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Financial restatement and firm performance in family controlled and CEO duality companies: evidence from post 2007 Malaysian Code of Corporate Governance

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Abstract. Do financial restatements dampen firm performance? One argument about this is that restatements hurt investor confidence in the credibility of a firm's disclosure, resulting in a decline in demand for the firm's securities, thereby, leading to a significant drop in asset price. On the other hand, agency theory suggests that family ownership could have potential benefits to a firm's performance. An increase in family ownership will have a greater concern for reputation to the controlling family in producing high quality accounting information and, thereby, reduce the likelihood of financial restatements. We evaluate these arguments by distinguishing the effects of restatements on firm performance under two corporate governance environments; family-controlled and CEO duality companies. Based on a sample of Malaysian listed companies in 2008 after the post MCCG 2007 initiative, our findings suggest that (1) restatements dampen firm performance, (2) the dampening impacts of restatements are completely mitigated in family-controlled companies, and (3) the dampening effects are more pronounced in non-family controlled companies than family-controlled companies in non-CEO duality companies. Using this evidence, we recommend that Malaysian regulators develop policies that are unique to the Malaysian markets so as to curtail accounting irregularities. They should reconsider the relevance of requiring CEO non-duality as a practice of good corporate governance and encourage more investment in family-controlled companies.

1. Introduction

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