



Corporate Governance Practices, Risk Management Effectiveness, and Earnings Quality: Evidence from Listed Companies

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Corporate governance plays a significant role in ensuring transparency, accountability, and the reliability of financial reporting in modern corporations. This study examines the relationship between corporate governance practices, risk management effectiveness, and earnings quality among listed companies in India. The primary objective is to analyze how corporate governance mechanisms influence risk management practices and improve the quality of reported earnings. The study adopts an analytical research design using secondary data collected from the annual reports and financial statements of 120 non-financial companies listed on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) during the period 2014–2023. Panel data regression analysis is employed to examine the relationship among corporate governance variables, firm performance, risk management effectiveness, and earnings quality. Corporate governance is measured through variables such as board size, board independence, audit committee effectiveness, and ownership structure, while firm performance and earnings quality are assessed using Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. Earnings management is measured through discretionary accruals as a proxy for earnings quality. The empirical results reveal that strong corporate governance practices have a positive and statistically significant impact on firm performance and earnings quality ($\beta = 0.34$, $p < 0.05$). The findings also indicate that companies with higher board independence and effective audit committees experience lower levels of discretionary accruals, reducing earnings manipulation by approximately 18%. Furthermore, the results show that effective risk management practices significantly reduce firm risk and enhance financial reporting transparency. The study concludes that robust corporate governance mechanisms strengthen risk management systems and improve the credibility of financial information. These findings provide important implications for corporate boards, regulators, and investors in India to strengthen governance structures and promote sustainable corporate performance.

Keywords: *Corporate Governance, Risk Management, Earnings Quality, Firm Performance, Financial Reporting Quality.*



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1. Introduction

In recent years, corporate governance has gained significant attention as a critical mechanism for enhancing transparency, accountability, and the credibility of financial reporting in modern corporations. Effective corporate governance ensures that management actions are aligned with shareholders' interests and helps mitigate agency conflicts arising from the separation of ownership and control. Strong governance structures, including an independent board of directors and effective audit committees, play a vital role in monitoring managerial behavior and improving the reliability of financial information (Bajra & Cadez, 2018; Abbadi et al., 2016). Moreover, the growing number of corporate scandals such as Enron and WorldCom has emphasized the need for robust governance systems to prevent financial manipulation and restore investor confidence.

Earnings quality is a crucial indicator of a firm's financial health and reflects the extent to which reported earnings accurately represent the underlying economic performance of a company. High-quality earnings provide reliable and decision-useful information to investors, while poor earnings quality often results from earnings management practices, where managers manipulate financial reports to achieve personal or organizational objectives (Rezaee & Safarzadeh, 2023). Prior studies have documented that weak corporate governance mechanisms are associated with higher levels of earnings management, thereby reducing the credibility of financial reporting (Melgarejo, 2019; Shahzad et al., 2023).

In addition to corporate governance, risk management effectiveness has emerged as a significant determinant of financial reporting quality. Risk management systems, particularly through specialized committees such as the Risk Management Committee (RMC), help organizations identify, assess, and mitigate potential risks that may affect financial performance and reporting accuracy. Effective risk management practices enhance internal control systems and reduce the likelihood of financial misstatements and opportunistic managerial behavior (Musa & Ibrahim, 2024; Yahaya, 2026). Empirical evidence suggests that firms with strong risk management frameworks exhibit lower levels of discretionary accruals, indicating

improved earnings quality and reduced earnings manipulation (Elhaj et al., 2022; Dagunduro et al., 2025).

2. Background of the study

Corporate governance has become a central theme in modern financial and managerial research due to its critical role in ensuring transparency, accountability, and the integrity of financial reporting. The increasing complexity of business operations, coupled with the separation of ownership and control, has intensified agency conflicts between managers and shareholders. As a result, effective corporate governance mechanisms such as board independence, audit committee effectiveness, and ownership structures are essential to monitor managerial actions and safeguard stakeholders' interests (Bajra & Cadez, 2018; Abbadi et al., 2016). High-profile corporate scandals, including Enron and WorldCom, have further reinforced the importance of strong governance frameworks in preventing financial misreporting and restoring investor confidence.

Earnings quality is widely regarded as a key indicator of a firm's financial reporting reliability and overall performance. It reflects the extent to which reported earnings accurately capture the firm's true economic condition and are free from manipulation. However, managers often engage in earnings management practices either through accrual-based adjustments or real operational decisions to meet performance targets or influence stakeholders' perceptions. Such practices reduce the credibility of financial statements and can mislead investors and regulators (Rezaee & Safarzadeh, 2023; Shahzad et al., 2023). Prior studies have consistently shown that weak corporate governance structures are associated with higher levels of discretionary accruals and lower earnings quality (Melgarejo, 2019).

In recent years, risk management effectiveness has emerged as another important dimension influencing financial reporting quality. Organizations are increasingly adopting structured risk management frameworks to identify, assess, and mitigate financial and operational risks. The establishment of specialized committees, such as Risk Management Committees (RMCs), reflects a growing recognition of the need for dedicated oversight of risk-related issues. Effective risk management practices enhance

internal control systems, reduce information asymmetry, and limit opportunities for managerial opportunism, thereby improving earnings quality (Musa & Ibrahim, 2024; Yahaya, 2026). Empirical evidence suggests that firms with strong risk management mechanisms exhibit lower levels of earnings manipulation and more reliable financial reporting (Elhaj et al., 2022; Dagunduro et al., 2025).

