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Examining Strategies and Risks: Earnings Management and Financial Risk Disclosure Quality

(Meneliti Strategi dan Risiko: Pengurusan Perolehan dan Kualiti Pendedahan Risiko Kewangan)

Sri Ningsih
Siti Nur Aini
Fajar Kristanto Gautama Putra
(Faculty of Economics and Business, Universitas Airlangga)
Khairul Anuar Kamarudin
(School of Business, University of Wollongong in Dubai)

ABSTRACT

This study examines whether a higher level of earnings management is correlated with an enhanced quality of financial risk disclosure and investigates the moderating role of the risk management committee (RMC) in this relationship. Based on 1,550 firm-year observations covering all firms listed on the Indonesia Stock Exchange during 2015–2023, the analysis applies ordinary least squares (OLS) regression and moderated regression analysis (MRA). To validate the robustness of the findings, the study also employs alternative regression specifications, specifically two-stage least squares (2SLS) and the Heckman two-stage procedure. This study documents that companies engaging in high levels of earnings management tend to provide better financial risk disclosure quality. The presence of an RMC within the company is proven to strengthen the relationship between earnings management and financial risk disclosure quality (FRDQ). These results are robust when tested using different measurements, 2SLS, and the Heckman two-stage method. Additionally, the findings are consistent across various samples, including those before COVID-19, profitable companies, and those in low-technology industries.

Keyword: Earning management; risk management committee; financial risk disclosure quality; risk disclosure; corporate disclosure; governance

ABSTRAK

Kajian ini meneliti sama ada tahap pengurusan perolehan yang lebih tinggi berkorelasi dengan peningkatan kualiti pendedahan risiko kewangan serta menyiasat peranan penyederhana jawatankuasa pengurusan risiko (RMC) dalam hubungan ini. Berdasarkan 1,550 pemerhatian tahun-firma yang merangkumi semua firma yang tersenarai di Bursa Saham Indonesia sepanjang tempoh 2015–2023, analisis ini mengaplikasikan regresi kuasa dua terkecil biasa (OLS) dan analisis regresi tersederhana (MRA). Bagi mengesahkan keteguhan dapatan kajian, kajian ini turut menggunakan spesifikasi regresi alternatif, khususnya kuasa dua terkecil dua peringkat (2SLS) dan prosedur dua peringkat Heckman. Kajian ini menunjukkan bahawa syarikat yang terlibat dalam tahap pengurusan perolehan yang tinggi cenderung untuk menyediakan kualiti pendedahan risiko kewangan yang lebih baik. Kehadiran RMC dalam syarikat terbukti mengukuhkan hubungan antara pengurusan perolehan dengan kualiti pendedahan risiko kewangan. Keputusan ini kekal teguh apabila diuji menggunakan pengukuran yang berbeza, 2SLS, dan kaedah dua peringkat Heckman. Di samping itu, dapatan kajian ini adalah konsisten merentasi pelbagai sampel, termasuk sampel sebelum COVID-19, syarikat yang menjana keuntungan, serta syarikat dalam industri berteknologi rendah.

Kata kunci: Pengurusan perolehan; jawatankuasa pengurusan risiko; kualiti pendedahan risiko kewangan; pendedahan risiko; pendedahan korporat; tadbir urus

INTRODUCTION

In the contemporary corporate environment, information serves as an important foundation for decision-making. The volume of information demanded by stakeholders continues to rise, making transparency and reliability central concerns. At the same time, risk disclosure practices are receiving greater scrutiny due to the increasing occurrence of fraud and misleading financial reporting within corporate governance systems (Bufarwa et al. 2020). If these issues are not adequately addressed, they may result in serious outcomes, including corporate controversies and even global financial crises that provoke worldwide reactions and endanger economic stability (Gonidakis et al. 2020). Episodes of financial failure and economic disruption are interlinked events in an increasingly dynamic global economy. Over the past couple of decades, a series of significant incidents around the world has highlighted the importance of effective corporate governance in ensuring high-quality financial risk disclosure.

