Auditor Tenure, Institutional Ownership, and Financial Statement Quality: Evidence from Emerging Markets

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ABSTRACT

Concerns over financial reporting quality (FRQ) have intensified in recent years following repeated cases of earnings manipulation and audit-related controversies. In emerging markets such as Indonesia—where ownership concentration is common and regulatory enforcement may vary—the credibility of financial reporting becomes particularly important. Reliable reporting is not merely a compliance requirement; it is fundamental to investor trust and capital market stability. Drawing on Agency Theory (Jensen & Meckling, 1976), governance mechanisms are viewed as instruments to mitigate information asymmetry between managers and shareholders. Auditor tenure and institutional ownership represent two structural monitoring mechanisms that may influence reporting discipline. However, prior empirical evidence remains inconclusive. Kamarudin et al. (2021) find that longer auditor tenure enhances reporting quality due to accumulated client-specific knowledge, whereas Aly et al. (2023) report that extended tenure may weaken auditor independence and reduce audit quality. Similarly, institutional ownership is generally associated with stronger monitoring (Saleh et al., 2022), yet its effectiveness may vary depending on firm-specific conditions.

JEL Codes:

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