Despite these developments, the interaction between corporate governance practices, risk management effectiveness, and earnings quality remains complex and not fully understood, particularly in emerging economies like India. While regulatory reforms and governance codes have strengthened corporate oversight mechanisms, challenges related to financial transparency and earnings manipulation persist. Therefore, examining how corporate governance structures influence risk management effectiveness and, in turn, enhance earnings quality is essential for improving the credibility of financial reporting and promoting sustainable corporate performance.

3. Problem Statement

Despite significant advancements in corporate governance regulations and practices, earnings management continues to be a persistent issue affecting the reliability and transparency of financial reporting. Managers often exploit the flexibility in accounting standards to manipulate earnings through discretionary accruals or real activities, thereby distorting the true financial performance of firms. Such practices undermine investor confidence, increase information asymmetry, and may lead to inefficient allocation of resources in capital markets (Rezaee & Safarzadeh, 2023; Shahzad et al., 2023). This problem is particularly pronounced in emerging economies like India, where governance enforcement mechanisms are still evolving.

While prior studies have established that strong corporate governance mechanisms such as board independence and effective audit committees can reduce earnings management, the empirical evidence remains mixed and inconclusive across different institutional settings (Bajra & Cadez, 2018; Abbadi et al., 2016). Some studies suggest that governance structures significantly constrain managerial opportunism, whereas others indicate that these mechanisms

may be symbolic and insufficient to ensure high-quality financial reporting. This inconsistency highlights a critical gap in understanding how governance mechanisms function in practice.

Moreover, the role of risk management effectiveness as a complementary governance mechanism has received relatively limited attention in the literature. Although recent studies emphasize the importance of risk management committees and internal control systems in mitigating financial misreporting, there is insufficient empirical evidence on how risk management interacts with corporate governance practices to influence earnings quality (Musa & Ibrahim, 2024; Elhaj et al., 2022). In many organizations, risk management and financial reporting are treated as separate functions, which may weaken their combined effectiveness in controlling managerial opportunism.

4. Research gap

Although extensive research has examined the relationship between corporate governance and earnings quality, the findings remain fragmented and context-dependent. Prior studies have largely focused on the direct impact of governance mechanisms such as board independence, audit committees, and ownership structure on earnings management, often reporting mixed and inconclusive results across different institutional settings (Bajra & Cadez, 2018; Abbadi et al., 2016). This suggests that corporate governance alone may not fully explain variations in earnings quality.

In recent years, scholars have begun to recognize the importance of risk management effectiveness, particularly through mechanisms such as Risk Management Committees, in enhancing financial reporting quality. Empirical evidence indicates that effective risk oversight can reduce discretionary accruals and limit managerial opportunism (Elhaj et al., 2022; Musa & Ibrahim, 2024; Yahaya, 2026). However, most of these studies examine risk management as an independent factor rather than as an integrated component of the broader corporate governance framework.

Furthermore, the potential mediating role of risk management effectiveness in the relationship between corporate governance and earnings quality remains underexplored. Existing literature tends to treat governance and risk

management as separate constructs, without adequately investigating how they interact to influence financial reporting outcomes. This lack of integration creates a theoretical and empirical gap in understanding the combined effect of these mechanisms.

5. Objectives of the study

- To analyze the impact of corporate governance practices on earnings quality among listed companies.
- To examine the effect of corporate governance mechanisms on risk management effectiveness, particularly in terms of strengthening internal controls and risk oversight.
- To evaluate the relationship between risk management effectiveness and earnings quality, with a focus on reducing earnings management practices.
- To investigate the mediating role of risk management effectiveness in the relationship between corporate governance practices and earnings quality.
- To assess the influence of corporate governance and risk management on firm performance, measured through indicators such as ROA, ROE, and Tobin's Q.

6. Significance of the study

This study is significant as it contributes to both the academic literature and practical understanding of the relationship between corporate governance practices, risk management effectiveness, and earnings quality. By integrating these three dimensions into a single analytical framework, the study offers a more comprehensive perspective on the determinants of financial reporting quality, particularly in the context of emerging economies such as India.

From a theoretical perspective, this research extends existing literature by examining the mediating role of risk management effectiveness in the relationship between corporate governance and earnings quality. While prior studies have largely treated these variables independently, this study provides an integrated approach that enhances the understanding of how governance mechanisms and risk oversight jointly influence financial reporting outcomes. In doing so, it contributes to the development of agency theory and stakeholder theory by demonstrating

how effective monitoring and risk control mechanisms can reduce managerial opportunism and improve transparency.

From a practical perspective, the findings of this study offer valuable insights for corporate boards, management, and investors. The results highlight the importance of strengthening governance structures such as increasing board independence and improving audit committee effectiveness to enhance risk management systems and reduce earnings manipulation. For investors, improved earnings quality provides more reliable information for decision-making, thereby reducing investment risk and enhancing market confidence.

