa Modou (2026). Do ESG and ownership structures matter for financial restatements? The moderating role of board independence. *Investment Management and Financial Innovations*, *23*(3), 279–290. doi:10.21511/imfi.23(3).2026.20
DOI	http://dx.doi.org/10.21511/imfi.23(3).2026.20
RELEASED ON	Tuesday, 18 August 2026
RECEIVED ON	Friday, 27 February 2026
ACCEPTED ON	Friday, 07 August 2026

JOURNAL	"Investment Management and Financial Innovations"
ISSN PRINT	1810-4967
ISSN ONLINE	1812-9358
PUBLISHER	LLC “Consulting Publishing Company “Business Perspectives”
FOUNDER	LLC “Consulting Publishing Company “Business Perspectives”

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
45	0	3

BUSINESS PERSPECTIVES

LLC "CPC "Business Perspectives"
Hryhorii Skovoroda lane, 10,
Sumy, 40022, Ukraine
www.businessperspectives.org

Type of the article: Research Article

Received on: 27th of February, 2026
Accepted on: 7th of August, 2026
Published on: 18th of August, 2026

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Conflict of interest statement:
Author(s) reported no conflict of interest

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DO ESG AND OWNERSHIP STRUCTURES MATTER FOR FINANCIAL RESTATEMENTS? THE MODERATING ROLE OF BOARD INDEPENDENCE

Abstract

Financial restatements remain a significant concern because they reflect weaknesses in financial reporting quality, corporate transparency, and governance effectiveness, particularly in emerging markets. This study examines the effects of the Environmental, Social, and Governance (ESG) dimensions and ownership structures on the likelihood of financial restatements, as well as the moderating role of board independence. The study employs logistic regression and Moderated Regression Analysis (MRA) using 609 firm-year observations of manufacturing companies listed on the Indonesia Stock Exchange during 2017–2023. The findings indicate that none of the ESG dimensions, ownership structures, or their interaction with board independence show a statistically significant association with financial restatements at the 5% level, and the model's explanatory power is limited (Nagelkerke R^2 = 0.057). While these results should be interpreted with caution given the model's limited explanatory capacity, they are consistent with the view that formal ESG and governance mechanisms may not yet operate as effective monitoring instruments in this emerging-market setting. The findings underscore the need for further research and stronger regulatory enforcement to strengthen the substantive role of governance in corporate reporting integrity. These findings have important implications for regulators, corporate boards, and investors in emerging markets, suggesting that voluntary ESG commitments and concentrated ownership structures alone are insufficient safeguards against reporting irregularities unless accompanied by credible enforcement and independent oversight mechanisms.

Keywords ESG, ownership, governance, independence, restatement, transparency, reporting, Indonesia

JEL Classification G32, G34, M41

INTRODUCTION

This study examines these issues specifically among manufacturing companies listed on the Indonesia Stock Exchange (IDX), a sector subject to heightened environmental, social, and governance scrutiny, over the 2017–2023 period. Corporate integrity represents a fundamental pillar of sustainable business operations because it ensures the reliability of financial reporting, strengthens stakeholder trust, and supports effective decision-making. Nevertheless, financial restatements continue to occur across various capital markets, raising concerns about the quality of corporate reporting and the effectiveness of governance mechanisms designed to safeguard financial transparency. Financial restatements generally indicate the existence of material errors, misapplications of accounting standards, or deficiencies in internal control systems. As a result, they are frequently viewed as signals of weak corporate oversight and potential failures in monitoring managerial behavior.

The issue of financial restatements has attracted increasing attention from regulators, investors, and academics because inaccurate financial reporting can distort investment decisions, reduce market confidence, and undermine corporate credibility. The problem is particularly relevant in emerging markets, where institutional environments are often characterized by weaker enforcement mechanisms, concentrated ownership structures, and varying levels of governance quality. Under such conditions, formal governance arrangements may not always function effectively in preventing reporting irregularities.

In response to growing demands for transparency and accountability, companies have increasingly adopted Environmental, Social, and Governance (ESG) practices and strengthened governance mechanisms such as ownership structures and board independence. These mechanisms are expected to improve monitoring effectiveness, reduce managerial opportunism, and enhance reporting quality. However, despite the widespread implementation of ESG initiatives and governance reforms, financial restatements continue to occur, suggesting that the effectiveness of these mechanisms remains uncertain.