Agency theory emphasizes the importance of effective management and strong corporate governance in ensuring that reliable and timely information is conveyed to investors and shareholders (Lin et al. 2016). Companies engaging in earnings management often use discretionary accounting policies or transaction-based strategies to influence financial statements and present a more favorable picture of firm performance. These actions are typically driven by incentive motives or the desire to improve the firm's market perceptions (Africa & Agustia 2023). From an agency perspective, earnings management can obscure a firm's true financial condition and associated risks, thereby increasing information asymmetry, harming shareholders, and eroding investor confidence.

This does not necessarily imply that firms with higher earnings management will always provide lower-quality disclosure. When earnings management creates credibility concerns, managers may face stronger pressure to reassure shareholders, creditors, and other stakeholders that the firm's financial risks remain identifiable and manageable. In this context, signaling theory and legitimacy theory help explain why high-quality financial risk disclosure may serve as a compensating mechanism. By providing more detailed information about risk exposure, risk measurement, and risk management practices, firms may attempt to signal accountability, alleviate stakeholder suspicion, maintain legitimacy, and preserve trust despite the presence of managed earnings. The presence of a RMC further strengthens this process by improving risk oversight and encouraging the more transparent communication of financial risks (Jia et al. 2019).

Therefore, the relationship between earnings management and financial risk disclosure quality deserves closer empirical investigation. This study is important because transparent financial risk disclosure is essential for maintaining investor and stakeholder confidence, particularly in an emerging market context where earnings management practices may influence the perceptions of financial stability and corporate accountability. Moreover, the presence of a risk management committee (RMC) may strengthen this disclosure response by improving the risk oversight and encouraging firms to communicate financial risks more comprehensively. Given this urgency, this study aims to examine the effect of earnings management on financial risk disclosure quality and to investigate whether the presence of an RMC moderates this relationship.

This research makes several contributions that differentiate it from other studies. First, while prior research (Africa & Agustia 2023; Alsulami 2024; Febrianto et al. 2022) has emphasized the influence of earnings management and risk disclosure on firm performance or firm value, little is known about how earnings management specifically affects the quality of financial risk disclosure itself. By focusing on this linkage, the present study shifts the emphasis to disclosure transparency rather than performance outcomes.

However, the body of research on financial risk disclosure is still relatively narrow. Earlier studies mainly emphasize governance-related drivers such as the effect of governance mechanisms on report readability and information quality (Ferri et al. 2021), broader theoretical debates around financial health and global financial crises (Gonidakis et al. 2020), and the development of alternative disclosure models (Szczepankiewicz et al. 2022). More recent contributions extend this line of enquiry by analyzing the role of board gender diversity and CEO traits in shaping financial risk (Burton et al. 2025), the influence of ESG performance (Chouaibi et al. 2024), the stock market impact of climate-related financial risk disclosure frameworks (Kumari & Pandey 2025; Pandey & Kumari 2024), the moderating role of governance committees within boards (Al-matari & Al-dubai 2025), the media background of directors (Mujtaba et al. 2024), and CEO insider information from the CFO (Ningsih et al. 2025). Moreover, this study extends the work of Amrin (2019), who found that a RMC can enhance risk disclosure quality but focused only on a single-year sample. Our use of a multi-year panel dataset (2015–2023) provides a broader view of this relationship over time. Amrin (2019) also encouraged future studies to investigate the non-governance factors that influence disclosure quality, and our study responded to this by integrating earnings management as a key explanatory variable.

Second, the Indonesian context is particularly suitable for this research. In Indonesia, having an RMC in companies is not yet mandatory. This study can therefore reveal how the absence of an RMC affects earnings management operations and the quality of financial risk disclosure. Without a mandatory risk management committee, companies may have greater flexibility in setting their earnings management strategies, which can impact the transparency and details of their financial risk disclosures (Agustina et al. 2021). This is important because low-quality disclosures can decrease investor and stakeholder confidence in the company. Lastly, this study complements the work of Africa and Agustia (2023), which focuses exclusively on Islamic banking institutions, by including a broader sample of firms across all industries except financial firms (SIC 6). This enhances the generalizability of the findings to the wider corporate context in Indonesia. This study contributes to the literature by linking governance structures and earnings behavior to financial risk disclosure quality in an emerging market setting.