From a policy and regulatory perspective, the study provides important implications for regulators and policymakers in India. The findings support the need for stricter enforcement of corporate governance codes and the promotion of effective risk management frameworks within listed companies. Strengthening these mechanisms can improve financial reporting transparency, protect shareholder interests, and contribute to the stability and efficiency of capital markets.

7. Literature Review

Corporate governance refers to the system of rules, practices, and processes by which companies are directed and controlled to ensure accountability, transparency, and fairness in business operations. Effective corporate governance mechanisms, such as board independence, audit committee effectiveness, and ownership structure, play a critical role in monitoring managerial actions and protecting shareholders' interests. According to [Bajra and Cadez \(2018\)](#), strong governance structures significantly reduce earnings manipulation by enhancing oversight and internal control systems. Similarly, [Abbadi et al. \(2016\)](#) found that improved governance quality is negatively associated with earnings management, suggesting that effective governance mechanisms constrain opportunistic managerial behavior.

In emerging markets, where institutional frameworks are relatively weak, corporate governance becomes even more crucial in ensuring financial reporting quality. [Rezaee and Safarzadeh \(2023\)](#) emphasize that governance mechanisms not only enhance transparency but

also influence managerial behavior by promoting ethical decision-making. Therefore, corporate governance serves as a fundamental tool for improving the credibility and reliability of financial statements.

Earnings quality reflects the extent to which reported earnings accurately represent a firm's true financial performance and are free from manipulation. High-quality earnings provide relevant and reliable information for decision-making, whereas low-quality earnings often result from earnings management practices. Earnings management involves the use of accounting discretion or real activities to influence reported earnings in order to meet specific targets or expectations (Shahzad et al., 2023).

Prior research has extensively documented the negative implications of earnings management on financial reporting quality. Melgarejo (2019) found that firms with weak governance structures are more likely to engage in earnings manipulation, leading to lower earnings quality. Similarly, Asghar et al. (2020) highlight that discretionary earnings management can distort the relationship between corporate governance and firm value. These findings suggest that controlling earnings management is essential for maintaining the integrity of financial reporting systems.

Risk management effectiveness refers to the ability of an organization to identify, assess, and mitigate potential risks that may affect its operations and financial performance. In recent years, firms have increasingly adopted structured risk management frameworks, often supported by dedicated Risk Management Committees (RMCs), to strengthen internal controls and enhance decision-making processes. Musa and Ibrahim (2024) argue that effective risk management practices play a crucial role in reducing financial misreporting by improving monitoring and oversight functions.

Empirical evidence supports the positive impact of risk management effectiveness on financial reporting quality. Elhaj et al. (2022) found that firms with well-structured risk management committees exhibit lower levels of real earnings management, indicating improved reporting quality. Similarly, Yahaya (2026) demonstrates that the presence of risk management committees significantly enhances earnings quality by reducing discretionary

accruals. These findings highlight the importance of risk management as a complementary governance mechanism that strengthens financial transparency.

The relationship between corporate governance and earnings quality has been widely examined in the literature. Strong governance mechanisms are expected to reduce information asymmetry and limit managerial opportunism, thereby improving the quality of reported earnings. Bajra and Cadez (2018) provide empirical evidence that firms with high governance quality exhibit lower levels of earnings management. Likewise, Abbadi et al. (2016) find that effective board structures and audit committees play a significant role in enhancing financial reporting integrity.

However, some studies report mixed findings, suggesting that the effectiveness of governance mechanisms may depend on institutional and regulatory contexts. For instance, in certain emerging markets, governance structures may be implemented only to comply with regulatory requirements rather than to improve actual monitoring effectiveness. This inconsistency indicates the need for further research to better understand the conditions under which governance mechanisms influence earnings quality.

Risk management effectiveness has gained increasing attention as a determinant of earnings quality. Effective risk management systems help organizations identify financial reporting risks and implement appropriate controls to mitigate them. Dagunduro et al. (2025) found that firms with strong risk management practices demonstrate improved earnings quality and reduced financial misstatements. Similarly, Elhaj et al. (2022) show that risk management committee attributes, such as size and expertise, are negatively associated with earnings management.

Furthermore, Yahaya (2026) provides evidence that the presence of risk management committees enhances earnings quality by promoting conservative accounting practices and reducing opportunistic behavior. These findings suggest that risk management plays a vital role in ensuring the reliability of financial reporting.

Corporate governance and risk management are closely interconnected, as governance structures provide the framework within which risk management practices operate.

Effective governance mechanisms ensure that risk management systems are properly designed and implemented to address potential financial and operational risks. [Musa and Ibrahim \(2024\)](#) argue that the establishment of independent and competent board committees enhances risk oversight and improves the overall effectiveness of risk management processes.

8. Theoretical Framework

This study is grounded in well-established theories of corporate governance and financial reporting, primarily Agency Theory, Stakeholder Theory, and Stewardship Theory. These theoretical perspectives provide a foundation for understanding how corporate governance practices and risk management effectiveness influence earnings quality.

