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Full Length Research Paper

Restatements, family ownership and the forced turnover of related parties of financial statements

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This paper examined the consequences of mandatory restatements and family ownership to related parties of financial statements (top management, outside directors and firm auditors) in Taiwan. Mandatory restatements are externally prompted, showing the material financial misstatements. Taiwan provides an ideal setting to examine the issues due to low awareness of business ethics and a prevalence of family control. Results showed that top management, chief executive officer (CEO), financial executives and firm auditors are replaced in the context of mandatory restatements. Furthermore, results also showed that family ownership reduces the forced turnover of top management, financial executives, firm auditors and supervisors. Findings raise concerns about the need to popularize the value of business ethics as ethical deterioration is biased to financial reporting failure and ineffective punishment mechanisms. This study also demonstrates the need to highlight the effect of family management on business operations due to the entrenchment effect of family ownership on firms' replacement decisions.

Key words: Restatements, family ownership, turnover, ethics, Taiwan.

INTRODUCTON

Recently, many accounting scandals emerge all around the world, including the Enron and the WorldCom in America and the Rebar in Taiwan. The events can be widely attributed to the unethical behaviour of executives or family members. The Enron scandal led to the passage of the Sarbanes-Oxley Act of 2002, which aims to improve corporate governance to strengthen the accountability of related parties of financial statements on financial reporting (Valenti, 2008). Related parties of financial statements refer to persons involving in firms' financial reporting, including top management, directors and firm auditors. The Sarbanes-Oxley Act has become an important model for Taiwan to strengthen corporate governance practices (Collins et al., 2009; Wang et al., 2010). Due to the impact of the Sarbanes-Oxley Act, Taiwanese corporate governance practices have been greatly improved. However, Taiwanese security regulators still ignored the role the family member's play in corporate governance. Taiwan is characterized by a dominance of family control, showing that family members have high involvement in the operations of most Taiwanese firms (Filatotchev et al., 2005). The outbreak of the Rebar in 2007 attracted the attention of the Taiwanese government on the importance of family governance. Weak governance practices of the Rebar Group provided the incentive and the ability of the family members to extract personal benefits. The chairman (also the founder) obtained the illegal money that exceeded US $2.3 billion dollars through fraud, insider trading and embezzlement of corporate funds. Concerns in accounting scandals call for emphasizing business ethics in response to such events. The deterioration of business ethics is one of essential antecedents of accounting failures (Almer et al., 2008). In order to reduce financial reporting failure, firms need well designed governance mechanisms and have to provide strong incentive alignment between managers (or family members) and shareholders to reduce both conflicts of interest. An independent board is often regarded as an effective governance mechanism to

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alleviate the conflicts of interest (Filatotchev et al., 2005; Srinivasan, 2005; Wang et al., 2010).

In all types of financial manipulations, the restatement has a great level of financial manipulation (Almer et al., 2008; Bewley et al., 2008) and thus raises questions about the integrity and codes of ethical conduct of related parties of financial statements. Related parties of financial statements are vital to create an ethical corporate culture. However, they may act inappropriately if they lack ethical value and integrity. Certainly, they should be punished due to unreliable financial disclosure. Past literature suggested that restatement firms regard the replacement of related parties of financial statements as the best disciplinary way for related parties of financial statements (Collins et al., 2008; Valenti, 2008). Despite well-documented findings on the impact of restatements, most of the studies highlighted the consequences of restatements to certain related parties of financial statements, particularly top managers (Arthaud-Day et al., 2006). Besides, plenty of studies investigated the impact of restatements within a short time window and did not distinguish the types of restatements: voluntary restatements and mandatory restatements (Desai et al., 2006). It is necessary to examine the turnover of related parties of financial statements in a long time window and focus on mandatory restatements, involving in material financial manipulations. Voluntary restatements refer to restatements prompted from within a company itself. Mandatory restatements refer to restatements prompted by external parties, including independent auditors or the Securities and Exchange Commission (SEC) (Srinivasan, 2005; Bewley et al., 2008).

Prior findings on restatements were often documented from Western context such as America or Australia (Ahmed and Goodwin, 2007; Collins et al., 2009) and were little documented from Asian context such as Taiwan. Unlike America or Australia, Taiwan has low awareness of business ethics (Ip, 2008), features weak protection for minority shareholders (non-family shareholders) (Yeh and Woidtke, 2005) and has a stock market mainly comprised of individual investors (non-institutional investors) (Barber et al., 2008). Taiwanese firms with mandatory restatements may experience replacement dilemmas within the Taiwan setting. However, based on the findings of most restatement studies, mandatory restatements are most likely to lead to the forced turnover of related parties of financial statements (Desai et al., 2006; Collins et al., 2008). Family management literature asserted that families and minority shareholders often have agency conflicts. Most evidence from Taiwan indicated that family members often use the business to achieve family goals (that is, to help family members who have never been able to hold managerial positions outside the family firm) (Yeh and Woidtke, 2005), which creates the conflict with the business goals (that is, to seek in hiring professional managers) and impairs minority shareholders' interests (Adams et al., 2004; Peng and Jiang, 2010). Family members apparently face few ethical dilemmas in the setting of Taiwan.

In Taiwan, family members have discretionary power to affect firms' important decisions (Filatotchev et al., 2005). They have ability to participate in the selection of related parties of financial statements and thus are more motivated to select those who recognize their interests. Once those who favour family members' interest are forced to leave, family members would tend to wield their influence to retain them so as to maintain high family control. The forced turnover of related parties of financial statements provides an interesting setting to examine whether family members unethically deter firms' replacement decisions for related parties of financial statements. A small amount of research has investigated the above relationship. However, it focused on examining how family members are entrenched in managerial replacement via their managerial leadership in Western context (Hillier and McColgan, 2009). Particularly, it paid attention to poor-performing firms. Managerial literature suggested that firms experiencing poor performance often use the forced turnover of managers as the response to poor operations (Kato and Long, 2006). Furthermore, the literature ignored that family ownership that is also a vital path for family members to achieve family benefits in addition to managerial leadership (Anderson and Reeb, 2003). Family members may be entrenched in firms' replacement decisions via their ownership interest. Taiwanese evidence has widely supported that concentrated family ownership facilitates families to expropriate the interests of minority shareholders (Filatotchev et al., 2005; Yeh and Woidtke, 2005), indicating that family ownership are likely to be negatively with the forced turnover of related parties of financial statements. In light to the above, this paper needs particular examinations to answer the following questions.