This situation highlights an important scientific problem regarding whether ESG practices and corporate governance mechanisms genuinely contribute to preventing financial reporting irregularities or merely represent symbolic compliance with regulatory and stakeholder expectations (Meyer & Rowan, 1977). Understanding this issue is particularly important in emerging market settings, where governance structures may differ substantially from those observed in developed economies and where their effectiveness remains the subject of ongoing debate.

1. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This section presents the theoretical foundation and prior empirical findings related to ESG performance, ownership structure, board independence, and financial restatements. The discussion is structured to develop a coherent relationship among variables and to support the formulation of the research hypotheses.

Corporate governance mechanisms are fundamentally rooted in agency theory, which explains the conflicts of interest arising from information asymmetry between managers and shareholders (Jensen & Meckling, 1976). Such asymmetry creates opportunities for opportunistic behavior, including earnings manipulation and financial misreporting (Healy & Wahlen, 1999). Governance structures, including ownership arrangements and board oversight, are therefore designed to mitigate these risks by aligning managerial incentives with shareholder interests and enhancing monitoring effectiveness (Shleifer & Vishny, 1997; Fama & Jensen, 1983). In parallel, stakeholder theory broadens the perspective by emphasizing corporate accountability to a wider group of stakeholders beyond shareholders (Freeman, 1984). Within this framework, Environmental, Social, and Governance (ESG) practices are expected to promote ethical behavior, enhance transparency, and reduce the likelihood of financial irregularities (Fatemi et al., 2018).

ESG performance has increasingly been viewed as a mechanism to strengthen corporate integrity and improve financial reporting quality. Firms with strong ESG engagement are generally associated with higher levels of transparency, improved disclosure practices, and stronger internal controls, which may reduce the likelihood of financial restatements (Benlemlih et al., 2023; Kim & Lyon, 2015). This is consistent with evidence that stronger ESG performance is associated with higher firm value and improved organizational capabilities across diverse industry settings (Abdi et al., 2022; Abbas et al., 2025). Integrated ESG disclosure has similarly been linked to more transparent and decision-useful reporting practices (Al-Htaybat & von AlbertiAlhtaybat, 2018; Rahman et al., 2023), including in the Indonesian context (Nugroho & Hersugondo, 2022). From a stakeholder perspective, ESG-oriented firms are more likely to prioritize long-term sustainability and reputational concerns, thereby discouraging opportunistic reporting behavior (Fatemi et al., 2018; Eccles et al., 2014; Dwianto

http://dx.doi.org/10.21511/imfi.23(3).2026.20

et al., 2024). More directly, ESG performance has been shown to strengthen financial reporting quality when board independence is present (Grau et al., 2025) and to reduce the likelihood of corporate misconduct and fraudulent disclosure (Li et al., 2024; Su et al., 2024; Zhao & Li, 2025). However, the reliability of these associations is not without caveats, as ESG data and ratings themselves suffer from measurement inconsistency across providers (Kotsantonis & Serafeim, 2019). However, empirical findings remain mixed, particularly in emerging markets. In emerging-market and competitive settings, the link between ESG engagement and financial distress or misconduct is likewise inconsistent (Almubarak et al., 2023; Sastroredjo & Suganda, 2025; Martins, 2022). ESG adoption in such contexts is often driven by external legitimacy pressures and may take the form of symbolic compliance rather than substantive governance improvements (Michelon et al., 2015; Khamisu et al., 2024). As a result, ESG practices may not always translate into improved financial reporting quality or reduced restatement risk (Wulandari & Maulana, 2024; Assadi et al., 2025). This pattern extends to broader corporate social responsibility (CSR) activities, which have similarly been associated with reputational and financial outcomes across sectors and regions, including the insurance industry (Ahn & Park, 2023), East African capital markets (Mwenda & Magwana, 2023), and Indonesian manufacturing firms (Wardhana & Achyani, 2025).