8.1 Agency Theory

Agency theory, developed by [Jensen and Meckling \(1976\)](#), explains the conflict of interest that arises from the separation of ownership and control in modern corporations. In this relationship, managers (agents) may pursue personal interests at the expense of shareholders (principals), leading to opportunistic behavior such as earnings management. This creates information asymmetry, where managers possess more information about the firm's performance than external stakeholders.

Corporate governance mechanisms such as board independence, audit committees, and ownership structures serve as monitoring tools to reduce agency conflicts and align managerial actions with shareholders' interests. Effective governance structures limit managerial discretion and reduce the likelihood of financial misreporting ([Bajra & Cadez, 2018; Abbad et al., 2016](#)). In addition, risk management effectiveness further strengthens this monitoring process by identifying and mitigating risks associated with financial reporting, thereby reducing earnings manipulation ([Musa & Ibrahim, 2024](#)).

Thus, agency theory supports the argument that stronger corporate governance and effective risk management systems lead to higher earnings quality by minimizing opportunistic managerial behavior.

8.2 Stakeholder Theory

Stakeholder theory posits that organizations are responsible not only to shareholders but also to a broader group of stakeholders, including employees, customers, creditors, regulators, and society at large. According to this theory, firms must ensure transparency, accountability, and ethical behavior to maintain trust and long-term sustainability.

From this perspective, high-quality financial reporting is essential for meeting the information needs of stakeholders. Corporate governance mechanisms play a crucial role in ensuring that firms operate in a transparent and responsible manner. Effective governance structures promote accurate financial disclosures and reduce the likelihood of earnings manipulation, thereby enhancing stakeholder confidence ([Rezaee & Safarzadeh, 2023](#)).

Risk management effectiveness further supports stakeholder interests by ensuring that potential risks are properly identified and managed, reducing uncertainty and improving decision-making. Therefore, stakeholder theory explains how governance and risk management practices contribute to improved earnings quality and organizational credibility.

8.3 Stewardship Theory

Stewardship theory provides an alternative perspective to agency theory by suggesting that managers are not always self-interested but may act as responsible stewards of organizational resources. According to this theory, managers are motivated to act in the best interests of the organization and its stakeholders, aiming to achieve long-term success rather than short-term personal gains.

In this context, corporate governance mechanisms are not only control mechanisms but also supportive structures that enhance managerial effectiveness. Well-designed governance systems enable managers to perform efficiently by providing clear roles, responsibilities, and accountability frameworks. Similarly, effective risk management practices support managerial decision-making by providing structured approaches to handling uncertainty and risk.

Under stewardship theory, strong governance and risk management systems enhance organizational performance and improve

the quality of financial reporting by encouraging responsible managerial behavior.

8.4 Integration of Theories

The integration of these theories provides a comprehensive framework for understanding the relationships examined in this study. Agency theory emphasizes the need for monitoring mechanisms to control managerial opportunism, stakeholder theory highlights the importance of transparency and accountability to a broader audience, and stewardship theory focuses on the positive role of management in achieving organizational goals.

Together, these theories support the proposition that corporate governance practices and risk management effectiveness play a complementary role in enhancing earnings quality. While governance mechanisms provide oversight and control, risk management systems strengthen internal processes, resulting in more reliable and transparent financial reporting.

9. Conceptual Framework

The conceptual framework of this study illustrates the relationship between corporate governance practices, risk management effectiveness, and earnings quality among listed companies. It is developed based on the theoretical foundations of agency theory, stakeholder theory, and stewardship theory, which collectively explain how governance and risk oversight mechanisms influence financial reporting outcomes.

In this framework, corporate governance practices serve as the primary independent variable. These practices are represented through key mechanisms such as board size, board independence, audit committee effectiveness, and ownership structure. These elements are expected to enhance monitoring, reduce information asymmetry, and limit managerial opportunism, thereby improving the overall governance environment of the firm.

Risk management effectiveness is introduced as a mediating variable in this study. It reflects the organization's ability to identify, assess, and mitigate financial and operational risks through structured systems and oversight mechanisms. Effective risk management strengthens internal controls, enhances decision-making, and reduces the likelihood of financial

misstatements. It is expected that strong corporate governance practices positively influence the effectiveness of risk management systems.

The dependent variable in this framework is earnings quality, which represents the reliability and accuracy of financial reporting. Earnings quality is measured using discretionary accruals, where lower levels indicate reduced earnings management and higher reporting quality. Effective governance and risk management are expected to improve earnings quality by constraining managerial discretion and ensuring transparent financial disclosures.

Additionally, the framework incorporates control variables, such as firm size, leverage, and firm performance (ROA, ROE, and Tobin's Q), as these factors may influence earnings quality independently of governance and risk management practices.

The conceptual framework proposes both direct and indirect relationships:

- A direct relationship between corporate governance practices and earnings quality
- An indirect (mediated) relationship where corporate governance influences earnings quality through risk management effectiveness
- A direct relationship between risk management effectiveness and earnings quality

10. Research Methodology

This study adopts an analytical and quantitative research design to examine the relationship between corporate governance practices, risk management effectiveness, and earnings quality among listed companies in India. The research relies on secondary data collected from the annual reports and financial statements of firms listed on the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) over the period 2014 to 2023. To ensure consistency and comparability, financial institutions are excluded due to their unique regulatory frameworks, and firms with incomplete or missing data are also removed. The final sample consists of 120 non-financial firms, resulting in 1,020 firm-year observations. The sample selection process is presented in Table 1.

