

The Role of Board Characteristics, Financial Leverage and Dividend Policy on Firm Value using Financial Statement Restatement as a Mediating Variable

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ملخص البحث

يتزايد قلق المساهمين والدائنين والمنظمين وغيرهم من المشاركين في سوق المال بشأن قيمة الشركة التي تتأثر بجودة التقارير المالية للشركات التي تعلن عن إعادة إصدار لقوائمها المالية وتقاريرها المحاسبية. الهدف من هذا البحث هو استكشاف وتحليل تأثيرات خصائص مجلس الإدارة (على وجه التحديد، حجم مجلس الإدارة، واستقلالية المجلس، وازدواجية الرئيس التنفيذي) والقرارات المالية (على وجه التحديد، الرافعة المالية وسياسة توزيع الأرباح) على إعادة بيان البيانات المالية وقيمة الشركة. كما أنه يهدف غلي التحقيق في تأثير جميع المتغيرات المستقلة على قيمة الشركة، مع إعادة إصدار الشركة لقوائمها المالية كمتغير وسيط. باستخدام ثلاث نماذج للأنحدار، يتم التحقيق في هذه العلاقات باستخدام تحليل محتوى التقارير المالية السنوية لـ 45 شركة مدرجة في البورصة المصرية من 2015 إلى 2020. تظهر نتائج هذا البحث أن فعالية هيكل حوكمة الشركات (خصائص مجلس الإدارة) يحسن الجودة ومصداقية التقارير المالية مع تقليل احتمالية إعادة البيان المالي. تظهر النتائج أن القرارات المالية وازدواجية الرئيس التنفيذي لها تأثير مباشر وقد تزيد من فرص إعادة إصدار القوائم المالية، في حين أن حجم مجلس الإدارة الكبير واستقلاليته وحجم الشركة وكذلك وضعها المالي الجيد والمتمثل في العائد على الأصول لها تأثير عكسي على إعادة إصدار القوائم المالية حيث قد تقلل من نسبة حدوث ذلك. علاوة على ذلك، تظهر النتائج أن حجم مجلس الإدارة واستقلاليته لهما تأثير سلبي على إعادة إصدار القوائم المالية. ولذلك لأن كبر عدد أعضاء المجلس يضمن إلي حد كبير وجود خبرات و ضمان لجودة أعلى للبيانات المالية. تظهر النتائج أيضًا أن جميع المتغيرات المستقلة لها تأثير كبير على قيمة الشركة سواء ايجابي أو سلبي، ومنها حجم مجلس الإدارة واستقلالية المجلس لهم تأثير معنوي على قيمة الشركة. وتظهر النتائج أن الشركات الكبيرة تميل إلى امتلاك أنظمة رقابة داخلية جيدة والتي من شأنها تحسين النظام المحاسبي من خلال وضع سياسات مؤسسية عالية الجودة لإعداد التقارير والقوائم المالية بحيث تضمن الشركة الحفاظ على سمعتها ومصداقيتها وبالتالي قيمتها في النهاية. الكلمات المفتاحية: خصائص مجلس الإدارة؛ الرافعة المالية؛ سياسة توزيع الأرباح؛ قيمة الشركة؛ إعادة إصدار القوائم المالية؛ جودة التقارير المالية؛ مصر

Abstract

Shareholders, creditors, regulators, and other market participants are increasingly concerned about the firm value that is impacted by the quality of financial reporting of companies that announce accounting restatements. The goal of this research is to investigate and analyze the effects of board characteristics (specifically, board size, board independence, and CEO duality) and financial decisions (specifically, financial leverage and dividend policy) on financial statement restatement and firm value. Also it intends to investigate the impact of all independent variables on firm value, with financial statement restatement serving as a mediating variable. Using three regression models, these relationships are investigated using content analysis of annual financial reports from 45 Egyptian stock exchange-listed companies from 2015 to 2020. The findings of this research show that the effectiveness of corporate governance structure (board characteristics) improves the quality and credibility of financial reporting while reducing the likelihood of financial restatement. The findings show that financial decisions and CEO duality have a positive impact on financial statement restatement, whereas board size, board independence, and control variables: firm size and return on assets have a negative impact. Furthermore, findings show that board size and independence have a negative impact on financial restatement. As a result, board of directors' members can contribute additional business knowledge and experience to ensure that financial statements are of high quality. The results also show that all independent and control variables have a significant impact on the value of a company, except that the size of the board and the independence of the board have a significant impact on the value of the company. The results show that large companies tend to have good internal control systems and are expected to improve accounting and maintain their reputation by providing high quality financial reporting corporate policies and board size. It suggests that we can provide high quality audit services from large accounting firms, and independence and control variables: Company size and return on assets have a positive impact on the value of the company, while financial leverage and the CEO have a negative impact on the value of the company.

This research contributes to a nuanced understanding of internal governance mechanisms related to board characteristics by presenting evidence of its importance and impact with firm financial decisions on firm

value through reducing financial statements restatement in an emerging economy like Egypt in which firms operate within a unique regulatory framework and board composition.

Keywords: Board Characteristics; Financial Leverage; Dividend Policy; Firm Value; Financial Statement Restatement; Quality of Financial Reporting; Egypt

1. Introduction

Accounting disclosure is used in investment decision making and financing as one of the key concepts and principles that play a critical role in enriching the value of data and information in financial statements. Accounting information published in financial statements is required to provide various users with timely and reliable information useful for making prudent, effective, and efficient decisions, including shareholders, current and future investors, employees, suppliers, creditors, financial analysts, stockbrokers, and government agencies such as tax authorities. Some factors have a significant impact on the reliability of financial statements, most notably the exclusion of significant accounting errors from financial statements.

Most companies are subject to financial adjustment restatements. This is due to accounting errors, whether intentional or not. In this case, the company is obliged to revise the annual financial statements and correct any errors. Restatement of annual financial statements is one of the management tools for results management. In this context, results management means manipulating accounting reports so that they do not violate accounting rules and standards.

Furthermore, companies that have restated their financial statements strive to maintain a positive earnings growth chain and positive quarterly earnings. In this regard, the evidence is consistent with capital market pressures, which act as a motivator for companies to implement aggressive accounting policies. Finally, accruals data, particularly operational and investment accruals are key markers of earnings manipulation and restatement (Mohammed and Saei 2020).

Financial restatements raised more concerns about the quality of financial reporting and caused a slew of issues within the firms' internal control and corporate governance systems. When a company restates its financial statements, it admits that previously issued financial statements

contained a material error or irregularity. Recurring errors and restatements indicate that, in many cases, it is difficult to resolve agency conflicts that result in financial statement misreporting (Heninger et al. 2009).

According to Badertscher and Burks (2011), financial restatement occurs when corporations are required to restate financial statements that contain accounting errors. "Corrections of previously made accounting misstatements by careless or, at worst, opportunistic managers" is another definition of financial restatement (Baber, Kang, Liang & Zhu, 2009). Expense recognition, revenue recognition, acquisitions and mergers, securities-related issues, related-party transactions, asset/inventory restructuring, reclassification, in-process R&D, and other causes are listed by the US General Accountability Office (GAO).

Financial restatement is one of the mechanisms for correcting material inaccuracies in financial statements. Furthermore, it is a means of restoring auditors' integrity and independence, restoring public trust in reasonable assurance provided by professional experts, checking mating excesses of external auditors, and reducing various types of threats to objectivity (Kalu 2014).

Firm value reflects the current value of desired future income and serves as a market indicator in evaluating the company as a whole. Capital structure and dividend policy are two factors that can influence firm value (Hasanuddin 2021). A company's assets are represented by its firm value. It is significant because it describes the success of the business owners. The manager, as the owner's representative, is responsible for the optimal maximization of the firm's value, which is the fundamental goal of any organization (Bhabra 2007). A high firm value indicates that the company is prosperous, and thus the shareholders' wealth is maximized, indicating that the shareholders' and investors' prosperity levels are reflected in the firm's value.

The goal of the company in general is to maximize profits. However, there is another purpose of the company, which is to maximize shareholder prosperity by maximizing corporate value (Sartono 2010), the greater the company's value, the greater the welfare of its shareholders. Increasing the company's value will also pique the interest of some prospective investors.

According to Senata (2016), a dividend policy is a policy that must be adopted by management to determine whether the income generated by the company during a given period will be shared with all, or divided partly for the dividend and partly not shared in the form of accumulated profit. The

amount of dividend paid will increase the company's value or share price. The greater the dividend paid by a company, the greater the amount of investor interest in the shares. As a result, the share price will rise in tandem with the company's value.

Debt policy is regarded as a highly sensitive issue in terms of the company's value. The more debt there is, the higher the company's value, however, when the company's debts exceed the limits, the value of the company decreases. Some companies that use more debt, according to the Signaling Theory, will send a positive signal to investors. This is due to the fact that companies that increase debt can be viewed as a company that is confident in the company's future prospects (Putri and Rachmawati 2017).