The primary aim of this research is to gather empirical evidence on the effect of earnings management on financial risk disclosure and how the RMC moderates this relationship. This study documents that companies engaging in intensive earnings management tend to provide higher-quality financial risk disclosures. The presence of an RMC within a company has been proven to strengthen the effect of earnings management and the quality of financial risk. These findings hold when using different measurements, such as 2SLS and the Heckman two-stage method. Additionally, the results remain consistent in the sample before the COVID-19 pandemic, in profitable companies, and in low-technology industries.

LITERATURE REVIEW

Agency theory posits that the separation between ownership and control creates conflicts of interest between managers and shareholders (Richardson 2005). In this setting, managers may use earnings management to influence reported performance, pursue private benefits, or reduce pressure from external parties. Such practices can increase information asymmetry and weaken the perceived reliability of financial reporting. Therefore, from a conventional agency perspective, earnings management is often associated with lower transparency and greater stakeholder concern.

The relationship between earnings management and financial risk disclosure quality may be more complex. Signaling theory suggests that firms may use disclosure to communicate accountability and risk awareness when the credibility of reported earnings is questioned (Shauki & Oktavini 2022). In this context, higher-quality financial risk disclosure can help managers signal that the firm remains aware of its financial risks and has mechanisms to identify, measure, and manage those risks. Legitimacy theory further explains that firms facing credibility concerns may increase disclosure to maintain stakeholder approval and demonstrate that their reporting and risk management practices remain appropriate (Ghorbani & Salehi 2021). Thus, financial risk disclosure may function as a compensating mechanism that helps firms reduce suspicion, preserve trust, and maintain legitimacy when earnings management is present (Monjed et al. 2022).

Prior studies provide support for this view. Firms with higher levels of earnings management may increase their voluntary disclosure to manage external perceptions and alleviate agency concerns (Haji-Seseang et al. 2025). In the same vein, upward earnings management may also stimulate broader disclosure when firms seek to justify reported performance and maintain stakeholder confidence (Khelil-Rhouma & Hamed-Sidhom 2021). In contrast, Lobo et al. (2012) reported a negative association between earnings management and disclosure quality, suggesting that the relationship is not always straightforward. More recent evidence indicates that this relationship may depend on the disclosure environment. Alsulami (2024) documents that in low-disclosure regimes, earnings management is associated with weaker firm performance, whereas in high-disclosure regimes, earnings management is associated with improved firm performance. This suggests that disclosure can play a complementary role in strategic financial reporting by helping firms counterbalance their credibility and the reputational concerns arising from earnings management.

Beyond the disclosure environment, governance structures may also shape managerial reporting behavior. Nuhu et al. (2024) found that both family and foreign ownership are negatively associated with real earnings management among Malaysian listed firms, whereas managerial ownership and ownership concentration show no significant association. Although their study examines real rather than accrual-based earnings management, it highlights the relevance of governance arrangements when considering managerial discretion and related reporting incentives.

Within this broader reporting context, financial risk disclosure may serve as a mechanism through which managers communicate accountability in managing corporate risks (Amrin 2019). By providing more detailed and relevant risk information, managers can reassure shareholders that the firm is taking steps to identify and manage financial risks, even when earnings management is present. In this regard, good-quality financial risk disclosure can mitigate the uncertainty and information asymmetry between managers and shareholders (Ghorbani & Salehi 2021). Thus, financial risk disclosure may signal managerial responsibility and help mitigate agency conflicts while increasing shareholder trust (Monjed et al. 2022).

Managers involved in earnings management practices may be encouraged to provide more transparent and comprehensive risk disclosures to reduce potential conflicts with shareholders and enhance trust (Lin et al. 2016). By offering more detailed and relevant financial risk information, managers can demonstrate their responsibility and proactivity in managing the company's risks, even when there are sign of earnings management practices (Lin et al. 2016). This helps decrease the risk of unequal information distribution between managers and shareholders, thus improving perceptions of corporate governance and mitigating the potential negative impact of earnings management practices. Hence, the following hypothesis is proposed:

H_1 Earnings management has a significantly positive effect on financial risk disclosure quality.