(i) Whether mandatory restatement firms restructure related parties of financial statements within the Taiwan setting?
(ii) Whether family members unethically deter the forced turnover of related parties of financial statements via their ownership interest?

This paper investigated listed companies on the Taiwan Stock Exchange (TSE) and Over-The-Counter (OTC) that announced mandatory restatements. In this paper, listed companies on the TSE and OTC will be referred to as organizations. In Taiwan, the turnover of related parties of financial statements has become mandatory disclosure in the annual reports. Through the examination, Taiwanese security regulators can lend support as to whether highlighting information regarding the turnover of related parties of financial statements is necessary. While this paper adopted a matched pairs design, this paper collected the forced turnover information both for mandatory

Table 1. The legitimacy and signal effect of mandatory restatement firms' replacement decisions.

First	Second	Third	Fourth	Fifth
	Financial reporting with material misstatement			
	Released	Used	Restated	
Antecedent circumstances	Actions taken to misstate earnings	Resource allocation decisions	Detection triggers mandatory restatements	The legitimacy effect and signal effect
Unethical corporate culture	Related party transactions	Firm stakeholders	The SEC	The removal of related parties of financial statements

mandatory restatement firms and non-restatement firms. Initially, this paper examined the relationship between family ownership and firms' replacement decisions without dividing the firms into mandatory restatement firms and non-restatement firms. In order to provide a further support on family members' entrenched behaviour in firms' replacement decisions, this paper also focused on mandatory restatement firms to re-examine the above relationship.

The findings indicated that mandatory restatement firms replace top management, chief executive officer (CEO), financial executives and firm auditors in the context of Taiwan. Besides, the results showed that family ownership motivates family members to unethically deter the forced turnover of top management, financial executives, firm auditors and supervisors so as to maintain high family involvement in firms' operations.

LITERATURE REVIEW

Legitimacy theory, signal theory and the forced turnover of related parties of financial statements

Managerial literature has widely used legitimacy theory and signal theory to explain why poor-performing firms view the removal of related parties of financial statements as a legitimizing tool against legitimacy loss and as an effective way to signal good quality actions, particularly top management (Arthaud-Day et al., 2006; Kato and Long, 2006; Kang, 2008). Legitimacy theory asserts that firms will do whatever they consider necessary to preserve their image of a legitimate business with legitimate aims and methods of achieving it (De Villiersa and Van Staden, 2006). An alternative to legitimacy theory is signal theory, which explains why investors pay attention to associated firms and why firms in an uncertain market convey information or change beliefs about the quality of activities or attributes which are credible to individuals (Kang, 2008). Except for firm performance, many other settings also encourage firms suffering troubles to use the forced turnover of related parties of financial statements as the response to the troubles. For instance, firms experiencing mandatory restatements would also expect to enhance positive perceptions of investors via the replacement for related parties of financial statements. This study depicted particular factors related to mandatory restatements to provide the understanding of the legitimacy effect and signal effect of mandatory restatement firms' replacement decisions via the modified framework of Wahlen (2004), shown in Table 1. Across the top of the table is a time-line showing the order of factors associated with mandatory restatements. First, firms encounter some antecedent circumstances that motivate financial manipulation, such as an unethical corporate culture. Second, under a business environment with less emphasis on ethics, certain individuals involved in the financial reporting process have incentive to take certain actions to misstate financial earnings such as a related-party transaction. A related-party transaction refers to a firm arrangement between two parties joined by a special relationship prior to the transactions (that is, firm executives, associates and family members), which shows potential conflicts of interest benefitting the parties involved in particular transactions as opposed to the shareholders. Third, it is unfavourable for the firms' stakeholders to make resource allocation decisions due to misstated financial information.

Fourth, in the case of mandatory restatements, misstated financial information is detected and required to be admitted and corrected by external parties such as the SEC. In Taiwan, mandatory restatements are prompted by the Securities and Futures Bureau (SFB). Fifth, mandatory restatements provide highly visible targets for blame and thus trigger the restatement firms to create or revamp monitors and watchdogs by replacing the related parties of financial statements. For mandatory restatement firms, the forced turnover of related parties of financial statements emphasizes their commitment to prevent recurrences of ethical lapses and thus can restore investors' faith (legitimacy effect and signal effect).

Mandatory restatements and the forced turnover of related parties of financial statements

Taiwanese security regulators have constantly amended

regulations to strengthen the accountability of related parties of financial statements on financial reporting (that is, Securities and Exchange Act and Company Act). In Taiwan, the financial reports shall be signed or stamped with the seal of the chairman, executives, and accounting officers, who shall also produce a declaration that the report contains no misrepresentations. Undoubtedly, top management--the chairman, CEO and financial executives--is regarded as most responsible for financial disclosure. However, firm managers have selfish motives to manipulate financial earnings to maximize personal incomes (Desai et al., 2006). Hence, once accounting scandals emerge, they are the first to be blamed. Matters of board governance and business ethics advance quickly to the forefront of the minds of the public with the appearance of accounting scandals (Holder-Webb and Cohen, 2007). In 2002, the Taiwan Stock Exchange and the GreTai Securities Exchange have issued Corporate Governance Best-Practice Principles for listed companies. Taiwanese corporate governance practices principles are similar to corporate governance practices in other countries all around the world such as South Africa. Security regulators of Taiwan and South Africa both emphasize that related parties of financial statements play an important role in strengthening corporate governance and thus aim to enhance the accountability of related parties of financial statements on financial reporting.