2. Review and Hypotheses Development

2.1 Board Characteristics and Financial Statement Restatement

A financial reporting restatement is a restatement of the previous financial reporting of the company due to a material misstatement. 1) Misstatements due to inherent risk errors in the financial reporting presentation process; 2) misstatements not detected by the company's internal audit; 3) misstatements not detected by external audits; and 4) material misstatement requiring restatement are all examples of material misstatement.

Furthermore, financial reporting restatement can occur as a result of changes in applicable accounting standards or the cessation of business operations. Restatement of financial reporting is frequently used to detect fraud in corporate financial reporting (Sutrisno and Karmudiandri 2020).

One type of corporate oversight function that monitors management activities is the board of directors (BoD). In the practice of corporate governance, the Board of Directors has the authority to set policies and manage company resources. The Board of Directors' decision is thought to represent the corporate policies, particularly in terms of financial disclosure. The Board of Directors is in charge of delivering high-quality financial reports to stakeholders (Omer et al. 2019).

According to Agency Theory, corporate governance plays a role in increasing financial statement transparency. Accounting restatements may be the first indication that accounting fraud has occurred when internal

controls and supervision systems are weak or have failed. Restatements are evidence of manipulation and flaws in the company's internal controls (Plumlee and Yohn 2015). These findings suggest that restatements by firms can serve as early warning signs for investors to suspect fraud.

Restatements do not always involve fraud and thus represent a broader range of businesses. Furthermore, firm and governance characteristics in the two settings may differ significantly, leading to different causes and responses to the respective financial reporting problems. Financial statement fraud, in particular, is frequently the result of poor managerial oversight, which spirals from inadequate internal control systems. Because internal controls are ineffective, management turnover and other governance changes are likely to occur in the aftermath of fraud detection as a means of reducing fraudulent behavior and strengthening the internal control system (Rotenstein 2011).

Huang et al. (2011) investigate the impact of corporate governance on financial restatements in China in order to provide a reference for strengthening corporate governance and improving financial information quality. Their findings imply that strong internal governance could prevent or limit accounting misstatements related to performance.

Companies that commit financial fraud are perceived to have poor governance credibility (Puspitasari and Januarti 2014). The relationship between the BoD characteristic and financial restatement, on the other hand, is still being debated.

The number of directors on a board is referred to as its size. It is an important factor in determining the board's effectiveness. The size of the Board of Directors is taken into account when determining the quality of financial information submitted to the public, the larger the size, the higher the reporting quality, and the larger the number of BoD, the more influential the financial reporting process. A larger BoD is assumed to execute inspections and monitor efficiently since the size of the BoD is significant in decision-making (Hasnan et al. 2020).

In financial reporting, a larger Board of Directors has more business knowledge, experience, and expertise. The board's size makes it easier for it to monitor financial reporting by company management. The greater the number of BoD members, the greater the impact of the monitoring process on BoD performance.

The independence of the board will determine the board's quality, and independent directors can reduce the influence of the board's internal

members (Clarke 2007), the more independent the board, the greater the operational efficiency of the enterprise, because independent members of the board will put pressure on the executive member (Nhan and Quy 2016).

An independent BoC member is one who is not affiliated with the BoD, other members of the BoC, or the controlling shareholder. Outside directors must be appointed and actively involved in order for the board to be independent. Outside directors are generally thought to be more effective than non-outside board members at monitoring management and improving financial reporting quality. This membership is also free of any business relationships that might jeopardize the board's independence. While the independent member is important, the BoC's independent activities must be consistent with the corporate's interests. The presence of independent members increases the effectiveness of supervision and reduces conflicts of interest between principals and agents (Al Azeez et al. 2019). In strategic decision-making, independent members of the corporate governance function protect minority shareholders (Nugroho and Eko 2012). Concerning the financial reporting function, independent members are thought to be capable of improving financial report quality. Several findings indicate that independent members have control over earnings management (Talbi et al. 2015). The presence of independent members reduces the possibility of financial restatement. Furthermore, independent board members have a strong influence in the supervisory function, which helps to increase company transparency and accountability.

The purpose of role separation is to maintain a balance of power between two appointed positions and to avoid conflicts of interest. The board will be unable to effectively monitor and evaluate the CEO's true ability if there is no separation between management and control decisions (Nhan and Quy 2016). The presence of a dual role on the board may jeopardize corporate performance. We find that restating firms are more likely than control firms to have CEOs on their boards' nominating committees. This suggests that the CEO's clout on the board may have played a role in the misstatement (Heninger et al. 2009). They discover a significant positive relationship between the CEO's dual position and restatements, resulting in an agency problem. Nonetheless, Wang et al. (2013) contend that the relationship between CEO duality and the frequency of financial restatement is insignificant.

The occurrence of restatement could be avoided by implementing corporate governance. As a result, corporations must implement the

concept of corporate governance. This is a component of corporate reformation in terms of good corporate governance. They can reduce agency costs by involving outside parties of the corporation to monitor how they perform good corporate governance and also by involving agents who try to fulfill their self-interest. A corporate governance mechanism can help to avoid financial statement misrepresentation (Rasyid and Ardana 2014).

Farzin and Mostafa (2013) conducted research on the relationship between firm characteristics and financial restatements and discovered a significant negative relationship between firm size and financial restatements. They conclude that small businesses are frequently involved in financial restatement due to a lack of expertise and facilities.

Sajadi and Ghorbani (2004) conducted research on the relationship between annual adjusting of company statements to stock price, size, and life span of companies adopted by the Tehran stock exchange, and found that large firms have more intellectual assets and facilities to reduce material misstatements in financial statements, and that firm size is inversely related to the occurrence of financial restatement, with the larger the size, the lower the occurrence of financial restatement.

According to Peterburgskey (2012), firms with low returns are more likely to restate financial statements than profitable firms. Kinney and McDaniel (1989) conducted research on the consequences of financial misrepresentation to managers and argue that companies with lower profits are more likely to restate their financial statements. This is also consistent with the findings of Farzin and Mostafa (2013), who claim that firms with negative returns in previous years are more likely to restate their financial statements in the current year. According to Sajadi and Ghorbani (2004), an entity's prior-year losses and financial statement restatements have a positive relationship.

Based on the previous illustrated literature, the researcher formed the following Sub-hypotheses:

H_{1a}: Large board size has significant negative impact on financial statement restatement.

H_{1b}: Board independence has significant negative impact on financial statement restatement.

H_{1c}: CEO duality has significant positive impact on financial statement restatement.

2.2 Financial Leverage and Financial Statement Restatement

A financial report restatement reflects errors in the previous financial statement, raising creditors' and investors' concerns about the financial statement's credibility. A firm with debt on its balance sheet is referred to as a levered firm, whereas a firm that finances its operations entirely with equity is referred to as an unlevered firm. Depending on the returns a company earns on the money it borrows, this effect can be either positive or negative.

The value of high-quality financial governance is to ensure the overall development and financial stability of the company, especially while reaping the benefits of significant sales. Financial direction promotes effective transactions of a firm based on available income and projected expenditure, and financial leverage helps enhance the profit orientation of interest with the help of strong financial power plans such as budget monitoring, cost volume earnings analysis, relation analysis, and company growth value (Alabri et al. 2021). Over the past few years, there has been a principle that IFRS increases limits on managers' and transparency in managing financial reports, which may impact the companies' quality of financial reporting and, as a result, their performance. Financial reports are used by capital providers to assess the extent of default risk. Existing financial reporting quality studies show that companies with high-quality financial reporting can influence creditors' lending decisions and lower the cost of debt financing (Alabel and Amrah 2020).

Leverage is one of the firm factors that are assumed to affect financial reporting quality. The term "leverage" refers to how much debt was used to fund the firm's assets. Leverage was found to have no substantial impact on the quality of financial reporting (Echobu et al. 2017; Hassan & Bello 2013; Kasmir 2013; Olowokure et al. 2016).

Defond and Jiambalvo (1991) investigated the occurrence and circumstances of accounting errors, arguing that an increase in a firm's debt level increases the likelihood of restating its financial statements. Most enterprises with a higher degree of outstanding debt, according to Richardsons, Tuna, and Wu (2002), routinely falsify their financial records.

Beyond purely financial information, higher quality financial reporting makes the report more informative and reduces information asymmetry. When information asymmetry is reduced as a result of improved financial

reporting quality, the adverse selection effect on new equity financing is reduced. As a result, firms with better reporting are expected to have lower debt ratios. Because financial reporting quality reduces information asymmetry, and information asymmetry can lower the cost of equity, financial reporting quality increases managers' willingness to issue equity. In other words, improved reporting quality will most likely reduce a company's financial leverage (Tran 2022).

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H_{1d}: Financial leverage has significant positive impact on financial statement restatement.

2.3 Dividend Policy and Financial Statement Restatement

Dividend payment is a significant corporate decision that occurs on a regular basis, involves large amounts of money, interacts with all other important company decisions, and has a significant impact on firm value. Dividends are viewed as an important component of the self-financing process and company investment decisions if such decisions are based on available cash from operational activities, as well as the effects these decisions may have on available investment prospects (Kanakriyah 2020).