Ownership structure is another important governance mechanism influencing managerial behavior and monitoring effectiveness. Institutional investors are typically expected to act as effective monitors due to their expertise, resources, and access to information, thereby reducing agency problems and discouraging financial manipulation (Shleifer & Vishny, 1997; Nguyen & Lee, 2024; Setiawati et al., 2022). At the same time, managerial ownership aligns managers' interests with those of shareholders, potentially reducing opportunistic behavior and improving reporting quality (Jensen & Meckling, 1976; Harymawan et al., 2022). Nevertheless, prior studies indicate that these mechanisms may not function effectively in all contexts. In emerging markets, institutional investors may adopt passive monitoring strategies, while high managerial ownership may lead to entrenchment and reduced external oversight, potentially weakening their role in preventing financial restatements (Widiantari et al., 2024; Kim & Lyon, 2015; Al-Asmakh et al., 2026). This is consistent with prior evidence linking managerial ownership to financial reporting quality in East Asian markets (Yasser et al., 2017) and linking majority ownership structures to firms' sustainability disclosure practices in Indonesia (Trisnawati et al., 2022).

Board independence is also considered a critical element of effective corporate governance. Independent board members are expected to enhance oversight, improve accountability, and reduce managerial opportunism (Fama & Jensen, 1983; OECD, 2023). A higher proportion of independent directors is generally associated with better monitoring quality, improved audit effectiveness, and lower levels of financial misreporting (Kim & Lyon, 2015; Beasley, 1996). However, in emerging market environments, the effectiveness of independent boards is often constrained by institutional weaknesses, relational ties, and limited enforcement mechanisms, which may compromise their ability to function as truly independent monitors (Krismiaji et al., 2023; Harymawan et al., 2022). In developing economy settings specifically, governance mechanisms, including board oversight, have been shown to play a significant role in curbing the likelihood of financial restatements (Ebaid, 2023). This aligns with a broader body of evidence linking governance quality to fraud prevention (Apristiana & Utomo, 2025), opportunistic related-party transactions (Fatchan et al., 2025), and the effectiveness of ESG-related investment and reporting practices (Harymawan et al., 2022).

Despite the growing body of literature on ESG practices and corporate governance, empirical evidence regarding their effectiveness in reducing financial restatements remains inconclusive. Previous studies have reported inconsistent findings concerning the relationships between ESG performance, ownership structures, and financial reporting quality. While several studies suggest that ESG engagement and governance mechanisms enhance transparency and reduce reporting irregularities, other studies indicate that their effectiveness may be limited, particularly in emerging market environments characterized by weak institutional enforcement and symbolic compliance. Furthermore, most prior studies have focused on developed economies, providing limited evidence from emerging markets where governance structures and monitoring mechanisms may operate differently. Consequently, it remains unclear whether ESG dimensions and ownership structures effectively reduce the likelihood of financial restatements and whether board independence strengthens these relationships.

Therefore, this study aims to examine the effects of ESG dimensions and ownership structures on financial restatements and to investigate the moderating role of board independence. By focusing on manufacturing firms listed on the Indonesia Stock Exchange, this study contributes to the corporate governance and financial reporting literature by providing evidence from an emerging market context.

Based on the above discussion, the following hypotheses are proposed:

H1: *Environmental performance is negatively associated with the likelihood of financial restatements.*

H2: *Social performance is negatively associated with the likelihood of financial restatements.*

H3: *Governance performance is negatively associated with the likelihood of financial restatements.*

H4: *Institutional ownership is negatively associated with the likelihood of financial restatements.*

H5: *Managerial ownership is negatively associated with the likelihood of financial restatements.*

H6: *Board independence strengthens the negative relationship between environmental performance and financial restatements.*

H7: *Board independence strengthens the negative relationship between social performance and financial restatements.*

H8: *Board independence strengthens the negative relationship between governance performance and financial restatements.*

H9: *Board independence strengthens the negative relationship between institutional ownership and financial restatements.*

H10: *Board independence strengthens the negative relationship between managerial ownership and financial restatements.*

2. RESEARCH METHODS

This study employed a quantitative explanatory research design to examine the effects of Environmental (E), Social (S), and Governance (G) performance and ownership structures on financial restatements, as well as the moderating role of board independence. The study used binary logistic regression and Moderated Regression Analysis (MRA) because the dependent variable, financial restatement, was measured as a dichotomous variable, coded 1 if a company issued a financial restatement and 0 otherwise.