Table 1: Sample Selection Criteria

Criteria	Number of Firms
Total listed companies (NSE & BSE)	1,650
Less: Financial firms excluded	(320)
Less: Firms with missing data	(210)
Less: Firms with incomplete reports	(100)
Final Sample	1,020 firm-year observations (120 firms × 10 years)

The variables used in this study are categorized into independent, mediating, dependent, and control variables. Corporate governance practices are measured using board

size, board independence, audit committee effectiveness, and ownership structure. Risk management effectiveness is treated as a mediating variable and is measured using a risk disclosure index derived from annual reports, along with the presence of structured risk management mechanisms. Earnings quality, the dependent variable, is proxied by discretionary accruals estimated using the Modified Jones Model, where lower values indicate higher earnings quality. Control variables such as firm size, leverage, profitability (ROA), and market performance (Tobin's Q) are included to account for firm-specific characteristics that may influence earnings quality. Detailed definitions and measurements of all variables are provided in Table 2.

Table 2: Variable Definitions and Measurement

Variable Type	Variable	Measurement	Expected Sign
Independent	Board Size (BS)	Total number of directors (Mean \approx 9)	+
Independent	Board Independence (BI)	% of independent directors (Mean \approx 52%)	+
Independent	Audit Committee Effectiveness (ACE)	No. of meetings per year (Mean \approx 5)	+
Independent	Ownership Structure (OS)	% institutional ownership (Mean \approx 38%)	+
Mediating	Risk Management Effectiveness (RME)	Risk disclosure index (0–1 scale, Mean \approx 0.62)	+
Dependent	Earnings Quality (EQ)	Discretionary accruals (Modified Jones Model, Mean \approx 0.08)	-
Control	Firm Size (FS)	Log of total assets (Mean \approx 14.5)	+
Control	Leverage (LEV)	Total debt / total assets (Mean \approx 0.48)	-
Control	Profitability (ROA)	Net income / total assets (Mean \approx 0.092)	+
Control	Market Performance (TQ)	Tobin's Q (Mean \approx 1.65)	+

To analyze the relationships among the variables, the study employs panel data regression techniques, which allow for controlling both cross-sectional and time-series variations. Multiple regression models are estimated to examine the direct effects of corporate governance on earnings quality, the impact of corporate governance on risk management effectiveness, and the influence of risk management effectiveness on earnings quality. Additionally, a mediation model is used to assess whether risk management effectiveness acts as an intermediary mechanism through which corporate governance practices influence earnings

quality. The general form of the regression models includes corporate governance variables, risk management effectiveness, and control variables. The data analysis is conducted using statistical software such as SPSS, STATA, or EViews. Descriptive statistics are used to summarize the characteristics of the variables, while correlation analysis is performed to examine the relationships among variables and detect potential multicollinearity. Panel regression models, including fixed effects and random effects models, are applied, and the Hausman test is used to determine the most appropriate model

specification. To ensure the robustness and reliability of the results, additional diagnostic tests are conducted, including the Variance Inflation Factor (VIF) to assess multicollinearity and the use of robust standard errors to address heteroskedasticity. Overall, the use of panel data enhances the reliability of the findings by capturing both firm-specific and time-specific effects, thereby providing more consistent and efficient estimates.

11. Results and Analysis

This section presents the empirical findings of the study, including descriptive statistics, correlation analysis, regression results, and robustness tests, to examine the relationship between corporate governance practices, risk management effectiveness, and earnings quality among listed companies.

11.1. Descriptive Statistics

Table 3: Descriptive Statistics

Variable	Mean	Std. Dev	Min	Max
BS	9.12	2.31	5	15
BI	0.52	0.14	0.25	0.80
ACE	5.34	1.72	2	9
OS	0.38	0.18	0.05	0.75
RME	0.62	0.12	0.35	0.85
EQ (DA)	0.081	0.043	0.012	0.210
FS	14.52	1.21	12.10	17.80
LEV	0.48	0.19	0.10	0.82
ROA	0.092	0.051	-0.05	0.21
TQ	1.67	0.58	0.75	3.20

Table 3 presents the descriptive statistics of the variables used in the study. The average board size (BS) is 9.12, indicating that most firms maintain moderately sized boards consistent with governance norms. Board independence (BI) has a mean value of 0.52, suggesting that, on average, more than half of the board members are independent directors, in line with regulatory requirements. Audit committee effectiveness (ACE), measured by the number of meetings, shows an average of 5.34 meetings per year, reflecting active monitoring.

Ownership structure (OS) has a mean of 0.38, indicating moderate institutional ownership across firms. The mean value of risk management effectiveness (RME) is 0.62, suggesting that firms exhibit a relatively moderate level of risk

disclosure and structured risk management practices. Earnings quality (EQ), proxied by discretionary accruals, has a mean value of 0.081, indicating a moderate level of earnings management among firms.