In line with agency theory, executives may engage in earnings management to achieve personal goals, such as increasing compensation, meeting performance targets, or securing their positions (Armstrong et al. 2016). However, such practices can increase information asymmetry and uncertainty for shareholders. To mitigate these concerns, effective governance mechanisms are needed to ensure that managers provide transparent and reliable information about the financial risks faced by the company (Zhang et al. 2013). The risk management committee serves an important function in this process because it oversees the identification, assessment, and communication of enterprise-wide risks. Enterprise risk management also addresses agency and information problems through risk governance and risk aggregation mechanisms (Armstrong et al. 2016).

While prior research has extensively examined the function of audit committees in reducing earnings management (Inaam & Khamoussi 2016), the risk management committee serves a distinct and complementary function. Unlike audit committees, which focus primarily on financial reporting accuracy and auditor oversight, risk management committees are responsible for broader risk oversight, including the identification, assessment, and disclosure of financial and enterprise-wide risks. Amrin

(2019) and Kuo et al. (2021) suggest that risk management committees enhance the quality and credibility of risk disclosure by promoting accountability and strategic risk governance. Oreshile et al. (2025) further found that higher enterprise risk management quality weakens the positive association between real earnings management and financial distress risk. Their findings provide a related basis for examining whether risk governance conditions affect the consequences associated with managerial discretion. The present study addresses a different outcome by investigating whether the presence of an RMC moderates the association between accrual-based earnings management and financial risk disclosure completeness.

The presence of a risk management committee may also strengthen the signaling and legitimacy functions of financial risk disclosure. When firms engage in earnings management, stakeholders may question the credibility of the reported performance and demand a stronger assurance regarding the firm's risk condition. In this context, a risk management committee can encourage managers to provide more comprehensive and credible risk disclosure, thereby helping the firm signal accountability, reduce stakeholder suspicion, and maintain legitimacy. Thus, the risk management committee not only functions as a monitoring body but also acts as a governance mechanism that enhances the credibility of disclosure when earnings management creates reputational and informational concerns.

Previous research supports the argument that the risk management committee can strengthen the effect of earnings management on financial risk disclosure. For example, a study by Baxter (2016) found that the presence of an active and effective risk committee improves the quality of risk disclosures in companies. Similarly, Bufarwa et al. (2020) identified that firms with strong risk committees tend to have more transparent and detailed risk disclosures, especially when engaging in earnings management practices. These studies indicate that risk management committees not only function as a monitor but also as a catalyst that encourages management to be more responsible and transparent in financial risk disclosure practices. Hence, we also propose the following hypothesis:

H_2 The risk management committee strengthens the relationship between earnings management and financial risk disclosure quality.