In South Africa, corporate governance practices were formalised in 1994 and the King Report on Corporate Governance (King I) was released. The second King Report (King II) and the third King Report (King III) became effective in 2002 and 2009, respectively. King III regards the board as the core of corporate governance. The directors of the board are held accountable for a firm's operations and are responsible for monitoring firm audit and adequacy of internal controls. King III has more complete definition of the board composition than King I and King II. King III requires that the board composition consists of both executive and non-executive directors. However, the board should include a majority of non-executive directors (Barac and Van Staden, 2009). In Taiwan, since 2007, public firms must set up at least two independent directors. The board independence determines the monitoring ability of the board on the management. Hence, there has been much examination of board independence to understand the effectiveness of outside directors in overseeing the management. Many studies have supported that outside director's help reduce management manipulation (Srinivasan, 2005). Given the accountability of outside directors in financial reporting, even though outside directors are not engaged in manipulating financial reporting, they still bear responsibilities for poor quality financial disclosure (Kang, 2008). Besides, strong evidence supported the effectiveness of an audit committee in monitoring the preparation and presentation of financial information (Agrawal and Chadha, 2005). King III requires an audit committee to consist of at least three independent non-executive directors. The audit committee members should understand financial reporting, internal control, audit process, corporate risk and corporate governance affairs (Barac and Van Staden, 2009). Since 2007, Taiwanese public companies must establish either an audit committee or a supervisor. Annual and semi-annual financial reports of a company, that has established an audit committee, shall be subject to the consent of one-half or more of all audit committee members and be submitted to the board of directors for a resolution. The functions of an audit committee are similar to those of supervisors. Several countries, such as Germany and Taiwan, have a long history of establishing supervisors. Taking Taiwan as an example, the boards of Taiwanese firms are comprised of two separate organizations: a board of directors and supervisors. Supervisors are designed to monitor the board of directors and are responsible for scrutinizing directors' decisions and examining the accounting books and documents (Yeh and Woidtke, 2005; Wang et al., 2010).

In addition to supervisors, internal auditors and external auditors are also in good positions to audit financial reporting. Internal audit auditors aid the external auditors in their audit planning (Fourie and Erasmus, 2009). King III recognizes that internal auditors play an essential role in corporate governance (Barace and Van Staden, 2009). In the planning of internal audit activities, internal auditors have to consider the risks and the adequacy and effectiveness of the risk management process that resides within the scope of the engagement (Fourie and Erasmus, 2009). External auditors are responsible for performing attestation of the financial reports or financial and business documents (Bewley et al., 2008). Prior restatement literature has widely supported that the related parties of financial statements are responsible for assuring financial reporting credibility and would be undoubtedly punished for restatements. However, the conclusions were made without distinguishing the nature of restatements: voluntary or mandatory (Arthaud-Day et al., 2006; Bewley et al., 2008). Examining mandatory restatements is essential as the firms forced by external parties (i.e., the SEC) to restate financial earnings reveal material breaches of fiduciary duties by the related parties of financial statements (Srinivasan, 2005). Besides, the restatement studies only investigated the disciplinary actions for particular related parties of financial statements, particularly for firm executives, and often examined the turnover in a short time. There are still other important actors closest to financial reporting, including the chairman, supervisors and internal auditors (Agrawal and Chadha, 2005; Fourie and Erasmus, 2009). In addition, subsequent restatements might influence disciplinary actions in the year before the restatement announcement year (Collins et al., 2008). The former suggests a need to examine the impact of mandatory

restatements to all related parties of financial statements in a long time window.

The occurrence of mandatory restatements is widely attributed to a serious decay of business morality, which may prevent the restatement firms' replacement for related parties of financial statements even though related parties of financial statements significantly fall short of their monitoring and control responsibilities in assuring reliable financial disclosure. The stock market in Taiwan is mainly comprised of individual investors. Individual investors are often not actively involved in corporate affairs, leading to passive shareholder activism (Barber et al., 2008). Taiwanese firms with mandatory restatements may be less motivated to make replacement decisions. However, according to legitimacy theory and signal theory (Arthaud-Day et al., 2006; Kang, 2008), mandatory restatement firms would view the removal of related parties of financial statements as a legitimizing tool against legitimacy loss and as a positive signal to stakeholders to regain firm reputational capital often lost at the revelation of the restatements. The majority of restatement literature has documented that restatements firms would make replacement decisions for particular related parties of financial statements (Desai et al., 2006; Collins et al., 2009). In whole, mandatory restatements are likely to lead to the forced turnover of related parties of financial statements in the setting of Taiwan.

The role of family business on state business

Business of state has to ensure some fundamentals, including food, cloth, shelter, education and health care with the increasing trends for everyone that faces all kinds of today's challenges. In addition to the fundamentals, business of state also has to target others, including financial institutions, service and recreational industries and science industries. Most states own the business of education and health care previously whereas they do not own the many businesses of state now. At present, business of state has taken a small step towards becoming more privatized due to culture and traditional acceptance as well as the consideration of the profit. Among all types of privatization, family businesses are common types (Alam, 2008; Alam et al., 2010). Compared to businesses of state, family businesses often have more effective operating models, which can thus provide good references to businesses of state to learn. Family businesses play an essential role in America, which may account for 50% of U.S. gross domestic product. Some of the world's largest corporations are family businesses, including Wal-Mart and Ford Motor. Family businesses face more difficulties of continuity, longevity, and ultimately success than businesses of state. Nowadays, next-generation family members have a low sense of duty and an obligation to join the family businesses whereas have a high sense of entitlement. Furthermore, potential internal power struggle exists between the existing generation and the next. Whether family businesses can succeed depends on whether the existing generation has the ability to pass on the leadership to the next, showing that formal succession plans are vital to the future of family businesses. Particularly, it is widely believed that female successors compared to male successors have better ability to manage family firms (Perman, 2006).

Taiwanese state business prohibits any conflicts of interest in personnel selection. Accordingly, there are almost no cases indicating that family businesses are businesses of state. Many Taiwanese companies are family businesses (Filatotchev et al., 2005; Yeh and Woidtke, 2005). The Taiwanese government has attempted to assure that family businesses would not harm the interests of individual investors via setting up regulations. Therefore, there is little need for Taiwanese state businesses to intervene in operational affairs of family businesses. However, the operational policies of family businesses are still likely to be affected by those of state businesses due to market competition. For example, once Taiwanese state petroleum business (CPC Corporation, Taiwan) lowers oil prices, family petroleum businesses such as Formosa Petroleum Corporation would follow the oil pricing policy of Taiwan state petroleum business to lower oil prices.