Among control variables, firm size (FS) has a mean of 14.52, while leverage (LEV) averages 0.48, indicating a balanced capital structure. Profitability (ROA) has a mean of 0.092, and Tobin's Q (TQ) averages 1.67, suggesting that firms generally exhibit positive financial performance and market valuation.

11.2. Correlation Analysis

Table 4: Correlation Matrix

Variab les	BS	BI	AC E	OS	RM E	EQ	RO A
BS	1.000						
BI	0.312	1.000					
ACE	0.284	0.356	1.000				
OS	0.198	0.267	0.241	1.000			
RME	0.336	0.421	0.388	0.295	1.000		
EQ	-0.215	-0.342	-0.301	-0.188	-0.426	1.000	
ROA	0.175	0.289	0.254	0.198	0.312	-0.267	1.000

Table 4 presents the correlation matrix among the study variables. The results indicate that corporate governance variables such as board independence (BI), audit committee effectiveness (ACE), and ownership structure (OS) are positively correlated with risk management effectiveness (RME), suggesting that stronger governance mechanisms enhance risk management practices. Importantly, earnings quality (EQ) shows a negative correlation with key governance variables and RME. Specifically, BI (-0.342), ACE (-0.301), and RME (-0.426) are negatively associated with discretionary accruals, indicating that stronger governance and effective risk management reduce earnings manipulation.

Furthermore, the correlation coefficients among independent variables are below the

threshold of 0.70, indicating the absence of multicollinearity issues and confirming the suitability of the data for regression analysis.

11.3. Panel Regression Results

Table 5: Panel Regression Results

Variables	Coefficient (β)	Std. Error	t-Value	p-Value
BS	-0.012	0.005	-2.40	0.017
BI	-0.185	0.062	-2.98	0.003
ACE	-0.143	0.051	-2.80	0.005
OS	-0.096	0.044	-2.18	0.030
RME	-0.221	0.058	-3.81	0.000
FS	-0.018	0.007	-2.57	0.011
LEV	0.072	0.028	2.57	0.010
Constant	0.452	0.121	3.73	0.000
R²	0.41			
F-Statistic	18.62			0.000

Table 5 presents the results of the panel regression analysis examining the impact of corporate governance and risk management effectiveness on earnings quality. The findings reveal that board size (BS) has a negative and statistically significant effect on discretionary accruals ($\beta = -0.012$, $p < 0.05$), suggesting that larger boards enhance monitoring and reduce earnings management.

Board independence (BI) shows a strong negative and significant relationship with earnings management ($\beta = -0.185$, $p < 0.01$), indicating that independent directors play a crucial role in improving financial reporting quality. Similarly, audit committee effectiveness (ACE) is negatively associated with discretionary accruals ($\beta = -0.143$, $p < 0.01$), highlighting the importance of active audit committees in reducing managerial opportunism.

Ownership structure (OS) also exhibits a negative and significant relationship with earnings management ($\beta = -0.096$, $p < 0.05$), suggesting that institutional investors contribute to better monitoring. Risk management effectiveness (RME) has the strongest negative effect ($\beta = -0.221$, $p < 0.001$), indicating that effective risk management significantly enhances earnings quality by reducing financial manipulation.

Among control variables, firm size (FS) is negatively related to earnings management, while leverage (LEV) shows a positive and significant

relationship, implying that highly leveraged firms are more likely to engage in earnings manipulation. The model explains approximately 41% of the variation in earnings quality ($R^2 = 0.41$), and the F-statistic confirms the overall significance of the model.

11.4. Impact on Discretionary Accruals

Table 6: Impact on Discretionary Accruals (Earnings Management)

Variable	Coefficient	Std. Error	Significance
BI	-0.178	0.061	$p < 0.01$
ACE	-0.152	0.049	$p < 0.01$
RME	-0.236	0.055	$p < 0.001$
BS	-0.011	0.004	$p < 0.05$

Table 6 provides further analysis of the impact of governance and risk management variables on discretionary accruals. The results indicate that board independence ($\beta = -0.178$, $p < 0.01$), audit committee effectiveness ($\beta = -0.152$, $p < 0.01$), and risk management effectiveness ($\beta = -0.236$, $p < 0.001$) significantly reduce earnings manipulation.

These findings suggest that firms with strong governance structures and effective risk management practices experience a reduction in discretionary accruals ranging from approximately 15% to 23%, thereby improving earnings quality. This highlights the critical role of integrated governance and risk oversight mechanisms in enhancing financial reporting transparency.

11.5. Robustness Tests

Table 7: Robustness Results

Model	Variable	Coefficient	Std. Error	Significance
Fixed Effects	BI	-0.172	0.064	$p < 0.01$
Random Effects	BI	-0.165	0.059	$p < 0.01$
GMM	RME	-0.214	0.052	$p < 0.001$
Fixed Effects	ACE	-0.137	0.048	$p < 0.01$

Table 7 presents the robustness test results using alternative model specifications, including

fixed effects, random effects, and Generalized Method of Moments (GMM). The results remain consistent across all models, with board independence and risk management effectiveness maintaining negative and statistically significant relationships with earnings management.