Dividends are also related to the Signaling Theory, which states that the announcement of dividend distributions can be a good signal to investors to profit. However, it can also be a false signal if the dividends announced are lower than in the previous period. Because a lower dividend payout ratio can indicate that the company's profits are declining. As a result, a false signal will appear, indicating that the company lacks funds. Because investors have an extreme preference for dividends, this condition will cause investors' preference for stock to decrease (Hasanuddin 2021).

Financial reporting should be of high quality so that users of the information are not misled. As a result, financial reporting quality can be defined as the accuracy of financial reporting in conveying information related to a firm's operational activities. Higher financial reporting quality allows shareholders to better monitor corporate managers, making it more difficult for managers to waste free cash flows for their own interests. As a result, improved financial reporting quality encourages managers to pay higher dividends to shareholders.

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H_{1c}: Dividend policy has significant positive impact on financial statement restatement.

2.4 Board Characteristics and Firm Value

Value is important for a firm because the firm's main goal is to increase the firm's value. Every firm's owner desires for a high value because a high value indicates the overall prosperity of the shareholders.

The board of directors is an important mechanism for governance. According to Black (2001), a firm's corporate governance behavior can have a significant impact on its market value, as evidenced by empirical studies examining the relationship between boards and firm value. As a result, some studies concentrated on the overall board structure, while others concentrated on specific aspects of the board, such as board independence, size, composition, committees, and leadership.

Corporate governance researchers have long argued that keeping the board of directors at a reasonable size is important for firm value. Larger boards, it has been suggested, can help obtain more corporate resources, attract more talent/expertise to the board, and establish a more favorable corporate image. A larger board of directors can become important and provide significant benefits in the formulation of strategies for such businesses. If this is the case, board size may have a positive effect on firm performance for growing companies (Li et al. 2021).

Yermack (1996), on the other hand, discovered an inverse relationship between board size and firm value. In the Indian context, Kumar and Singh (2012) discovered a negative relationship between board size and firm value. Kota and Tomar (2010) discovered that a small board is more effective at increasing firm value.

On behalf of shareholders, independent directors are appointed to the board to oversee management. A higher proportion of independent directors on the board may result in improved financial performance and increased firm value (Mak and Kusnadi 2005). Kumar and Singh (2012) discovered that the proportion of independent directors has a negligible positive effect on firm value for Indian firms.

Salem et al. (2019) discovered that the board of directors had a significant positive effect on firm value, whereas Yameen et al. (2019)

discovered a negative effect on firm value. This is presumably due to an excess of boards of directors, which raises the company's operating costs.

Rouf (2011) investigated the relationship between board characteristics in Bangladesh using an OLS model. This study revealed a favorable association between board independence and company value as evaluated by ROA and ROE using cross-sectional data. In their study, Liu et al. (2015) demonstrated that there is a high degree of a positive and significant relationship between board independence and firm value.

Black et al. (2009) and Black et al. (2010) developed a broad corporate governance index in a study of private Brazilian firms to determine which corporate governance elements predict value. They discovered a link between board independence and firm value. Bhagat and Bolton (2008) also find a link between board independence and subsequent operating performance.

Some studies on the impact of board size on firm performance find evidence of a positive relationship between board size and firm performance. Beiner et al. (2006) investigated 109 Swiss Exchange-listed firms and discovered a positive relationship between board size and value. Large board sizes are related with excellent financial performance of insurance firms in Ghana, according to Tornyeva and Werko (2012). Similarly, Kyreboah-Coleman (2008) discovered that larger boards result in higher firm value. Large firm size in developing countries demonstrated that a larger board size has a positive impact on the firm's performance, and in fact, a larger board size improves the firm's performance (Malik et al. 2014).

Yermack (2016) discovered negative relationships between board size and firm value in his study of American firms. Other studies, on the other hand, show a negative relationship between board size and performance. Wanyama and Olweny (2013) revealed a negative association between the size of a company's board of directors and its performance on the Kenyan stock exchange. Furthermore, Nguyen et al. (2015) investigated the impact of board size on firm value in Australia using a large sample of Australian firms from 2001 to 2011 and discovered a strong negative relationship.

Furthermore, board leadership has an impact on the overall effectiveness of board functions. In corporate governance-firm value studies, the role of the CEO has also been a source of concern. The findings of studies on CEO duality and its impact on firm value are mixed. According to Larcker et al. (2007), CEO duality affects board

independence and, as a result, firm value. A dual CEO-chairperson in a company tends to erode the board's independence and, as a result, has a negative impact on value creation. As a result, it is expected that the separation of the board chairman and CEO positions will result in greater transparency of corporate information, improved internal governance structures, and improved firm performance.

According to Alexander et al. (1993), CEO duality has a significant impact on a firm's value. A single person serving as Chairman and CEO increases the firm's value and eliminates the cost of the two positions. According to Yermack (1996), separating the CEO and board chair positions increases the firm's value.

Sami et al. (2011) discovered that corporate governance features are significant and have a positive relationship with firm performance. Ammann et al. (2011) discovered a statistically significant and direct relationship between corporate governance and firm value as well. Similarly, Bhagat and Bolton (2008) discovered a significant and positive relationship between good corporate governance and firm performance.

Based on the previous illustrated literature, the researcher formed the following sub-hypotheses:

H_{2a}: Large board Size has significant positive impact on firm value.

H_{2b}: Board independence has significant positive impact on firm value.

H_{2c}: CEO duality has significant negative impact on firm value.

2.5 Financial Leverage and Firm Value

Debt policy refers to a company's policy of funding operations through financial debts, also known as financial leverage (Brigham and Houston 2011). Because debt is a sensitive issue for the company, its use must be carefully managed. The higher the proportion of debt that keeps the company at a certain level, the higher the company's value. However, at some point, increased debt will reduce the value of the company because the benefits of the debt are less than the cost of it (Putri and Rachmawati 2017). In terms of corporate finance, capital can be classified as either ownership or non-ownership capital. These two are typically used to represent equity and debt capital. Financial leverage refers to the combination of equity and debt capital. The ultimate goal of a firm is to maximize its wealth or value.

An organization's debt capital structure decisions are primarily influenced by its corporate policy. Some organizations are interested in both equity and debt capital, while others are more interested in the former and less interested in the latter, and vice versa. The capital structure policy of a company can be influenced by market conditions as well as the company's capacity. As a result, the proportion of debt capital and equity capital in the capital structure is critical for the success of business operations and the long-term viability of the business process (Kaluarachchi et al. 2021).

The balance of conflicts of interest among managers, shareholders, and creditors determines the impact of debt on firm value. When conflicts of interest between managers and shareholders outweigh those between creditors and shareholders, leverage can increase firm value because debt forces managers to pay out funds that would otherwise be invested in projects with negative net present value (Aggarwal et al. 2008).

Managers can boost the firm's value by implementing the best capital structure for the firm, as there is a direct relationship between firm value and financial leverage. According to Ruan et al. (2011), managerial ownership has a negative impact on the ratio of total debt to total assets, and the ratio of total debt to total assets has a negative impact on firm value.

Chowdhury and Chowdhury (2010) attempted to explain the relationship between capital structure and firm value in Bangladesh and discovered that an optimal balance of debt and equity can maximize shareholders' wealth demands. They also concluded that the cost of capital should be kept as low as possible because it has a negative impact on the capital structure chosen. Most high-dynamic firms must send a quality signal to the market, whereas managers of less-dynamic firms will try to avoid it at all costs. This argument demonstrates that a firm's worth has a positive relationship with its debt level (Rehman 2016).

The modern business environment in which the firm operates is highly complex and competitive. As a result, theoretical and empirical research findings have aided in the selection of FL levels to achieve the optimum level of firm wealth (Bei and Wijewardana 2012). To reduce agency problems, financial leverage can be used as a firm monitoring tool. This can boost firm value because agency issues can be a barrier to increasing firm value. Financial leverage, in addition to being a monitoring mechanism, can increase firm value through tax deductibility and

signalling. As a result, increasing financial leverage at an optimal level will increase firm value (Rizqia and Sumiati 2013).

Because of the interest tax shelter provided by most governments with corporate tax, financial leverage adds value to the organization. Organizations must examine their needs as well as the financial market to determine the amount of debt capital they require. To accomplish this, they can decide on an appropriate capital structure policy based on the financial instruments available in the market. Financial leverage is used differently depending on the functions of business activities. The evaluation of the capital market structure is critical to the organizational process's success. Borrowing, while incurring interest expense and risk, can also yield rewards. Even debt capital indicates the risk of interest and unexpected bankruptcy and contributes to the expansion of an organization's routine business activities. As a result, an examination of an organization's leverage capacity is critical for the sustainability and success of its organizational activities (Mohammed and Saei 2020).

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H_{2d}: Financial leverage has significant negative impact on firm value.