The research population consisted of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2017–2023. Manufacturing firms were selected because they are subject to greater environmental, social, and governance scrutiny compared to many other sectors. The sample was selected using purposive sampling based on the following criteria:

1) firms consistently listed on the IDX during the observation period;
2) firms publishing complete annual and sustainability reports;
3) firms disclosing ESG and ownership structure information; and
4) firms with identifiable financial restatement records. After applying these criteria, the final sample consisted of 609 firm-year observations.

The initial population consisted of 220 manufacturing firms listed on the IDX during 2017–2023. After applying the purposive sampling criteria, 45 firms were excluded for not being consistently listed on the IDX throughout the observation period, 54 firms were excluded for incomplete disclosure of ESG data during 2017–2023, and 34 firms were excluded because their financial restatement re-

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Table 1. Sample selection procedure

Description	Number
Population: manufacturing firms listed on the IDX	220
Less: exclusions based on purposive sampling criteria	
1. Firms not consistently listed on the IDX during 2017–2023	(45)
2. Firms with incomplete ESG disclosure during 2017–2023	(54)
3. Firms with unidentifiable financial restatement records	(34)
Final sample (firms)	87
Total firm-year observations (87 firms × 7 years, balanced panel)	609

cords could not be identified. This resulted in a final sample of 87 firms. Because each of the 87 firms was observed over the full seven-year period, the resulting panel is balanced, yielding 609 firm-year observations (87 firms × 7 years), evenly distributed across 2017–2023.

Of the 609 firm-year observations, 35 (5.7%) involved a financial restatement, while the remaining 574 (94.3%) did not.

The study used secondary data obtained from annual reports, sustainability reports, and corporate governance disclosures available through the Indonesia Stock Exchange and company websites. The research procedure involved identifying eligible firms, collecting ESG, ownership structure, and board composition data, identifying financial restatement events, constructing the research database, and performing statistical analysis.

To test the direct effects of ESG dimensions and ownership structures on financial restatements, the following logistic regression model was estimated:

$$FSR = \beta_0 + \beta_1 E + \beta_2 S + \beta_3 G + \beta_4 IO + \beta_5 MO + \varepsilon. \tag{1}$$

To examine the moderating role of board independence, Moderated Regression Analysis (MRA) was conducted by incorporating interaction terms between board independence and each independent variable:

$$\begin{gathered} FSR = \beta_0 + \beta_1 E + \beta_2 S + \beta_3 G + \beta_4 IO \\ + \beta_5 MO + \beta_6 (E \cdot BI) + \beta_7 (S \cdot BI) \\ + \beta_8 (G \cdot BI) + \beta_9 (IO \cdot BI) \\ + \beta_{10} (MO \cdot BI) + \varepsilon, \end{gathered} \tag{2}$$

where *FSR* represents financial restatement, *E* represents environmental performance, *S* represents social performance, *G* represents governance performance, *IO* represents institutional ownership, *MO* represents managerial ownership, *BI* represents board independence, β denotes regression coefficients, and ε represents the error term.

The ESG data were manually collected from companies' sustainability reports and annual reports.

Table 2. Variable definitions and measurements

Variable	Symbol	Measurement
Financial Restatement	FSR	Dummy variable; 1 if the company issued a financial restatement during the observation year, 0 otherwise
Environmental Performance	E	Environmental disclosure score based on GRI environmental indicators (disclosed items/total environmental items)
Social Performance	S	Social disclosure score based on GRI social indicators (disclosed items/total social items)
Governance Performance	G	Governance disclosure score based on governance-related indicators (disclosed items/total governance items)
Institutional Ownership	IO	Percentage of shares owned by institutional investors divided by total outstanding shares
Managerial Ownership	MO	Percentage of shares owned by directors and managers divided by total outstanding shares
Board Independence	BI	Number of independent commissioners divided by total board commissioners
E × BI	EBI	Interaction between environmental performance and board independence
S × BI	SBI	Interaction between social performance and board independence
G × BI	GBI	Interaction between governance performance and board independence
IO × BI	IOBI	Interaction between institutional ownership and board independence
MO × BI	MOBI	Interaction between managerial ownership and board independence

Environmental, social, and governance performance were measured using ESG disclosure indicators based on the Global Reporting Initiative (GRI) Standards. Each disclosed ESG item was assigned a score of 1, while undisclosed items were assigned a score of 0. The ESG score for each dimension was calculated as the ratio of disclosed items to the total applicable disclosure items within the respective dimension.