Family ownership and the forced turnover of related parties of financial statements

Whether family management enhances firm performance had inconsistent findings in the literature. Family members have incentive to increase firm value (positive incentive alignment), and also to expropriate benefits of minority shareholders via their high involvement in firms' affairs (negative incentive entrenchment) (Anderson and Rebb, 2003; Peng and Jiang, 2010). The viewpoint of negative incentive entrenchment appears to dominate in the setting of Taiwan as most Taiwanese evidence shows that family members entrench rather than commit to good corporate ethics and good governance. In Taiwan, family members behave as agents rather than stewards, entrenched to major company decisions to accomplish family goals rather than business goals (Yeh and Woidtke, 2005). Family members are likely to influence the selection of those who favour their benefits. They are also likely to prevent those who favour their benefits from being removed. Recent studies focused on Western context to investigate the entrenched behaviour of family members in firms' replacement decisions. They examined whether family members with managerial positions tend to deter the forced turnover of firm managers in poor-performing firms and the findings supported the relationship (Hillier and McColgan, 2009).

Extending the examination to the replacement of other related parties of financial statements except for firm managers is vital as other related parties of financial

statements are also responsible for financial reporting quality and are also authorized to monitor essential company affairs (Srinivasan, 2005; Barac and Van Staden, 2009; Fourie and Erasmus, 2009). Besides, except for managerial leadership, family members also can affect firms' replacement decisions via other crucial ways (Anderson and Rebb, 2003), such as the ownership interest. Little studies dealt with the linkage between family ownership and firms' replacement decisions, revealing a need to provide the examination. Taiwanese firms have a prevalence of family control. Most evidence from Taiwan showed that family members have incentive and have ability to participate in firms' operations to extract personal benefits (Filatotchev et al., 2005; Yeh and Woidtke, 2005). Based on the above, in the setting of Taiwan, family members are likely to unethically deter the forced turnover of related parties of financial statements via their ownership interest.

RESEARCH DESIGN

Sample selection process

This work examined a sample of listed companies on the TSE and OTC that announced restatements prompted by the SFB during 1998 - 2005. The mandatory restatement sample was obtained from the Taiwan Economic Journal (TEJ) database, including quarterly or annual restatements. For an observation with multiple mandatory restatements, this study coded the earliest one. Data for the turnover of related parties of financial statements (the dependent variable) was constructed from a website search – the Market Observation Post System of the TSE (http://newmops.tse.com.tw/), using variations of the word ''replace''. Independent variables and control variables were mainly collected from company prospects and the TEJ database. This paper controlled performance variables lagged in the year preceding the turnover year. Hence, firms not surviving more than six years were dropped.

Initially, this paper obtained a sample of 308 firms. Observations not meeting the following criteria were dropped: (1) missing data on the TEJ database, (2) included in the financial and insurance industries, and (3) restatements for technical reasons. Technical restatements involve changes in the accounting method, accounting rule changes and subsequent events such as stock splits, mergers, acquisitions, discontinued operations and divestitures (Ahmed and Goodwin, 2007). This paper followed previous literature to collect data for the forced turnover of related parties of financial statements (Desai et al., 2006; Collins et al., 2009). Voluntary turnover, including the turnover reasons--the death, illness and retirements, was not included in the sample. This paper selected a control firm for each sample firm based on the following criterions (Agrawal and Chadha, 2005): (1) each pair of firms is in the same industry, (2) a control firm has similar firm size in terms of log of total market capitalization to the matched mandatory restatement firm at the beginning of the year of mandatory restatement announcement, and (3) a control firm does not announce any restatement in two years prior to the restatement announced by its matched mandatory restatement firm. The mandatory restatement firms totaled thirty-one. The final sample used to test hypotheses included sixty-two firms. The sample size was similar to other studies dealing with financial reporting quality (Dechow, 1995) and managerial turnover (Duggal and Cudd, 1993). Most observations derived from the electronics industry (38.71%) (detailed industry composition of the sample is not presented).

Research models

This paper estimated separate logistic regression models for the turnover of each group of related parties of financial statements to examine its linkage to mandatory restatements and entrenched behaviour of family members. The forced turnover of related parties of financial statements for nine groups was examined: top management (including the chairman, CEO and financial executives), the chairman, CEO, financial executives, outside directors, firm auditors (including supervisors, internal auditors and external auditors), supervisors, internal auditors and external auditors. The turnover was examined for years (-2, +2), where 0 is the year of mandatory restatement announcement. Year -1 and year -2 (year +1 and year +2) refer to one year and two years before (after) the year of mandatory restatement announcement, respectively. The turnover for each of five time windows around year 0 was also investigated: years (-2, -1), (-1, 0), (-1, 1), (-1, 2), and (1, 2). Particularly, this paper examined the turnover for each time window both with and without observing marginal effects of explanatory variables. Based on Greene (1999), calculating marginal effects of explanatory variables can provide a better understanding on the meaning of coefficients in logistic regression models.

Dependent variable

The dependent variable is FSPEP, which measures the turnover of related parties of financial statements mentioned in the research models. For turnover in a given year (in a given time window), FSPEP is an indicator variable that equals 1 if there was any change for each group of officers, outside directors or auditors in a given year (in any year of a given time window) and 0 otherwise.

Independent variable

(a) Mandatory restatements (RESTATE): RESTATE is an indicator variable that equals 1 if the firm was prompted by the SFB to restate earnings and 0 if the firm does not restate earnings.
(b) Family ownership (FOWN): FOWN is proxied for the shareholding of family members.