2.6 Dividend Policy and Firm Value

Dividend policy is a policy that must be followed by management in order to determine whether the profit earned by the company during a given period will be shared with all, or divided partially for dividends and partially not shared in the form of suspended profit. The dividend yield ratio values reveal the dividend policy. This ratio represents the percentage of a company's earnings that will be allocated as dividends to shareholders. The ability of a company to pay dividends can have an impact on its value, the higher the dividend yield, the higher the share price, and thus the greater the company's value (Putri and Rachmawati 2017).

The ability of the company to pay dividends can also be used to determine its value, when dividends are paid in large amounts, the stock price rises, increasing the company's value, and vice versa (Purnama 2016). Companies' dividend policy concern is how much income can be paid and how much can be maintained. If the dividend is well paid, the stock price tends to be high, implying that the firm's value is also high.

In contrast, if the dividend paid is small, the firm's share price will be low as well (Gyatri and Mustanda2012). The ability of firms to pay dividends is closely related to their ability to make a profit. If the company makes a lot of money, it has a lot of money to pay out in dividends. As a result, high dividends will increase the firm's value (Dewi et al. 2017).

In fact, one of the most important aspects of a company's policy is the decision to pay dividends. Dividend policy was a firm's decision to distribute income to shareholders in the form of dividends or to keep it as retained earnings for future investment. The firm's pledge to pay dividends should increase shareholder value. This demonstrates that the company believes that dividend information can provide a positive signal to investors. Firms' efforts to increase firm value were either direct or through dividend policy. This requires a review of factors that reflect the characteristics and performance of the company as factors that investors and potential investors should consider when investing in stocks (Rizqia and Sumiati2013).

Most companies that have committed to paying dividends to shareholders believe that dividend policy has an impact on the value of the firm's stock price. This was due to the fact that dividends reflect a company's future profit prospects. Regular effects occur when a larger dividend distribution attracts more investors, and when there is a rush for the company's stock, the price of the stock rises. A reduced dividend distribution, on the other hand, will deter many investors from investing, which may result in a drop in the price of that company's stock (Adeiza et al. 2020).

Dividend policy was expected to send a positive signal about the firm's condition. As a result, dividend policy has the potential to increase firm value. Dividend policy has a significant impact on firm value; the higher the level of dividend policy, the higher the firm value. This is because investors are more interested in companies with high dividend ratios because investors believe that companies that can distribute high-value dividends are prosperous and capable of meeting the company's needs (Suranta and Machfoedz 2003; Dasilas et al. 2009).

One of the most important financial ratios is dividend yield. Dividend yield indicates the amount of dividend a company pays annually to a stock price. Dividend yields can be interpreted in different ways. It is a contentious indicator because there is no agreement on how to interpret it. A high dividend yield implies that the company is high risk and that the

future prospects are negative, resulting in a share price decrease. Shareholders may be concerned that large sums of money will leave the company in the form of dividends. Investors may believe that the earnings would be better spent as retained earnings to invest in profitable investment opportunities. As a result, investors would sell their stocks, causing the stock price to fall. Market participants may expect a company with a low dividend yield to be more profitable in the future (Denis and Osobov 2008).

According to Kasmiasi and Santosa (2019), profitability has a positive impact on dividend policy. Dividend policy has a positive impact on corporate value. Profitability has been shown to have a positive impact on corporate value, and dividend policies have been shown to convey the impact of profitability on corporate value. A study was done by Sudiani and Wiksuana (2018) to look into the effects of leverage, investment opportunities, dividend policies, and profitability. The survey's findings reveal that a company's dividend policy has a significant impact on its value.

Anton (2016) discovered that 'dividend has a positive and significant influence on the value of the firm' in his study on the impact of dividend policy on the value of Romanian firms. Sinaga (2016) studied the effect of capital structure, firm growth, and dividend policy on the profitability and firm value of Indonesian oil palm plantation companies. It has been discovered that the dividend policy has a positive and significant impact on profitability but a positive but insignificant impact on firm value. Rehman (2016) investigated the impact of capital structure and dividend policies on a firm's value using a sample of firms listed on the Karachi Stock Exchange. Both capital structure and dividend policy variables, according to the study, have a considerable impact on the firm's value. Xiong (2016) discovered that dividend payout led to a rise in firm value in his study on institutional investors, dividend policy, and firm value in China.

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H_{2e}: Dividend policy has significant positive impact on firm value.

2.7 Firm Value and Financial Statement Restatement

High-quality disclosures imply that a company's disclosures are clear, comprehensive, and trustworthy. Companies that restate their financial data may send a signal to the stock market that their previously disclosed

financial data lacks transparency, completeness, and reliability, causing financial information users to make incorrect decisions. High-quality disclosures imply that a company's disclosures are clear, comprehensive, and trustworthy. Companies that restate their financial data may send a signal to the stock market that their previously disclosed financial data lacks transparency, completeness, and reliability, causing financial information users to make incorrect decisions (Alyousef and Almutairi 2010).

According to Ahmed and Goodwin (2007), restatement clearly indicates that the firm's prior financial statement was not credible and was of lower "quality." They also claimed that investors rely on financial statements to forecast a company's future profitability, and that accounting information aids in reducing information gaps between management and investors.

Palmrose et al. (2004) discover a link between the magnitude of the restatement and market reaction. Restatements that have negative implications for management integrity and competence, as well as a more negative impact on previously reported earnings, cause more severe market reactions (Heninger et al. 2009).

Investors react negatively to financial statement restatement, according to Callen et al. (2006), because restating an entity's financial statements indicates a flawed accounting system. A significant accounting error in the financial statements will undermine trust in the provided data, necessitating financial restatements to correct errors. Financial restatements, from the perspective of financial statement users, indicate a problem that management intends to conceal through financial restatements and manipulate in actual activities (Mohammed and Saei 2020).

Many restatements do not occur as a result of poor managerial oversight or outright fraudulent behavior. Rather, it is often overconfident and possibly entrenched managers who engage in overly aggressive accounting methods, which necessitates restatement. Managers have discretion in obtaining estimates for bad debt allowances, accruals, asset impairment, gain and loss recognition, and various timing issues, among other things. Although not inherently fraudulent, consistently aggressive estimates may necessitate restatements. It is possible that entrenched and/or overconfident managers will not fully recognize the value of implementing governance changes and will therefore choose not to implement changes. They may make distorted decisions as a result of overestimation of their own abilities

to benefit the company, resulting in the eventual need for restatements, with their associated losses in value to the firm (Rotenstein 2011).

The announcement of a restatement will increase the stock market's information asymmetries. When a restatement is announced, there is uncertainty about the impact of the restatement on the firm's current financial statements, as well as uncertainty about the firm's future financial statements' reliability (Anderson and Yohn 2002).

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H₃: Board characteristics, financial leverage and dividend policy have significant impact on firm value using financial statement restatement as a mediating variable.

3. Research Problem

The increased documented research in this area supports the importance of the board as a corporate governance mechanism, specifically board characteristics that enhance firm value and reduce financial statement restatement. Although there is ongoing debate about the impact of board size, board independence, and CEO duality on firm value and financial statement restatement, there has been no conclusive evidence from the literature to date. Furthermore, while some studies found a positive relationship between the level of financial leverage and dividend policy and firm value effect and financial statement restatement, others found a negative relationship. Other studies, on the other hand, found no link. Furthermore, no single corporate governance theory can fully account for the relationship between firm value and board characteristics. In contrast, the empirical literature does not produce consistent results. In developing and emerging economies such as Egypt, evidence on board characteristics and financial statement restatement is scarce.

4. Research Aim and Questions

This research aims to provide more information about board characteristics as an important corporate governance mechanism, as well as their impact on firm value and financial statement restatement.

As a result of the inconclusive evidence from the existing literature, there is a need to investigate the impact of board characteristics such as board size, board independence, and CEO duality on both firm value and

financial statement restatement in order to provide direction for future research.

The primary goal of this research is to investigate empirically the impact of financial leverage and dividend policy on firm value and financial statement restatement. Furthermore, the impact of board characteristics, financial leverage, and dividend policy on firm value will be investigated using financial statement restatement as a moderating variable among non-financial Egyptian firms.

The main research questions try to be answered:

RQ₁: what is the impact of corporate governance mechanism namely, board size, board independence and CEO duality on firm value and financial statement restatement?

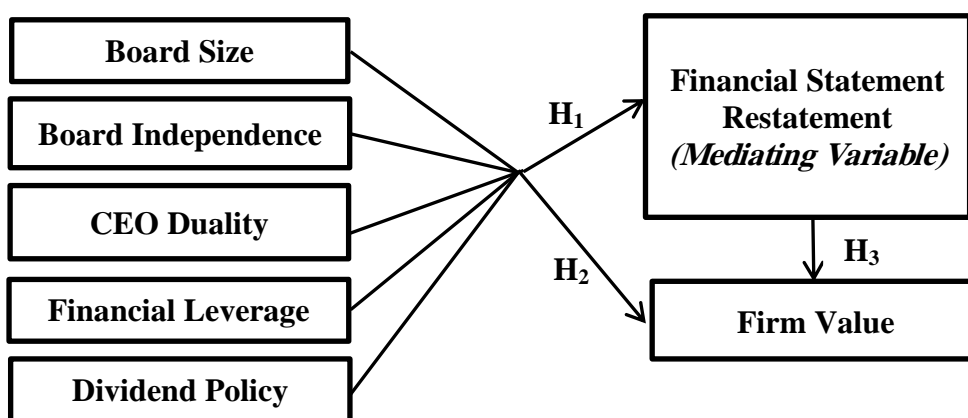
RQ₂: what is the impact of firm financial decision namely, financial leverage and dividend policy on firm value and financial statement restatement?