3. RESULTS

3.1. Descriptive statistics

The study uses 609 firm-year observations of manufacturing companies listed on the Indonesia Stock Exchange during 2017–2023. Financial restatement is measured as a binary variable, where 1 indicates the occurrence of a financial restatement and 0 otherwise. The descriptive statistics indicate variation in ESG dimensions, ownership structures, and board independence across the sample firms.

3.2. Model feasibility and goodness-of-fit

1. Initial Model (Block 0)

The –2 Log Likelihood (–2LL) value for the initial model (Step 0, constant only) is 523.963. This baseline value serves as the reference point against which the improvement in model fit after including the independent variables is subsequently evaluated.

The constant-only model yields a B coefficient of –1.701 and an Exp (B) of 0.183 with a p-value of 0.000, which is statistically significant. This suggests that, without considering the independent variables, the probability of financial restatement is relatively low.

2. Full Model (Block 1)

After including the independent and moderating variables, the –2 Log Likelihood value decreases to 503.432, demonstrating an improvement in model fit. The Omnibus Test of Model Coefficients shows a Chi-square value of 20.531, df = 10, and a significance level of 0.025. Since the p-value < 0.05, the model is statistically significant, meaning that the independent variables collectively affect the likelihood of financial restatement.

The Nagelkerke R^2 value is 0.057, indicating that the independent variables explain approximately 5.7% of the variation in financial restatement probability. While this explanatory power appears modest, it is consistent with many corporate governance and fraud-related studies, where numerous external and firm-specific factors also contribute to financial misreporting behavior.

The Hosmer and Lemeshow Test produces a Chi-square value of 9.862, df = 8, and a significance value of 0.275, which exceeds 0.05. This confirms that the model fits the data well, implying that there is no significant difference between the predicted and observed classifications of financial restatement.

3.3. Logistic regression results

From the regression output, none of the variables show statistical significance at the 5% level. However, Institutional ownership exhibits a nega-

Table 3. Regression analysis results

Variable	B	S.E.	Wald	Sig.	Exp (B)
IO (Institutional Ownership)	–5.774	3.324	3.017	0.082	0.003
MO (Managerial Ownership)	0.669	4.081	0.027	0.870	1.952
E (Environmental)	4.061	2.859	2.018	0.155	58.061
S (Social)	0.491	3.125	0.025	0.875	1.634
G (Governance)	1.498	2.790	0.288	0.591	4.474
IO_BI (Institutional Ownership × Board Independence)	11.858	7.360	2.596	0.107	141,139.099
MO_BI (Managerial Ownership × Board Independence)	–0.958	9.835	0.009	0.922	0.384
E_BI (Environmental × Board Independence)	–10.128	6.449	2.466	0.116	0.000
S_BI (Social × Board Independence)	–3.815	7.131	0.286	0.593	0.022
G_BI (Governance × Board Independence)	0.853	6.428	0.018	0.894	2.347
Constant	–1.659	1.169	2.013	0.156	0.190

http://dx.doi.org/10.21511/imfi.23(3).2026.20

tive coefficient but is not statistically significant at the 5% level. This implies that firms with higher institutional ownership are slightly less likely to be associated with financial restatements. This finding aligns with prior studies emphasizing the monitoring role of institutional investors (Kim & Lyon, 2015).

The Environmental (E) variable, though not statistically significant, exhibits a large positive coefficient (B = 4.061), suggesting that environmental disclosure alone may not effectively deter restatements, possibly due to superficial compliance or "greenwashing" practices (García-Sánchez et al., 2022). Similarly, Governance (G) and Social (S) dimensions show positive coefficients, indicating that ESG disclosure without strong enforcement mechanisms may not necessarily reduce the likelihood of financial restatements. These results are consistent with, though not direct evidence for, the possibility that ESG practices in Indonesian manufacturing firms remain more disclosure-oriented than substantive.