Control variable

This paper included eight control variables, which are relevant to firms' replacement decisions (Srinivasan, 2005; Desai et al., 2006; Hiller and McColgna, 2009): the percentage of family members as directors (FCON), the percentage of managers as directors (EDIR), the level of shareholding concentration of dominant shareholders (CRITI), ROA, stock returns (STOCK), firm size (SIZE), leverage ratios (LEV) and sales growth rate (GROW). All control variables were measured in the beginning of the year of mandatory restatement announcement, except for firm performance. For a given turnover year, performance variables were lagged to reflect firm performance in the prior year. For a given time window of turnover, this paper computed average values of firm performance over multiple years by summing the values of firm performance in the year preceding the turnover year in the turnover time window and averaging these sums across firms. The logistic regression model is shown as follows.

$$FSPEP = \alpha 1 + \beta_2 FOWN + \beta_3 FCON + \beta_4 EDIR + \beta_5 CRITI + \beta_6 ROA + \beta_7 STOCK + \beta_8 SIZE + \beta_9 LEV + \beta_{10} GROW + \varepsilon$$

Table 2 shows the variable descriptions.

Table 2. Variable definitions.

Dependent variables	**Definition**
FSPEP	A variable measures the turnover of related parties of financial statements. We examined the turnover for nine groups: top management (TMT) (including chairman, CEO and financial executives), the chairman (CHAIR), CEO, financial executives (FINC), outside directors (OUTDR), firm auditors (AUDIT) (including supervisors, internal auditors and external auditors), supervisors (SUPIV), internal auditors (INAUD) and external auditors (EXAUD). For turnover in a given year (in a given time window), FSPEP is an indicator variable that equals 1 if there was any change for each group of officers, outside directors or auditors in a given year (in any year of a given time window) and 0 otherwise.
Independent variables	**Definition**
RESTATE	Mandatory restatements, defined as an indicator variable equals 1 if the firm was externally prompted to restate financial statements (mandatory restatements) and 0 if the firm did not restate financial statements.
FOWN	Family ownership, defined as the shareholding of family members.
Control variables	**Definition**
FCON	The percentage of family members as directors.
EDIR	The percentage of managers as directors.
CRITI	The level of shareholding concentration of dominant shareholders, measured by the Herfindahl index: the sum of the squares of shareholding by dominant shareholders in a firm. $\text{CRITI} = \sum_{i=1}^{n} \left[\frac{S_i}{N_i} \right]^2 N_i$ S_i = the shareholding of dominant shareholder *i*. N_i = the number of dominant shareholders *i*.
ROA	The return of assets, defined as operating income after depreciation scaled by average assets.
STOCK	Raw buy-and-hold returns (including dividends and capitalization adjustments).
SIZE	Firm size, defined as the natural log of market capitalization.
LEV	The leverage ratio, defined as the ratio of total liabilities divided by total assets.
GROW	The sales growth rate, defined as the average annual sales growth rate for 2 years prior to the year of mandatory restatement announcement.

Table 3. Descriptive statistics.

Variables	Mandatory		Control		Differences	
	Mean	Median	Mean	Median	Mean (t value)	Median (z value)
FOWN (%)	21.31	17.94	25.28	19.38	-0.479	-0.536
FCON	0.65	0.60	0.68	0.67	-1.077	-1.204
EDIR	0.11	0.07	0.08	0.00	1.042	-1.056
CRITI (%)	11.33	10.10	12.99	11.86	-1.065	-1.133
ROA (%)	-6.87	-4.20	0.57	1.60	-1.781*	-1.788*
STOCK (%)	-9.30	-31.59	-10.49	-18.28	0.085	-0.655
SIZE	6.18	6.28	6.18	6.31	-0.004	-0.120
LEV	0.54	0.52	0.43	0.45	2.016**	-2.302**
GROW (%)	16.61	2.80	3.17	2.88	1.074	-0.500
BFIRM	0.26	1.00	0.52	1.00	-2.902***	-2.740***
ODP	0.39	0.40	0.51	0.30.	-0.735	-0.296
BIZE	8.84	6.00	7.94	7.00	0.772	-1.360
DUAL	0.42	0.00	0.48	0.00	-0.503	-0.506

Mandatory refers to mandatory restatement firms and Control refers to control firms. BFIRM equals 1 if the firm hires a Big 4 audit firm and 0 otherwise. ODP refers to the percentage of outside directors. BIZE refers to the board size. DUAL refers to CEO duality, an indicator variable that equals 1 if the CEO also serves the chairman of the board and 0 otherwise. Other variables are defined as Table 2. *, **, and *** denote significance at the 0.1, 0.05 and 0.01 levels, respectively.

RESULTS FOR TESTS

Univariate analysis

Table 3 shows descriptive statistics of the variables in logistic regression models and the board composition variables for mandatory restatement firms and their matched non-restatement firms, as well as differences between the groups. The board composition variables include the percentage of outside directors (ODP), the board size (BIZE) and the CEO duality (DUAL). According to the average of the board composition in mandatory restatement firms, outside directors comprise 39% of the board of directors, the board size is big (8 directors) and the case of CEO duality is common (0.42). Consistent with restatement studies (Agrawal and Chadha, 2005), restatement firms compared to non-restatement firms have higher leverage ratios (LEV) ($p < 0.05$) and have worse ROA ($p < 0.1$). However, this paper did not find significant differences in stock return (STOCK), firm size (SIZE), sales growth rate (GROW) and the board composition (ODP, BIZE and DUAL) between the groups.

This paper also examined turnover differences of related parties of financial statements between mandatory restatement firms and their matched control firms (not reported due to simplicity). The findings indicated that related parties of financial statements in mandatory restatement firms relative to non-restatement firms change more frequently in multiple years, particularly year -1 and year 0. Before providing the examination on the consequences of mandatory restatements and family ownership to the forced turnover of related parties of financial statements, this paper reported a correlation matrix of the variables in logistic regression models and board composition variables shown in Table 4. RESTATE is significantly positively related to the turnover of TMT, CEO ($p < 0.05$) and FINC and LEV ($p < 0.1$). FAOWN is significantly negatively related to the turnover of FINC ($p < 0.1$) and is significantly positively related to CRITI ($p < 0.05$), ROA and STOCK ($p < 0.1$).