RQ₃: what is the impact of board characteristics, financial leverage and dividend policy on firm value using financial statement restatement as a mediating variable?

5. Research Theoretical Framework

Figure (1) depicts the proposed theoretical framework for this research, which is built on stakeholder theory and agency theory to explain the significance and relationship between board characteristics and the firm's financial decisions (specifically financial leverage and dividend policy) on both firm value and financial statement restatement.

Figure (1): Research Theoretical Framework



6. Research Methodology

This research was explanatory in nature and used a quantitative approach. It makes use of secondary data from the annual financial statements of 45 non-financial companies listed on the Egyptian Stock Exchange (EGX) from 2015 to 2020. Multiple regression analysis is used to determine the relationship between the dependent and independent variables.

6.1 Research Variables and Regression Model

Three multiple regression models were used to investigate the relationships between board size, board independence and COE duality, financial leverage, dividend policy as independent variables on firm value, and financial statement restatement as dependent variables in order to achieve the objectives of this research.

First regression model, used to examine the impact of board characteristics, financial leverage and dividend policy on financial statement restatement.

H₁: Ceteris paribus, board characteristics, financial leverage and dividend policy have significant impact on financial statement restatement.

Sub-Hypotheses:

H_{1a}: Large board size has significant negative impact on financial statement restatement.

H_{1b}: Board independence has significant negative impact on financial statement restatement.

H_{1c}: CEO duality has significant positive impact on financial statement restatement.

H_{1d}: Financial leverage has significant positive impact on financial statement restatement.

H_{1e}: Dividend policy has significant positive impact on financial statement restatement.

$$FSR_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 CEO_{it} + \beta_4 FL_{it} + \beta_5 DP_{it} + \beta_6 ROA_{it} + \beta_7 FS_{it} + \varepsilon_{it}$$

Where:

Dependent variable = Financial Statement Restatement (FSR).

β_0 = denotes a fixed of the regression model.

β_1, β_2 and β_3 = denotes regression coefficient of board characteristics: Board Size (BS), Board Independence (BI), and CEO Duality (CEO).

β_4 = denotes regression coefficient of Financial Leverage (FL).

β_5 = denotes regression coefficient of Dividend Policy (DP).

B_6 and β_7 = denotes control variables, regression coefficient of and financial performance (ROA) and Firm Size (FS).

I_t = Firm i in period t.

T_i = Year fixed effect.

ε_{it} = Standard error term.

H₂: Ceteris paribus, board characteristics, financial leverage and financial performance have significant impact on firm value.

Sub-Hypotheses:

H_{2a}: Large board Size has significant positive impact on firm value.

H_{2b}: Board independence has significant positive impact on firm value.

H_{2c}: CEO duality has significant negative impact on firm value.

H_{2d}: Financial leverage has significant negative impact on firm value.

H_{2e}: Dividend policy has significant positive impact on firm value.

$$FV_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 CEO_{it} + \beta_4 FL_{it} + \beta_5 DP_{it} + \beta_6 ROA_{it} + \beta_7 FS_{it} + \varepsilon_{it}$$

Where:

Dependent variable = Firm Value (FV).

β_0 = denotes a fixed of the regression model.

β_1, β_2 and β_3 = denotes regression coefficient of board characteristics: Board Size (BS), Board Independence (BI), and CEO Duality (CEO).

β_4 = denotes regression coefficient of Financial Leverage (FL).

β_5 = denotes regression coefficient of Dividend Policy (DP).

B_6 and β_7 = denotes control variables, regression coefficient of and financial performance (ROA) and Firm Size (FS).

I_t = Firm i in period t.

T_i = Year fixed effect.

ε_{it} = Standard error term.

H₃: Ceteris paribus, board characteristics, financial leverage and dividend policy on firm value using FSR as a mediating variable have significant impact on firm value.

$$FV_{it} = \beta_0 + \beta_1 BS_{it} + \beta_2 BI_{it} + \beta_3 CEO_{it} + \beta_4 FL_{it} + \beta_5 DP_{it} + \beta_6 FSR_{it} + \beta_7 ROA_{it} + \beta_8 FS_{it} + \varepsilon_{it}$$

Where:

Dependent variable = Firm Value (FV).

β_0 = denotes a fixed of the regression model.

β_1, β_2 and β_3 = denotes regression coefficient of board characteristics: Board Size (BS), Board Independence (BI), and CEO Duality (CEO).

β_4 = denotes regression coefficient of Financial Leverage (FL).

β_5 = denotes regression coefficient of Dividend Policy (DP).

β_6 = denotes regression coefficient of the mediating variable Financial Statement Restatement (FSR).

β_7 and β_8 = denotes control variables, regression coefficient of and financial performance (ROA) and Firm Size (FS).

I_t = Firm i in period t.

T_i = Year fixed effect.

ε_{it} = Standard error term.

Table (1) shows the definition and measurement of the dependent, independent, and control variables in this research.

Table (1): Research Variables, Definitions and Measures

Variables / Type		Definition	Measure
Dependent Variables	Financial Statement Restatement (FSR)	A restatement occurs when a company restates and reissues previously filed financial statements. A restatement is a correction to one or more of a company's previous financial statements.	To measure the variable, a dummy variable is used. The value (1) denotes that the company is performing financial restatement for their annual financial statements, whereas the value (0) denotes that the company does not perform financial restatement.
	Firm Value (FV)	Firm value was the value of a business entity's ability to generate profits in the future,	Tobin's Q, the measure of firm's value by dividing (total assets –

		which was reflected in market value.	book value of equity + market value of equity) to book value of total assets.
Independent Variables	Board Size (BS)	The number of directors on a company's board is referred to as its board size.	The total number of directors serving on the board of directors is used to calculate this metric.
	Board Independence (BI)	The proportion of independent directors on a company's board is referred to as its board independence.	The ratio of independent nonexecutive directors to total board members is used to calculate this. Greater than 50% board independence equals (1) if board independence is greater than 50% and (0) otherwise.
	CEO Duality (CEO)	When the same individual serves as both the CEO and the chairperson of a corporation's board of directors, this is referred to as CEO duality.	Measured using dummy variable with the value of (1) if the roles of chairman of the board and CEO are combined and (0) otherwise.
Board Characteristics: Board Size, Board Independence and CEO Duality	Financial Leverage (FL)	Financial leverage was a company's ability to use fixed financial obligations to maximize profit changes on common stock per share income. Financial leverage is measured by the debt-to-total-assets ratio, which measures the extent to which a company's assets have been financed by debt.	Measured using debt to assets ratio = (total long-term debt + debt in current liabilities + accounts payables) / total assets.
	Dividend Policy (DP)	Dividend policy is a policy that governs whether net income generated by a company's operations is distributed as dividends to shareholders or is retained as retained earnings. The dividend policy is determined by the company's investment policy. If the company wants to invest in	Dividend yield ratio is used to assess a company's dividend policy. The cash dividend yield in percentage is calculated by dividing the cash dividend paid by the market capitalization.

		the future, it will not distribute dividends and will instead use the money as cash reserves.	
Control Variables	Financial Performance (ROA)	Return on assets measures a company's profitability in relation to its total assets. Corporate management, analysts, and investors can utilize ROA to see how well a company uses its assets to make money.	ROA is calculated as a percentage of a company's net income and average assets.
	Firm Size (FS)	Firm size is an indicator to the level of a firm development within business.	Natural log of firm's total assets.

6.2 Statistical Results and Data Analysis

Descriptive Statistics and Correlations

This research uses 270 observational data from 45 non-financial listed companies on the Egyptian Stock Exchange over a 6-year period. Table (2) displays the minimum, maximum, mean, and standard deviation values for the dependent, independent, and control variables used in this research for data collected during the study period (2015 to 2020). The mean and median values for most variables are close, indicating that the variable distribution is symmetric.

Table (2): Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Tobin's Q - Firm Value	270	.0794059	5.4057239	1.348389	.7857242
Dividend Yield	270	0.00%	82.30%	6.0802%	11.19717%
Leverage	270	1.87%	95.35%	59.6034%	22.65418%
Profitability	270	-73.30%	74.12%	9.5116%	19.66036%
Log of Total Assets	270	8.3607448	11.4695010	9.9188806	.6443775
Statements Restatement	270	.0	1.0	.587	.4938
Board Independence	270	1.0	14.0	5.450	3.0505
Board Size	270	5.0	21.0	14.456	4.3392
CEO Duality	270	.0	1.0	.525	.5009
Valid N (listwise)	270				

As shown in table (2), the mean value and standard deviation for firm value in the firms listed are 1.348389 and .7857242 respectively. These two values demonstrate the dispersion of panel data. The findings of mean value and standard deviation imply that firm value dispersion exists in the

sample firms. In firms, the mean value and standard deviation for Statements restatement are .587 and .4938, respectively.