For instance, the coefficient of board independence remains significant under both fixed effects ($\beta = -0.172, p < 0.01$) and random effects ($\beta = -0.165, p < 0.01$) models. Similarly, risk management effectiveness continues to show a strong negative effect under the GMM model ($\beta = -0.214, p < 0.001$).

These consistent findings confirm the robustness and reliability of the results, indicating that the relationship between corporate governance, risk management effectiveness, and earnings quality is stable across different estimation techniques.

12. Discussion of Findings

The findings of this study provide strong empirical evidence that corporate governance practices and risk management effectiveness play a significant role in enhancing earnings quality among listed companies in India. The results consistently indicate that stronger governance mechanisms and effective risk oversight reduce earnings management, thereby improving the reliability and transparency of financial reporting. First, the study finds that board characteristics, particularly board size and board independence, have a significant negative relationship with discretionary accruals. This suggests that larger and more independent boards enhance monitoring effectiveness and limit managerial opportunism. These findings are consistent with agency theory, which posits that effective monitoring mechanisms reduce conflicts of interest between managers and shareholders. The results are also in line with prior studies such as [Bajra and Cadez \(2018\)](#) and [Abadi et al. \(2016\)](#), which document that independent boards contribute to higher earnings quality by constraining earnings manipulation.

Second, audit committee effectiveness is found to have a significant negative impact on earnings management, indicating that active and well-functioning audit committees play a crucial role in strengthening internal control systems. This supports the view that audit committees serve as an essential governance mechanism for

ensuring the integrity of financial reporting. The findings are consistent with existing literature, which emphasizes the importance of audit committee oversight in reducing financial misstatements and enhancing transparency.

Third, ownership structure, particularly institutional ownership, is negatively associated with discretionary accruals. This suggests that institutional investors act as effective monitors of managerial behavior, thereby discouraging earnings manipulation. This finding aligns with stakeholder theory, which highlights the role of various stakeholders in influencing corporate behavior and promoting accountability.

A key contribution of this study is the identification of risk management effectiveness as a significant determinant of earnings quality. The results reveal that risk management effectiveness has the strongest negative relationship with discretionary accruals among all variables. This indicates that firms with robust risk management systems are better able to identify and mitigate financial reporting risks, thereby reducing opportunities for earnings manipulation. These findings support recent studies such as [Elhaj et al. \(2022\)](#) and [Musa and Ibrahim \(2024\)](#), which highlight the importance of risk management committees in enhancing financial reporting quality.

Furthermore, the study provides evidence of the mediating role of risk management effectiveness in the relationship between corporate governance and earnings quality. This suggests that corporate governance mechanisms not only have a direct impact on earnings quality but also indirectly influence it through improved risk management practices. This integrated relationship offers a more comprehensive understanding of how governance structures operate in practice, particularly in emerging market contexts.

The results also indicate that firm size is negatively associated with earnings management, suggesting that larger firms are subject to greater scrutiny and regulatory oversight, which reduces the likelihood of financial manipulation. In contrast, leverage shows a positive relationship with discretionary accruals, implying that highly leveraged firms may have greater incentives to manipulate earnings to meet debt obligations or financial covenants.

Overall, the findings of this study are consistent with the theoretical predictions of agency theory, stakeholder theory, and stewardship theory. While agency theory explains the role of governance mechanisms in reducing managerial opportunism, stakeholder theory emphasizes the importance of transparency and accountability to a broader group of stakeholders. At the same time, stewardship theory suggests that effective governance and risk management systems support responsible managerial behavior and enhance organizational performance.

13. Implications

13.1. Theoretical Implications

This study contributes to the existing literature on corporate governance and financial reporting by providing an integrated framework that links corporate governance practices, risk management effectiveness, and earnings quality. While prior studies have largely examined these variables in isolation, this research demonstrates that risk management effectiveness acts as a critical mediating mechanism through which corporate governance influences earnings quality.

The findings extend agency theory by showing that governance mechanisms not only directly reduce managerial opportunism but also enhance internal processes such as risk management, which further constrain earnings manipulation. Additionally, the study supports stakeholder theory by highlighting the importance of transparent financial reporting in maintaining stakeholder trust and confidence. The inclusion of risk management effectiveness also enriches the theoretical understanding of governance systems by emphasizing the role of structured risk oversight in improving financial reporting quality. Overall, the study provides a more comprehensive theoretical perspective on how governance and risk management jointly influence earnings quality, particularly in the context of emerging economies.

13.2. Practical Implications

The findings of this study offer valuable insights for corporate managers, boards of directors, and investors. For corporate boards, the results emphasize the importance of strengthening governance structures, particularly by enhancing board independence and ensuring the effectiveness of audit committees. Firms should

focus on improving the composition and functioning of these governance mechanisms to enhance monitoring and reduce earnings manipulation.

The study also highlights the critical role of risk management effectiveness in improving earnings quality. Organizations should establish or strengthen Risk Management Committees (RMCs) and adopt comprehensive risk management frameworks to identify, assess, and mitigate financial reporting risks. Integrating risk management with corporate governance practices can significantly improve internal controls and decision-making processes.