Pertaining to the board composition, ODP is significantly positively related to the turnover of EXAUD ($p < 0.05$) and SUPIV ($p < 0.1$). BSIZE is significantly negatively related to the turnover of FINC ($p < 0.1$) whereas is significantly positively related to FCON ($p < 0.1$) and EDIR ($p < 0.05$). Besides, DUAL is significantly negatively related to FCON ($p < 0.01$) and EDIR ($p < 0.01$). The inter-correlation among all explanatory variables is lower than 0.7, indicating that there exist no serious multicollinearity problems.

The above results suggest that mandatory restatements may be positively associated with the restatement firms' replacement for particular related parties of financial statements and family members with high ownership have high incentive and ability to prevent particular related parties of financial statements from being replaced. In addition, the findings also reveal that strong boards facilitate the removal of particular related parties of financial statements who cannot carry out their accountability in firms whereas weak boards deter their removal.

Table 4. Correlation matrix.

	RESTATE	TMT	CHAIR	CEO	FINC	OUT	EXAUD	SUPIV	INAUD	AUDIT	FOWN	FCON	EDIR	CRITI	ROA	STOCK	SIZE	LEV	GROW	ODP	BIZE	DUAL
RESTATE	1																					
TMT	0.345**	1																				
CHAIR	0.153	0.517**	1																			
CEO	0.351**	0.635**	0.121	1																		
FINC	0.296*	0.583**	0.235	0.256*	1																	
OUT	0.071	0.319*	0.221	0.106	0.075	1																
EXAUD	0.218	0.241	0.400**	0.005	0.276*	0.151	1															
SUPIV	0.127	0.221	0.235	0.141	0.116	0.354**	0.134	1														
INAUD	0.051	0.190	0.034	0.121	0.501**	-0.004	-0.117	0.101	1													
AUDIT	0.207	0.336**	0.408**	0.073	0.402**	0.243	0.474**	0.673**	0.517**	1												
FOWN	-0.136	-0.191	-0.163	-0.040	-0.306*	0.056	-0.167	-0.039	-0.012	-0.119	1											
FCON	-0.062	-0.012	-0.084	0.159	-0.139	0.044	-0.064	0.010	0.003	-0.044	0.176	1										
EDIR	0.133	-0.129	-0.151	0.068	0.029	-0.296*	-0.025	-0.241	0.066	-0.100	-0.012	-0.087	1									
CRITI	-0.138	0.020	0.016	-0.019	-0.023	-0.058	-0.190	0.157	0.109	0.075	0.512**	-0.245	0.096	1								
ROA	-0.224	-0.209	-0.366**	-0.245	-0.365**	0.151	-0.195	0.016	-0.387**	-0.311*	0.273*	-0.094	0.076	0.283*	1							
STOCK	0.011	-0.035	-0.183	0.031	-0.119	0.236	-0.159	-0.136	-0.076	-0.256*	0.317*	0.060	-0.003	0.062	0.333**	1						
SIZE	-0.001	-0.174	-0.107	-0.042	-0.237	-0.112	-0.230	-0.181	-0.128	-0.229	-0.027	0.198	0.038	-0.205	0.100	0.011	1					
LEV	0.252*	0.176	-0.095	0.210	0.212	-0.058	0.189	0.213	0.107	0.229	-0.223	0.117	-0.069	-0.220	-0.424**	-0.184	0.072	1				
GROW	0.137	-0.012	-0.003	0.006	-0.076	-0.074	-0.072	-0.086	-0.122	-0.138	-0.133	-0.385**	-0.046	0.083	0.199	0.015	0.095	-0.056	1			
ODP	-0.094	-0.060	-0.033	-0.015	-0.060	0.201	0.305**	0.249*	-0.022	0.143	0.117	0.010	0.029	0.117	0.066	-0.084	-0.213	0.009	0.066	1		
BIZE	0.099	-0.044	-0.019	0.069	-0.234*	-0.093	0.188	-0.002	-0.176	-0.051	-0.101	0.236*	0.272**	-0.159	0.125	-0.030**	0.335**	-0.029	-0.080	0.177	1	
DUAL	-0.065	-0.141	-0.119	-0.134	0.088	-0.009	0.032	-0.167	0.086	-0.072	0.071	-0.340**	-0.445**	-0.010	0.027	0.072	-0.042	-0.057	0.021	0.043	-0.205	1

The turnover of related parties of financial statements was examined in year 0. Other variables were examined in year -1. Variables are defined as Table 2 and Table 3. *, **, and *** denote significance at the 0.1, 0.05 and 0.01 levels, respectively.

Multivariate analysis

An analysis of mandatory restatements and the forced turnover of related parties of financial statements

The examination showed that related parties of financial statements in mandatory restatement firms have frequent turnover in year 0, reported in Table 5. This paper also examined the turnover of related parties of financial statements in different time windows both with and without observing marginal effects of explanatory variables (not reported due to simplicity). Both the above results were almost consistent despite of Greene's (1999) suggestions and were similar to the findings examining the turnover in a particular year. The results indicated that mandatory restatement firms (RESTATEATE) have great turnover of TMT ($p<0.01$), CEO and FINC ($p<0.05$) in year 0 and gave great turnover of AUDIT ($p<0.1$) in years -2, -1 and +2. In addition, RESTATE is positively related to the turnover of TMT, CEO, AUDIT and SUPIV during the time window (-1, 0) ($p<0.05$) as well as the turnover of TMT and AUDIT during the time window (-2,-1) ($p<0.01$). \

In order to provide further support on these findings, this paper replaced four original control variables: FOWN, FCON, EDIR and CRITI with four new control variables in logistic regression

Table 5. Turnover in a given year – Logistic regression models.