The correlation matrix is an econometric tool used to test the tendency of a variable's relationship with another variable. This demonstrates the significance of the relationship between the research variables. It also indicates whether multicollinearity is present or absent. The correlation between various independent variables (BI, BS, CEO duality, FL, and DP), control variables (FS and ROA), and dependent variables (FV and FRR) is tested at 1% and 5% significance levels.

Table (3) shows the Pearson correlation that explains the relationship between the research variables and the impact of board characteristics (board size, board independence, and CEO duality) and financial decisions (financial leverage and dividend policy) on financial statement restatement and firm value. According to the overall business analysis, positive correlations were discovered between board size, board independence, dividend policy, and firm's profitability and firm value (Tobin's Q), and negative insignificant correlations were discovered between CEO duality and firm value at the 0.01 level. Firm size was discovered to have a significant positive impact on firm value. Furthermore, a negative correlation was discovered between statement restatement, financial leverage, and firm value.

The correlations between statements restatement and dividend policy, financial leverage, and CEO duality impact were non-significantly positive, while the correlations between statements restatement and profitability impact were non-significantly negative. Furthermore, the correlation between statements restatement and firm size and statements restatement impact was significant at the 0.05 level, while it was significant at the 0.01 level with board size and independence.

Table (3): Pearson Correlations

		TQ	DY	LEV	ROA	FS	FSR	BI	BS	CEOD
Tobin's Q (TQ)	Pearson Correlation	1	.113	-.113	.083	.287**	-.063	.028	.127	.247**
	Sig. (2-tailed)		.156	.156	.297	.000	.426	.724	.110	.002
	N	270	270	270	270	270	270	270	270	270
Dividend Yield (DY)	Pearson Correlation	.113	1	-.009	-.039	.196*	.140	-.152	-.041	.142
	Sig. (2-tailed)	.156		.911	.622	.013	.077	.055	.604	.074
	N	270	270	270	270	270	270	270	270	270
Leverage (LEV)	Pearson Correlation	-.113	-.009	1	-.118	.397**	.142	.040	-.177*	-.108
	Sig. (2-tailed)	.156	.911		.138	.000	.074	.616	.025	.175
	N	270	270	270	270	270	270	270	270	270
Profitability (ROA)	Pearson Correlation	.083	-.039	-.118	1	-.056	-.094	.171*	.220**	.227**
	Sig. (2-tailed)	.297	.622	.138		.480	.235	.031	.005	.004
	N	270	270	270	270	270	270	270	270	270
Log of Total Assets Firm Size (FS)	Pearson Correlation	.287**	.196*	.397**	-.056	1	.156*	.235**	.029	-.119
	Sig. (2-tailed)	.000	.013	.000	.480		.049	.003	.714	.133
	N	270	270	270	270	270	270	270	270	270
Financial Statements Restatement (FSR)	Pearson Correlation	-.063	.140	.142	-.094	.156*	1	-.406**	-.249**	.085
	Sig. (2-tailed)	.426	.077	.074	.235	.049		.000	.001	.284
	N	270	270	270	270	270	270	270	270	270
Board Independence (BI)	Pearson Correlation	.028	-.152	.040	.171*	.235**	-.406**	1	.410**	.071
	Sig. (2-tailed)	.724	.055	.616	.031	.003	.000		.000	.374
	N	270	270	270	270	270	270	270	270	270
Board Size (BS)	Pearson Correlation	.127	-.041	-.177*	.220**	.029	-.249**	.410**	1	.190*
	Sig. (2-tailed)	.110	.604	.025	.005	.714	.001	.000		.016
	N	270	270	270	270	270	270	270	270	270
CEO Duality (CEOD)	Pearson Correlation	-.247**	.142	-.108	.227**	-.119	.085	.071	.190*	1
	Sig. (2-tailed)	.002	.074	.175	.004	.133	.284	.374	.016	
	N	270	270	270	270	270	270	270	270	270

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

The statistical results for the first regression model used to examine the relationship between and the impact of board characteristics, financial leverage, and dividend policy on financial statement restatement are shown in Tables (4), (5), and (6).

Sub-Hypotheses:

H_{1a}: Large board size has significant negative impact on financial statement restatement.

H_{1b}: Board independence has significant negative impact on financial statement restatement.

H_{1c}: CEO duality has significant positive impact on financial statement restatement.

H_{1d}: Financial leverage has significant positive impact on financial statement restatement.

H_{1e}: Dividend policy has significant positive impact on financial statement restatement.

Table (4): Hypothesis 1 - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.490 ^a	.240	.205	.4403

a. Predictors: (Constant), CEO Duality, Board Independence, Leverage, Dividend Yield, Profitability, Board Size, Log of Total Assets

The regression result shown in table (4) shows that the overall pooled model is significant with an adjusted R-squared value of .205, which means that the significant independent variable and the controlling variables explain the change in the financial statement restatement by 20.5 percent and the R² 24 percent shows that the regression model's interpreting power is appropriate for the research.

Table (5): Hypothesis 1 - ANOVA^a

Model 1	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	9.312	7	1.330	6.863	.000 ^b
Residual	29.463	52	.194		
Total	38.775	59			

a. Dependent Variable: Statements restatement

b. Predictors: (Constant), CEO Duality, Board Independence, Leverage, Dividend Yield, Profitability, Board Size, Log of Total Assets

Table (6): Hypothesis 1 - Coefficients: Dependent Variable: Financial Statements Restatement

Model 1	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.744	.594		-1.251	.213
Dividend Yield	.001	.003	.030	.400	.690
Leverage	.001	.002	.056	.709	.479
Profitability	-.230	.002	.019	.254	.800
Log of Total Assets	-.176	.064	.230	2.760	.006
Board Independence	-.070	.013	-.432	-5.248	.000
Board Size	-.008	.009	-.069	-.848	.398
CEO Duality	.016	.074	-.017	-.221	.825

The preceding can be concluded from table (6):

- All the independent variables and the controlling variables have insignificant impact on financial statements restatement except board size and firm size has a significant impact on financial statements restatement.
- Financial decisions (financial leverage and dividend policy), CEO duality has a positive impact on financial statements restatement, while board size, board independence and control variables: firm size and return on assets have negative relationship with financial statements restatement.
- **The overall equation for forecasting the financial statements restatement (FSR) is:**

$$FSR_{it} = .744 - .008 BS_{it} - .070 BI_{it} + .016 CEO_{it} + .001 FL_{it} + .001 DP_{it} - .230 ROA_{it} + .176 FS_{it}$$

- Testing the first hypothesis reveals that the size and independence of the board of directors have a negative impact on financial restatement. As a result, BoD members can contribute additional business knowledge and experience to ensure that financial statements are of high quality.
- Investors respond positively to firms with higher reporting quality by retaining or increasing their investments in such firms. Attracting investors encourages these companies to avoid or limit unfavorable disclosures. Furthermore, the intensity of competition may reduce a firm's desire to disclose unfavorable (or favorable) news.
- Accounting restatements are less likely to be disclosed by firms with higher returns because, in general, they are bad news for investors and a sign of a competitive disadvantage.
- The findings indicate that it is reasonable to hypothesize that companies with a high percentage of independent directors are more likely to produce high-quality financial reporting.
- The degree of separation between the posts of board chairman and president in a company reflects the board's independence and the amount of innovation space the management has in the company. The more distinct a company's leadership structure is, the better the quality of the company's financial reporting.
- Large board size has an impact on managerial personnel in two ways: first, the overall professional qualifications of the board and its service-providing capabilities; second, the efficiency of communication and decision-making, which enhances and improves financial reporting quality.
- According to the findings, size captures the amount of information available on a firm. Larger firms have a more robust information environment, which can improve transparency and reduce information asymmetry among market participants. Furthermore, larger firms are more likely to have stronger internal controls that can detect and correct material errors, as well as improve the accounting and reporting system, when compared to smaller firms. If, on average, larger firms indicate a higher quality of financial information and a more reliable accounting and reporting system

than smaller firms, it is reasonable to argue that larger firms are less likely to restate accounting errors than smaller firms.

- Firm size is used as a control variable, measured by the natural logarithm of the book value of total assets, as a proxy for the firm's size. According to the findings, size captures the amount of information available on a firm. Larger firms have a more robust information environment, which can improve transparency and reduce information asymmetry among market participants.
- Profitability is an important factor in ensuring a company's long-term viability because it indicates whether a company's future prospects are promising. Profitability has a positive and significant impact on financial reporting quality, according to the findings.

Table (7), (8) and (9) shows the statistical results for the second regression model used to examine the relationship between and the impact of board characteristics, financial leverage and dividend policy have significant impact on firm value.