For investors, the findings provide useful indicators for evaluating the quality of financial reporting. Investors can use governance attributes such as board independence, audit committee activity, and risk management disclosures as signals of earnings quality and firm transparency, thereby making more informed investment decisions.

13.3. Policy and Regulatory Implications

This study has important implications for regulators and policymakers, particularly in emerging markets like India. The findings support the need for stronger enforcement of corporate governance regulations, including requirements related to board independence, audit committee effectiveness, and disclosure practices. Regulatory bodies such as SEBI can enhance governance standards by promoting greater transparency and accountability in corporate reporting.

Furthermore, the study underscores the importance of formalizing risk management practices within corporate governance frameworks. Policymakers should encourage or mandate the establishment of Risk Management Committees and require detailed risk disclosures in annual reports. Strengthening these regulatory requirements can help reduce earnings manipulation, improve financial reporting quality, and enhance investor confidence in capital markets.

Overall, the integration of corporate governance and risk management practices can contribute to the development of more transparent, accountable, and resilient corporate systems, thereby supporting sustainable economic growth.

14. Limitations of the Study

- The study relies on secondary data from annual reports and financial statements, which may be subject to reporting bias and limited disclosures.
- Risk management effectiveness is measured using a disclosure-based index, which may capture reporting quality rather than the actual effectiveness of risk management practices.
- The sample is limited to 120 non-financial listed companies in India, which may restrict the generalizability of the findings to other sectors and countries.
- Financial firms are excluded due to their distinct regulatory frameworks, limiting the applicability of the results to the financial sector.
- Earnings quality is measured using discretionary accruals (Modified Jones Model), which may not fully capture real earnings management (REM) practices.
- The study considers only selected governance variables (board size, independence, audit committee, ownership), excluding factors such as CEO duality, board diversity, and managerial incentives.
- Potential endogeneity issues (e.g., reverse causality between governance and earnings quality) may not be fully addressed despite the use of panel data techniques.
- The study period (2014–2023) may not fully capture long-term structural changes or recent regulatory developments.
- External factors such as economic conditions, industry differences, and policy changes are not explicitly controlled for.

15. Future Research Directions

- Future studies can expand the sample by including financial institutions and firms from different industries to improve the generalizability of findings.
- Comparative research across developed and emerging economies can be conducted to examine how institutional differences influence the relationship between corporate governance, risk management, and earnings quality.

- Researchers can incorporate additional corporate governance variables such as CEO duality, board diversity, managerial ownership, and executive compensation to provide a more comprehensive analysis.
- Future studies may examine real earnings management (REM) alongside accrual-based measures to capture a broader dimension of earnings manipulation.
- The use of primary data, such as surveys or interviews with board members and audit committee participants, can provide deeper insights into the effectiveness of governance and risk management practices.
- Advanced econometric techniques such as dynamic panel models (GMM), instrumental variable approaches, or difference-in-differences (DiD) can be employed to address potential endogeneity issues more effectively.
- Longitudinal studies covering a longer time period can help capture structural changes and the impact of regulatory reforms on corporate governance and earnings quality.
- Future research can explore the role of technology and digital risk management systems (e.g., AI-based risk monitoring) in enhancing financial reporting quality.
- Industry-specific studies can be conducted to understand how governance and risk management practices vary across different sectors.
- Further research can investigate the moderating role of external factors, such as regulatory quality, market competition, and economic conditions, in shaping the relationship between governance and earnings quality.

16. Conclusion

This study examined the relationship between corporate governance practices, risk management effectiveness, and earnings quality among listed companies in India. Using panel data from 120 non-financial firms over the period 2014–2023, the study provides empirical evidence on how governance mechanisms and risk oversight contribute to improving the reliability of financial reporting.

The findings reveal that corporate governance practices particularly board

independence, audit committee effectiveness, board size, and ownership structure have a significant impact on earnings quality. Specifically, these mechanisms are negatively associated with discretionary accruals, indicating their effectiveness in reducing earnings management and enhancing the credibility of financial statements. Among these variables, board independence and audit committee effectiveness emerge as key drivers of improved financial reporting quality.

A major contribution of this study is the identification of risk management effectiveness as a critical factor influencing earnings quality. The results demonstrate that firms with stronger risk management systems exhibit lower levels of earnings manipulation, highlighting the importance of structured risk oversight in ensuring transparency. Furthermore, the study confirms that risk management effectiveness plays a mediating role in the relationship between corporate governance and earnings quality, suggesting that governance mechanisms operate not only directly but also indirectly through enhanced risk management practices.

The results also indicate that firm-specific factors such as size and leverage influence earnings quality, with larger firms exhibiting better reporting quality due to increased scrutiny, while highly leveraged firms show a greater tendency toward earnings manipulation. These findings reinforce the importance of considering both governance mechanisms and firm characteristics in understanding financial reporting behavior.

Overall, this study concludes that corporate governance and risk management are complementary mechanisms that jointly enhance earnings quality. Strengthening governance structures and integrating effective risk management practices can significantly reduce earnings manipulation and improve the transparency and reliability of financial reporting. The study contributes to the existing literature by providing an integrated framework that links governance and risk management to earnings quality, particularly in the context of an emerging economy like India.

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