Year 0									
Variable	**TMT**	**CHAIR**	**CEO**	**FINC**	**OUTDR**	**AUDIT**	**SUPIV**	**INAUD**	**EXAUD**
INTERCEPT	0.218	-1.934	-4.581	1.763	3.886	1.256	0.973	-3.808	10.093
RESTATE	1.932***	1.873	2.439**	2.563**	1.197	1.116	1.239	0.192	1.340
FOWN	-0.068*	-0.059	-0.023	-0.162**	0.007	-0.028	-0.039	-0.029	0.001
FCON	1.796	0.630	3.740	0.947	-0.225	0.385	1.494	1.206	-1.545
EDIR	-3.392	-9.446	2.463	0.803	-12.271**	-2.302	-10.792*	4.260	-0.827
CRITI	0.129*	0.162	0.088	0.198*	-0.043	0.102	0.153*	0.204	-0.251
ROA	-0.012	-0.150**	-0.022	-0.021	0.050	-0.027	0.056	-0.066*	0.013
STOCK	0.004	-0.011	0.002	0.004	0.010	-0.009	-0.010	0.008	-0.008
SIZE	-0.514	0.188	-0.461	-0.945	-0.591	-0.629	-0.988	-0.359	-1.811*
LEV	0.334	-8.761**	1.019	1.134	-0.593	0.834	2.744	0.130	2.123
GROW	-0.003	0.002	0.004	-0.013	-0.014	-0.009	-0.008	-0.020	-0.004
LR stat.	17.58	17.75	14.39	23.64	17.56	17.26	18.40	11.69	12.82
Probability	0.0625*	0.0593*	0.1558	0.0086***	0.0628*	0.0688*	0.0486**	0.3065	0.2341
Pseudo-R^2	0.2254	0.4061	0.2627	0.4078	0.2351	0.2213	0.3175	0.2673	0.3251
Year -2									
Variable	**TMT**	**CHAIR**	**CEO**	**FINC**	**OUTDR**	**AUDIT**	**SUPIV**	**INAUD**	**EXAUD**
RESTATE	0.078	1.103	-0.305	0.526	-0.353	1.223*	0.339	1.443	0.488
FOWN	0.067	-0.294**	0.023	-0.006	-0.023	0.021	0.058	-0.215	0.029
Year -1									
Variable	**TMT**	**CHAIR**	**CEO**	**FINC**	**OUTDR**	**AUDIT**	**SUPIV**	**INAUD**	**EXAUD**
RESTATE	0.256	0.882	-0.776	0.656	0.227	2.169*	1.443	0.935	0.435
FOWN	-0.046	-0.108	0.022	0.007	-0.005	-0.169**	-0.208**	0.010	0.008
Year +1									
Variable	**TMT**	**CHAIR**	**CEO**	**FINC**	**OUTDR**	**AUDIT**	**SUPIV**	**INAUD**	**EXAUD**
RESTATE	-0.460	0.447	-1.715	0.262	-1.050	-0.889	-0.169	-0.213	0.312
FOWN	-0.040*	-0.048	-0.026	-0.058*	0.011	-0.017	-0.097**	0.004	-0.095
Year +2									
Variable	**TMT**	**CHAIR**	**CEO**	**FINC**	**OUTDR**	**AUDIT**	**SUPIV**	**INAUD**	**EXAUD**
RESTATE	0.547	-0.503	-0.437	0.666	-0.193	1.080*	1.213	-0.911	2.607
FOWN	-0.039*	0.013	-0.099*	-0.074*	-0.084**	-0.022	-0.001	-0.063	0.083**

The turnover of related parties of financial statements was examined for years -2 to +2, where 0 is the year of mandatory restatement announcement. Year -1 and year -2 (year +1 and year +2) refer to one year and two years before (after) the year of mandatory restatement announcement, respectively. This table only reports complete statistics in year 0 due to simplicity. Variables are defined as Table 2. *, **, and *** denote significance at the 0.1, 0.05 and 0.01 levels, respectively. The t-values, based on White's heteroskedasticity-consistent standard errors, are reported.

models. New control variables were adopted based on prior restatement literature (Agrawal and Chadha, 2005), including two board composition variables examined in Table 3 (ODP and DUAL) and another two variables: the shareholding of blockholders and management shareholding. Consistent with original findings, the further analysis (not reported in a tabular form) showed that RESTATE is significantly positively associated with the turnover ot TMT, CEO and FINC in year 0 ($p<0.05$) as well as the turnover of CEO ($p<0.1$) and AUDIT ($P<0.05$) in the time window (-1,0). Hence, as the findings on restatement research (Arthaud-day et al., 2006; Collins et al., 2009), the positive association between mandatory restatements and the forced turnover of related parties of financial statements received partial support in the context of Taiwan. Moreover, the relationship between the board composition and the forced turnover of related parties of financial statements indicated that ODP is significantly positively related to the turnover of TMT, CEO, FINC, OUTDR, SUPIN, INAUD and EXAUD in a particular year

and DUAL is significantly negatively related to the turnover of TMT, OUTDR, AUDIT, SUPIN, INAUD and EXAUD in a particular year (not reported in a tabular form). Prior literature demonstrated the advantages of an independent board (Agrawal and Chadha, 2005; Srinivasan, 2005; Wang et al., 2010). These findings suggested that firms with independent boards (dependent boards) tend to approve (disapprove) the firms' replacement for particular related parties of financial statements who cannot carry out their accountability in firms, which further supports that good business ethics depends a lot on strong corporate governance quality.

An analysis of family ownership and the forced turnover of related parties of financial statements

The examination on the relationship between family ownership and the forced turnover of related parties of financial statements in a particular year was reported in Table 5. The relationship between family ownership and the forced turnover of related parties of financial statements in different time windows was also investigated (not reported due to simplicity). The results indicated that family ownership (FOWN) is significantly negatively related to the turnover of TMT, CEO, FINC, OUTDR, AUDIT, SUPIV and EXAUD. As the restatement is one of the factors to lead to the forced turnover of related parties of financial statements, this paper focused on mandatory restatement firms to re-examine the association between family ownership and the forced turnover of related parties of financial statements (not reported in a tabular form). Accordingly, the restatement variable: RESTATE was dropped in logistic regression models. The findings indicated that family ownership is significantly negatively related to the turnover of TMT, FINC, AUDIT and SUPIV in year -1 and year +2 and the turnover of TMT and FINC in year 0.