Sub-Hypotheses:

H_{2a}: Large board Size has significant positive impact on firm value.

H_{2b}: Board independence has significant positive impact on firm value.

H_{2c}: CEO duality has significant negative impact on firm value.

H_{2d}: Financial leverage has significant negative impact on firm value.

H_{2e}: Dividend policy has significant positive impact on firm value.

Table (7): Hypothesis 2 - Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
2	.486 ^a	.237	.201	.7021

a. Predictors: (Constant), CEO Duality, Board Independence, Leverage, Dividend Yield, Profitability, Board Size, Log of Total Assets

The regression result shown in table (7) shows that the overall pooled model is significant with an adjusted R-squared value of .201, indicating that the significant independent variable and the controlling variables explain the change in firm value by 20.1 percent and R² 23.7 percent, indicating that the regression model's interpreting power is appropriate for the research.

Table (8): Hypothesis 2 - ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
2 Regression	23.223	7	3.318	6.729	.000 ^b
Residual	74.938	152	.493		
Total	98.161	159			

a. Dependent Variable: Tobin's Q – Firm Value

b. Predictors: (Constant), CEO Duality, Board Independence, Leverage, Dividend Yield, Profitability, Board Size, Log of Total Assets

Table (9): Hypothesis 2 - Coefficients: Dependent Variable: Firm Value

Model 2	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
2 (Constant)	5.259	.948		5.548	.000
Dividend Yield	.006	.005	-.078	-1.034	.003
Leverage	-.008	.003	.241	3.034	.003
Profitability	.005	.003	-.128	-1.716	.008
Log of Total Assets	.436	.102	-.358	-4.284	.000
Board Independence	.024	.021	.094	1.142	.255
Board Size	.026	.015	-.143	-1.759	.081
CEO Duality	-.456	.118	.291	3.852	.000

a. Dependent Variable: Tobin's' Q - Firm Value

From the table (9), it is concluded that:

- Testing the second hypothesis reveals that the all the independent variables and the controlling variables have significant impact on firm value except board size and board independence has a significant impact on firm value.
- Dividend policy, board size and independence and control variables: firm size and return on assets has a positive impact on firm value, while financial leverage and CEO found to have a negative relationship with firm value.
- **The overall equation for forecasting the firm value (FV) is:**

$$FV_{it} = 5.259 + .026 BS_{it} + .024 BI_{it} - 456 CEO_{it} - .008 FL_{it} + .006 DP_{it} + .005 ROA_{it} + .436 FS_{it}$$
- Having an appropriate board size is the one factor that affects a firm's value because the board has the authority to decide on

planning and strategy and provides the firm with the leadership needed to achieve their goals. Larger boards of directors may improve firm performance by encouraging management to reduce the firm's financial leverage.

- According to research on the impact of board size on firm value, board size has a significant positive impact on firm value. The findings are consistent with previous research that stated that a firm with a large board size can make better decisions to improve performance for the achievement of firm value, e.g., Eisenberg, Sundgren, and Wells (1998); Garg (2007); Jensen and Meckling (1976); Lipton and Lorsch (1992); Yermack (1992). (1996).
- Independent directors are another factor that influences the value of a company because their role and responsibilities are to control, lead management transparency, and make appropriate decisions using good corporate governance.
- The CEO manages and directs the company's growth, whereas the chairman of the board (COB) is the board of directors' most powerful and authoritative member. The term "CEO duality" refers to a situation in which the CEO is also the COB. The company will perform better without CEO duality. This is because the company can lessen the agency problem by separating the CEO's and COB's duties and responsibilities. The CEO devises and implements the firm's strategy, whereas the COB ensures, investigates, and monitors the CEO's performance. As a result of separating their responsibilities, the firm's value will increase.
- Concerning the impact of dividend policy on firm value, findings revealed that after controlling for other firm-specific variables, dividend payout has a positive and significant influence on firm value. Dividends have a positive impact on the firm's value. As a result, a shift in dividend policy indicates a shift in firm value.
- The statistical findings revealed that the capital structure has a negative impact on the firm's value. Financial leverage can be a bad indicator of a company's performance.
- The findings of the second hypothesis test show that dividend policy has a significant positive effect on firm value. Signal theory is related to dividends. When a company pays out dividends to its shareholders, it sends a positive signal to investors, who can then use

that information to make investment decisions in the company (Hasanuddin 2021). According to the findings of this study, dividend policy has a positive and significant effect on firm value. If the dividend policy is increased, the company's value rises as well. When a company raises its dividend payments, investors interpret it as a sign that management expects the company to perform better in the future.

- As the company's performance and business prospects improve, investors will be interested in purchasing shares. Furthermore, the company's stock returns will increase (Kasmiati and Santosa 2019), which is supported by Signalling theory, which states that an increase in dividends is frequently followed by an increase in share prices, whereas a decrease in dividends causes a decrease in stock price. Putu et al. (2014) and Santosa (2020) discovered that dividend policy has a positive and significant effect on firm value.
- Firm value is influenced by the company's financial performance (profitability), because high profitability allows the company to pay dividends, which raises the share price (Fajaria, 2018). Profitability has a positive and considerable effect on business value, according to Putu et al. (2014). Because a company's profitability improves, so does its ability to pay dividends, there is a positive association.
- Profitability can be used to signal to investors that the company is performing well financially (Ararat et al. 2017). With high profitability, it is expected that the company will distribute high dividends, allowing the company's profitability to entice investors to purchase shares. The greater the number of investors who purchase company shares, the greater the demand for shares, which raises the stock price. Fajaria (2018) discovered a significant and positive relationship between profitability as measured by return on assets (ROA) and firm value as measured by Tobin's Q.

The use of firm size as a control variable in this study is motivated by the fact that it has been linked to a variety of characteristics in companies. Firm size and growth, according to Lehn et al. (2003), are important determinants of board size and structure. They discovered that firm size is directly proportional to size and inversely proportional to the proxy for opportunity growth, that insider representation is inversely proportional to

firm size and directly proportional to the proxy for opportunity growth and that firm size thus has an effect on firm performance.

The third hypothesis is tested using Structural Equation Modeling (SEM) to demonstrate the impact of board characteristics, financial leverage, and dividend policy on firm value via financial statement restatement as a mediating variable. The same control variables were used in the analysis (ROA and Log of total assets).

Table (10) demonstrates that all components of the corporate governance proxy have a significant relationship with firm value at levels less than 0.05 and 0.01. Furthermore, the findings indicate that financial statement restatement has a significant impact on firm value. According to the findings of the Structural Equation Modeling, financial statement restatement has a stronger direct effect on firm value, and better corporate governance helps to reduce financial statement restatement and has a significant positive effect on Tobin's Q.

These findings are supported by the possibility that higher-quality financial accounting information improves coordination between investor and firm in the form of capital investments, lowers information risk, and, ultimately, lowers the cost of capital. Furthermore, these findings indicate that the dependability and relevance of financial reporting are important factors for stakeholders in their decision-making process. These findings are consistent with those of Gaio and Raposo (2014), as well as Goettsche, Steindl, and Gietl (2014).

Table (10): Hypothesis 3 - Regression Weights: (SEM)

Model 3		Estimate	S.E.	C.R.	P
Statements_ Restatement <---	Leverage	.001	.002	.686	.003
Statements_ Restatement <---	Profitability	-.002	.002	.244	.007
Statements_ Restatement <---	Log of Total Assets	-.183	.060	3.065	.002
Statements_ Restatement <---	Board Independence	-.071	.013	-5.571	***
Statements_ Restatement <---	Board Size	-.008	.009	-.869	.041
Statements_ Restatement <---	CEO Duality	.011	.071	-.149	.007
Statements_ Restatement <---	Dividend Policy	.013	.061	-.148	.006
Tobin's Q <---	Statements_ restatement	-.101	.126	-.800	.024
Estimate Statements_ restatement - Adjusted R ² = .239					

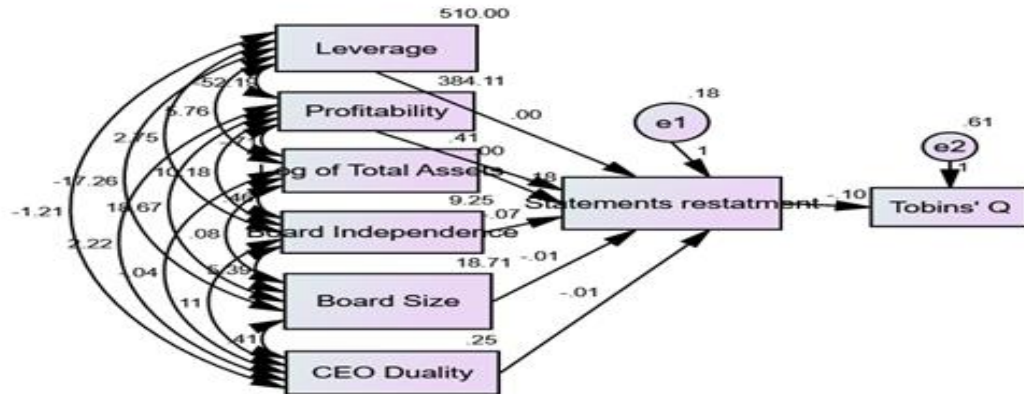
$$FV_{it} = .001 - .008 BS_{it} - .183 BI_{it} + .011 CEO_{it} + .001 FL_{it} + .013 DP_{it} - .101 FSR_{it} - .002 ROA_{it} - .183 FS_{it} + \varepsilon_{it}$$

Table (10) displays the regression results for testing the third hypothesis, for which financial statement restatement was used as the primary independent variable. Model 3 results show that the adjusted R2 is 0.239, which is considered quite high. With an F-value of 9.002, the regression was statistically significant at the 1% level.