3.4. Moderation analysis

The moderating role of board independence (BI) is tested through the interaction terms between BI and each independent variable.

1) Institutional Ownership × BI (IO_BI) shows a strong positive coefficient (B = 11.858) but with a p-value of 0.107, which is not statistically significant. Although not significant, the direction implies that a higher proportion of board independence might enhance the effect of institutional ownership in reducing the likelihood of financial restatements, consistent with agency theory (Jensen & Meckling, 1976).

2) Managerial Ownership × BI (MO_BI) is negative but insignificant, suggesting that board independence does not significantly influence how managerial ownership affects the likelihood of restatement. One possible interpretation is that managerial ownership already aligns interests, rendering additional oversight less impactful.

3) Environmental × BI (E_BI) interaction has a large negative coefficient (–10.128) but remains insignificant. This could indicate that board independence oversight is less effective in environmental matters, possibly because such issues are often handled by specialized sustainability committees rather than the board.

4) Social × BI (S_BI) and Governance × BI (G_BI) interactions are also statistically insignificant, suggesting that board independence does not moderate the relationship between social or governance initiatives and financial restatements. This may reflect the limited authority or engagement of independent board members in operational ESG oversight.

4. DISCUSSION

The findings reveal that ESG dimensions, ownership structures, and board independence do not significantly influence the likelihood of financial restatements among manufacturing firms listed on the Indonesia Stock Exchange. These results suggest that governance mechanisms that are theoretically expected to enhance financial reporting integrity may not yet operate effectively within the institutional environment of an emerging market. Although ESG practices are commonly associated with greater transparency, accountability, and ethical business conduct, the insignificant effects observed in this study indicate that ESG implementation may still be largely compliance-oriented rather than reflecting substantive improvements in monitoring systems, internal controls, and reporting quality. This finding implies that the existence of governance structures alone is insufficient to prevent financial reporting irregularities when their implementation lacks effectiveness and consistency.

The absence of significant relationships between environmental, social, and governance performance and financial restatements supports the argument that ESG disclosures may function more as legitimacy instruments than as mechanisms for reducing financial reporting irregularities. This finding is consistent with legitimacy theory, which suggests that firms often adopt ESG practices to gain social acceptance, maintain legitimacy, and strengthen their corporate reputation among stakeholders. In such circumstances, ESG disclosures do not necessarily reflect actual improvements in governance quality, ethical conduct, or managerial accountability. Instead, ESG reporting may be used primarily to satisfy regulatory expectations and stakeholder demands. This interpretation is consistent with prior studies in emerging markets, which have reported that ESG initiatives frequently emphasize disclosure compliance while providing limited influence on managerial opportunistic behavior and financial reporting practices. Consequently, higher ESG disclosure does not automatically translate into stronger financial reporting integrity.

The findings regarding ownership structure also provide important insights into the effectiveness of corporate governance mechanisms. Institutional ownership exhibits a negative but statistically insignificant relationship with financial restatements. Although agency theory suggests that institutional investors can serve as effective monitors capable of reducing managerial opportunism, the results imply that this monitoring role may not be fully realized in the Indonesian context. One possible explanation is that institutional investors tend to adopt relatively passive investment strategies and focus more on financial returns than on active involvement in governance oversight. As a result, their presence may not be sufficient to exert meaningful pressure on management to improve reporting quality. Nevertheless, the negative coefficient indicates that institutional ownership may still contribute to reducing the likelihood of reporting irregularities, although the effect remains weak and insufficient to achieve statistical significance.

Similarly, managerial ownership does not significantly affect the occurrence of financial restatements. This finding suggests that ownership alignment alone may be insufficient to reduce reporting irregularities and improve financial reporting integrity. While agency theory argues that managerial ownership aligns the interests of managers and shareholders, the results are more consistent with the entrenchment perspective, which proposes that managers with ownership stakes may gain greater discretion and influence over corporate decisions without necessarily increasing accountability. In environments characterized by concentrated ownership structures and limited external monitoring, managerial ownership may not function as an effective governance mechanism. Therefore, the ability of ownership structures to improve reporting quality appears to depend on the broader governance environment in which firms operate.