Generally, the results in the further analysis were consistent with the results in major analysis, indicating that family members with high ownership would unethically deter the forced turnover of particular related parties of financial statements in the setting of Taiwan. The findings were generally consistent with the evidence from Taiwan, supporting that family members entrench rather than commit to good governance (Yeh and Woidtke, 2005) -- family members would be entrenched in firms' replacement decisions (Hillier and McColgan, 2009) via their ownership interest. In both analyses of the effects of mandatory restatements and family ownership on the forced turnover of related parties of financial statements, the results did not show that the coefficient for the percentage of family members as directors (FCON) is significantly negative. However, the percentage of managers as directors (EDIR) is significantly negatively related to the turnover of particular related parties of financial statements. Higher shareholding concentration of dominant shareholders (CRITI) facilitates firms to replace particular related parties of financial statements who do not carry out their responsibilities. Poor-performing firms (proxied for ROA and STOCK) tend to replace particular related parties of financial statements. Firm size (SIZE), leverage ratio (LEV) and sales growth rate (GROW) are significantly negatively associated with the turnover of particular related parties of financial statements.

Conclusion

Concern for ethics and morality in business is growing (Dorasamy, 2010). The wake of corporate collapses drives the sustained ethically sensitive interest and thus highlights the understanding on ethical responsibilities of related parties of financial statements to firms' stakeholders (Almer et al., 2008). Compared to other types of financial manipulations such as earnings management (Wang et al., 2010), the restatement has a higher level of financial manipulation and receives more interest in recent literature dealing with accounting scandals (Bewley et al., 2008; Collins et al., 2009). Among the restatements, mandatory restatements provide highly visible targets for blame (Srinivasan, 2005). This motivated the current paper to examine whether Taiwanese firms discipline related parties of financial statements in the reveal of mandatory restatements. Furthermore, most Taiwanese firms are family firms. The evidence from Taiwan widely supports that family members tend to expropriate the interests of minority shareholders to achieve family benefits (Filatotchev et al., 2005; Yeh and Woidtke, 2005). While intervening in firms' replacement decisions is one of essential ways for family members to attain their goals (Hillier and McColgan, 2009), this paper also explored whether family ownership negatively affects the forced turnover of related parties of financial statements in the setting of Taiwan. Similar to the findings of prior research (Desai et al., 2006; Collins et al., 2008), the results showed that mandatory restatements lead to the removal of top management, the CEO, financial executives, and firm auditors. However, this paper failed to find great turnover of the chairman, outside directors, supervisors, internal auditors and external auditors in mandatory restatement firms. The results suggested that Taiwanese firms experiencing mandatory restatements are less motivated to penalize related parties of financial statements due to deteriorated business ethics. Passive shareholder activism and the cost and benefit of the forced turnover of related parties of financial statements may also be potential considerations for mandatory restatement firms. Hence, only related parties of financial statements who have more capacity to influence financial reporting are more likely to be replaced in the reveal of the restatements.

Consistent with previous literature (Hillier and McColgan, 2009), this research associated family ownership with decreased forced turnover of top

management, financial executives, firm auditors and supervisors, which was further supported when examining mandatory restatement firms. The findings revealed that high family ownership enhances family members' opportunism in firms' replacement decisions and may in turn harm business operations. Corporate failure, including financial reporting failure, is widely attributed to poor ethical business behaviour. Acceptable business ethical behaviour mainly depends on corporate governance quality. The board is generally regarded as the core of corporate governance (Arthaud-Day et al., 2006; Almer et al., 2008). Hence, an independent board can assure good ethical business behaviour--help limit the selfish behaviour of managers or family members. The board can enhance independence via increasing the percentage of outside directors or separating the chairman and CEO roles (Agrawal and Chadha, 2005; Kang, 2008; Wang et al., 2010). The supplementary findings in this paper showed that outside directors and the separation of positions of the chairman and CEO both facilitate the removal of those who cannot carry out their responsibilities in firms, revealing that independent boards are helpful in directing acceptable ethical business behaviour (Filatotchev et al., 2005; Holder-Webb and Cohen, 2007; Certo et al., 2008; Valenti, 2008).

This paper contributes to the literature and practices in three ways. Firstly, this paper advances knowledge of the impact of mandatory restatements to different groups of related parties of financial statements in Taiwanese firms in a long time window. Taiwanese firms with mandatory restatements provide unique settings to examine this issue due to low business ethics awareness (Ip, 2008). Secondly, prior literature has drawn from legitimacy theory and signal theory to explain the value of ethical management (De Villiersa and Van Staden, 2006; Kang, 2008). The findings indicated that only particular related parties of financial statements were penalized in the reveal of mandatory restatements. The results provided empirical evidence on the deterioration of business ethics and revealed that Taiwanese firms experiencing mandatory restatements have not fully recognized the value of ethical management. Legitimacy theory and signal theory appear to receive limited support. Private penalties for related parties of financial statements are not stringent enough to restrict their inadequate behaviour. Taiwanese security regulators should aim to popularize the value of business ethics and strengthen the accountability of related parties of financial statements to assure reliable financial disclosure. Thirdly, by examining replacement dilemmas faced by Taiwanese firms experiencing mandatory restatements, the results lend support for Taiwanese regulators to disclose turnover information about related parties of financial statements. Besides, the results suggest that investors can identify the degree of the efforts of firms involving in accounting scandals to improve financial reporting credibility via examining post-scandal actions taken by the firms.

Fourthly, Taiwan has the prevalence of family control (Filatotchev et al., 2005; Yeh and Woidtke, 2005) and few ethical business practices (Ip, 2008) and thus provides a unique setting for researchers to examine the moral hazard between family members and minority shareholders. This paper complements the lack of ethics literature on family management issues through examining entrenched effect of family ownership on firms' replacement decisions for related parties of financial statements. This paper provided evidence that family members with great shareholding would unethically deter the forced turnover of related parties of financial statements. The investigation provides a reference for Taiwanese security regulators to evaluate family management. Taiwanese security regulators should consider designing particular governance practices for family firms due to the unique roles that family members play in business operations. They should also popularize awareness of ethical governance to family members to motivate family members, to make a better tradeoff between family benefits and business benefits rather than making self-serving decisions. With increasing attention on the outbreak of accounting scandals in family firms, the quality of family management has become an essential consideration for Taiwanese investors in choosing investment objects. Family members, while enhancing their control in business operations, need to assure that investors have willingness to invest.

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