Table (10) analyses the influence of financial restatement on firm value. This research finds a significant negative relationship between financial restatement and firm value, as expected. This means that a company whose previous financial statements are restated will have a lower firm value. Investors gradually lose trust and belief in the firm's management. They discover that their previous investment decision was incorrect because it was based on an uncorrected financial statement. This can be so severe that they believe management has deceived them in a more serious restatement issue. As a result, financial restatement undermines investor confidence in the firms and, in the long run, reduces the value of Tobin's Q.

The results for the third proposition also show that board characteristics influence firm value through the predictive power of financial restatement. The findings are consistent with the previous study, which discovered that corporate governance has a positive impact on firm value by influencing financial restatement. Financial reporting reliability has a significant impact on firm value. Good corporate governance ensures the dependability of financial reporting, reducing accounting information asymmetry. Reduced information asymmetry leads to an increase in the firm's value across the board. Furthermore, as shown in figure (2), the model of all the coefficient values of the impact of board characteristics on firm value through financial restatement as a mediating variable has been depicted.

Figure (2): SEM for the Board Characteristics on Firm Value through Financial Restatement



Assess the suitability of the observational input (covariance or correlation matrix) with the proposed model's prediction. We will use several goodness-of-fit measures in this analysis, including First, Chi-Square, and Probability. The Chi-Square value – level of significance (P) indicates the magnitude of a model's poor fit. A Chi-Square value of .000 indicates that the model is perfectly fitting the data. A significant chi-square value (less than 0.05) indicates that empirical data differs from established theories, whereas if the probability value is not significant, empirical data according to the model will result in two types of Chi-Square Minimum Fit Function if the assumption of normality is met, Chi-Square and the Weighted Least Squares Normal Theory Chi-Square.

Second, Goodness of Fit Indices (GFI) is a model accuracy measure in generating covariance observed matrices. GFI values should be between 0 and 1, with a value greater than 0.9 indicating a fit for either model. Third, the Adjusted Goodness of Fit Index (AGFI) is a GFI that takes into account the influence of a model's degrees of freedom. The perfect fit model has an AGFI score of 1, whereas the Parsimony Goodness of Fit Index (PGFI) is a GFI that has adjusted the impact of the degree of freedom and model complexity. Models are said to fit if the PGFI value is greater than 0.6.

The fourth statistic, Root Mean Square Error of Approximation (RMSEA), calculates the deviation of parameter values on a model with its population covariance matrix. RMSEA values less than 0.05 indicate that the model is fit. To assess the accuracy of RMSEA estimates, the confidence intervals should be small, indicating that the RMSEA is accurate. Table (11) displays the test results in the goodness of fit model

using indicators.

Table (11): The Goodness of Fit Indices of the SEM

Chi-square (CMIN)	41.252	Normed fit index (NFI)	.776
Degree of freedom	6.875	Relative fit index (RFI)	-.045
Level of significance (P)	.000	Incremental fit index (IFI)	.802
Normed chi-square (CMIN/DF)	6.875	Tucker Lewis index (TLI)	-.054
Root mean square residual (RMR)	.434	Comparative fit index (CFI)	.774
Goodness of fit index (GFI)	.946	Root mean square residual approximation (RMSEA)	.192
Adjusted goodness of fit index (AGFI) R² = 23.9%	.676		

Furthermore, the model goodness of fit has been tested to ensure the model's accuracy. Table (11) displays the goodness of fit analysis results where all values are greater than the cutoff values. The NFI (normed fit index) is .776, the GFI (goodness of fit index) is .946, the RFI (relative fit index) is -.045, the CFI (comparative fit index) is .774, and the IFI (incremental fit index) is .802. The goodness of fit results demonstrates the model's dependability in estimating the impact of variables on firm value. The adjusted R² value is significant, revealing the constructs' ability to explain nearly 23.9 percent of the overall change in the dependent variable, firm value. The remainder of the percentage is due to errors and other variables not included in the research.

Conclusion

Growth in firm value is critical for maximizing shareholder wealth and achieving overall corporate goals and objectives. It is critical to investigate all potential factors influencing firm value. Corporate governance and financial decisions of firms are important factors that influence the firm's value.

The investor's perception of a company's success is reflected in its firm value. This is reflected in the stock price of the corporation. Investor trust in the company is reflected in the growth in stock prices. They are willing to pay more in order to make a larger profit. High stock prices can be a good indicator that investors are interested in making investment decisions.

To increase the firm's market value, good corporate governance (board characteristics), an optimal capital structure (financial leverage), and a

dividend policy are required. The findings indicate a negative relationship between financial statement restatements and firm value.

This research explores the impact of board characteristics (specifically board size, board independence, and CEO duality), financial leverage, and dividend policy on financial reporting quality (financial restatement), and firm value.

The statistical results show that ineffective corporate governance practices increase the likelihood of poor financial reporting, which leads to financial restatement. With a p-value of 0.000 less than 0.05, corporate governance structure has a positive and significant effect on firm value. This means that the better the corporate governance structure, the higher the company's value.

This means that while a good corporate governance structure improves financial reporting quality, it has an impact on firm value.

The significant influence of board size, board independence, and CEO duality is demonstrated to be more governance tools that can enhance firm value and financial reporting quality. Furthermore, we discovered a positive correlation coefficient between dividend yield ratio and firm value, indicating that firms that pay high dividends have a high value because their investors like dividends. Our findings indicate that leverage and firm size have a positive effect on firm value. Our findings on the negative effect of leverage on firm value are consistent with those of other studies.

Profitability and liquidity, on the other hand, have no statistically significant influence on firm value and benefits in improving financial reporting quality. In practice, these findings provide financial statement users with additional insight into the importance of corporate governance when evaluating the company's financial statements and firm value.

Limitations and Future Research

In the area of earnings manipulation, financial statement restatement and their impact on firm value and financial policies, this research fill the gap in literature review by offering insights to policy-makers to develop better corporate governance as well as guidance to firms in the construction and implementation of their corporate governance policies in relation to financial leverage and dividend policy and it shed light on the influence of efficient corporate board attributes on firm value and reliability of financial reporting. The results would also be useful to the regulators, top

management of firms, brokers, analysts, and investors of the company in emerging economies like Egypt.

This research can be extended by studying the impact of free cash, financial leverage and accounting regulation on earnings management and studying the effect of financial statement restatements on firms' financial reporting strategies and earnings quality in emerging as well as developed countries.

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Appendix

List of sample size and their sectors which include (45 Egyptian stock exchange-listed companies).

Sector	Companies
Industrial Goods, Services and Automobiles (IGSA)	<ol style="list-style-type: none"> 1. GB Auto 2. Elsewedy Electric 3. Electro Cable

	<p>4. Arab Engineering Industries 5. Delta for Printing & Packaging 6. Modern Shorouk Printing & Packaging</p>
Food, Beverages and Tobacco (FOBT)	<p>7. Cairo Poultry 8. Alexandria Flour Mills 9. Ismailia Misr Poultry 10. Juhayna 11. Edita 12. Domty 13. Arab Dairy-Panda 14. Delta Sugar 15. Cairo Oils & Soap</p>
Paper and Packaging (PAPC)	<p>16. Rakta 17. El Ahram for Packing 18. Unipack 19. Middle East Glass Manufacturing</p>
Real Estate (REAL)	<p>20. Emaar Misr 21. Orascom Development Egypt 22. Amer Group 23. Amer Group 24. Madinet Nasr Housing 25. Heliopolis Housing 26. SODIC 27. TMG Holding 28. Marseilia 29. Zahraa Maadi</p>
Health Care and Pharmaceuticals (HLTH)	<p>30. EIPICO 31. Advanced Pharmaceutical Packaging 32. Ibsina Pharma 33. Alexandria Pharmaceuticals 34. Glaxo SmithKline 35. Nozha International Hospital 36. Minapharm Pharmaceuticals 37. Memphis Pharmaceutical 38. Nile Pharmaceuticals</p>

Basic Resources (BASC)	39. ASCOM 40. Misr Chemical Industries 41. Ataqa 42. Ezz Steel 43. Sidi Kerir Petrochemicals - SIDPEC 44. Abu Qir Fertilizers 45. Al Ezz Dekheila Steel
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