The moderating analysis further demonstrates that board independence does not strengthen the relationships between ESG dimensions, ownership structures, and financial restatements. This finding suggests that formal compliance with board independence requirements may not necessarily translate into effective oversight of financial reporting processes. Although independent board members are expected to provide objective monitoring and protect stakeholder interests, their effectiveness may be constrained by several factors. These include limited expertise in financial reporting and ESG-related issues, insufficient authority to challenge management decisions, and potential affiliations with controlling shareholders. As a result, the presence of independent board members may fulfill regulatory requirements without substantially enhancing governance effectiveness. This finding supports the view that board independence should be evaluated not only in terms of structural composition but also in terms of competence, engagement, and actual monitoring performance.

From a theoretical perspective, the findings provide limited support for both agency theory and stakeholder theory. Agency theory predicts that governance mechanisms such as ownership structures and independent oversight should reduce information asymmetry and constrain managerial opportunism, thereby improving financial reporting quality. Likewise, stakeholder theory suggests that firms that actively address stakeholder interests through ESG practices should demonstrate greater transparency and accountability. However, the insignificant relationships identified in this study indicate that these theoretical expectations may not be fully realized in practice. The findings suggest that governance mechanisms and ESG initiatives may become symbolic when enforcement is weak and when firms prioritize compliance over substantive implementation. Consequently, the effectiveness of corporate governance depends not only on the existence of governance structures but

http://dx.doi.org/10.21511/imfi.23(3).2026.20

also on the quality of their execution, monitoring, and enforcement.

Overall, the findings highlight the need for firms and regulators to move beyond formal governance compliance toward substantive governance effectiveness. The results indicate that ESG practices, ownership structures, and board independence alone are insufficient to reduce the likelihood of financial restatements when they are not supported by strong monitoring systems and effective governance implementation. Therefore, improving financial reporting integrity requires greater emphasis on governance quality, stakeholder engagement, board competency, and regulatory enforcement. By strengthening these aspects, firms may be better positioned to ensure that ESG initiatives and governance mechanisms contribute meaningfully to transparency, accountability, and the reliability of financial reporting.

CONCLUSION

This study aimed to examine the effects of ESG dimensions and ownership structures on financial restatements and to investigate the moderating role of board independence among manufacturing firms listed on the Indonesia Stock Exchange during 2017–2023. Using logistic regression analysis on 609 firm-year observations, the findings indicate that environmental, social, and governance performance, managerial ownership, and board independence do not significantly affect the likelihood of financial restatements. Institutional ownership exhibits a negative relationship with financial restatements; however, the effect remains statistically weak. Furthermore, board independence does not moderate the relationships between ESG dimensions, ownership structures, and financial restatements.

These findings suggest that, within this sample, ESG dimensions and the ownership and board-independence mechanisms examined were not associated with a statistically significant reduction in the likelihood of financial restatements. One plausible interpretation, consistent with prior emerging-market studies, is that ESG implementation may still be largely disclosure-oriented rather than reflecting substantive changes in monitoring and internal control, and that formal governance mechanisms may be insufficient on their own without effective implementation and enforcement. However, given the limited explanatory power of the estimated model (Nagelkerke $R^2 = 0.057$), these findings should be regarded as preliminary evidence of the absence of statistically significant governance effects in this sample, rather than as conclusive evidence that ESG and governance mechanisms are ineffective.

The study contributes to the literature by providing evidence from an emerging market context, where governance structures may operate differently from those in developed economies. The findings highlight the importance of strengthening governance quality, enhancing institutional investor engagement, improving board competency, and promoting more substantive ESG implementation to support transparency, accountability, and financial reporting reliability.

Future research may extend this analysis by incorporating additional governance variables, such as audit committee effectiveness, audit quality, board expertise, and internal control mechanisms. Further studies may also examine other industry sectors and conduct cross-country comparisons to better understand how institutional environments influence the effectiveness of ESG practices and corporate governance mechanisms in reducing financial restatements.

AUTHOR CONTRIBUTIONS

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