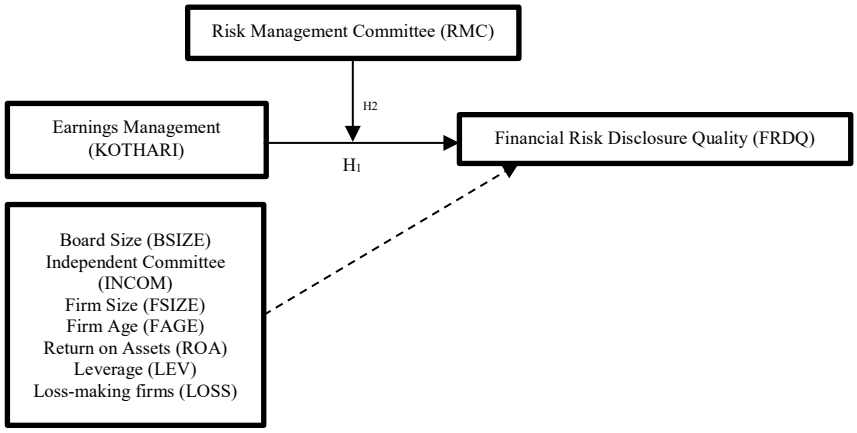


FIGURE 1. Conceptual framework

METHODOLOGY

The population of this research covers all firms listed on the Indonesia Stock Exchange during 2015–2023. Initially, the study identified 6,136 firm-year observations over the nine-year period. After applying the sample selection criteria and excluding observations with incomplete variable data, the final sample consisted of 1,550 firm-year observations, as reported in Table 1. Industry classification in this study was based on the Standard Industrial Classification (SIC) code obtained from OSIRIS. Companies classified in SIC code 6 (Finance, Insurance, and Real Estate) were omitted because their financial reporting frameworks, regulatory settings, and risk disclosure practices differ markedly from those of non-financial firms. Their exclusion helps maintain comparability across the sample. This study also applied a section-based content analysis protocol, retaining only firm-year observations with an identifiable section specifically addressing financial risks in their annual reports. The 35-item disclosure index was applied within this section to maintain a consistent assessment boundary across firms and years. An item received a score of 1 if disclosed and 0 otherwise. Reports without an identifiable financial risk section fall outside this assessment boundary and were therefore excluded rather than assigned an aggregate score of zero. This exclusion does not imply that financial risk information is absent elsewhere in said reports.

TABLE 1. Sampling criteria

Description	Observation
Firms listed on the Indonesia Stock Exchange during 2015–2023	6136
(–) Eliminating firms in SIC 6 sector	(1855)
(–) Eliminating firms without an identifiable financial risk section in the annual report	(2755)
(–) Observations with missing FAGE data	(1362)
(–) Observations with missing RMC data	(62)
(–) Observations with missing BSIZE data	(102)
Total Sample (N)	1550

Financial risk disclosure quality serves as the dependent variable in this study. The measurement is based on content analysis using a financial risk disclosure index adapted from Gull et al. (2023) and prior Indonesian studies that apply the 35-item financial risk disclosure index (Mujtaba et al. 2024; Ningsih et al. 2025). In its original form, the index developed by Gull et al. (2023) consists of 70 items covering financial risks, strategic risks, and operational/business risks. These items draw on the seven disclosure requirements of the IFRS, which have been incorporated into Indonesian financial reporting standards through PSAK 60, and encompass risk exposures, management policies, quantitative information, maturity analyses, and sensitivity analyses. The index therefore assesses the coverage of specified information categories rather than disclosure length or the frequency of risk-related statements. Nevertheless, disclosure quality extends beyond information coverage. Beretta and Bozzolan (2004) distinguish the quantity of risk disclosure from the richness of its content. Accordingly, this study interprets the index as a proxy for the completeness dimension of financial risk disclosure quality, rather than as a comprehensive measure of quality. A higher score indicates broader coverage of the specified financial risk information, but does not necessarily indicate greater accuracy, specificity, or explanatory depth. The specific items are presented in Appendix 1. Consistent with the section-based assessment protocol, each item is assigned a score of 1 if disclosed and 0 otherwise. The total FRDQ score is obtained by adding the disclosed items together, with a maximum possible score of 35 for each firm-year observation.

Earnings management (KOTHARI) serves as the independent variable in this study, measured by the absolute amount of discretionary accruals based on the Kothari model (Kothari et al. 2005). The model incorporates lagged return on assets (ROA) to account for the association between firm performance and accruals, and it has been estimated separately for each industry-year group using ordinary least squares, as follows:

$$\frac{TACCit}{Ait-1} = \alpha + \beta 1\frac{1}{Ait-1} + \beta 2\frac{\Delta SALESit}{Ait-1} + \beta 3\frac{PPEit}{Ait-1} + \beta 4\, ROAit-1 + \varepsilon it$$

$$\text{KOTHARI}_{it} = |\varepsilon it|$$

TACC denotes total accruals, a denotes total assets, ΔSALES represents the change in sales, PPE denotes property, plant, and equipment, and ROA represents return on assets. The subscripts i and t indicate the firm and year, respectively. Discretionary accruals were obtained as the residuals from each industry-year regression, and KOTHARI was calculated as their absolute value. This captures the magnitude of accrual-based earnings management irrespective of its income-increasing or income-decreasing direction. Accordingly, higher KOTHARI values indicate a greater magnitude of accrual-based earnings management, and the hypotheses and findings were interpreted on this basis.

The RMC is used as a moderating variable, measured as a dummy variable. It is coded as 1 for firms with a risk management committee and 0 if it does not. Following Gull et al. (2023), this study incorporates several control variables, namely board size (BSIZE), independent committee (INCOM), firm size (FSIZE), firm age (FAGE), profitability (ROA), financial leverage (LEV), and an indicator for loss-making firms (LOSS). In addition, the analysis includes two fixed-effect controls (year fixed effects and industry fixed effects) to capture unobserved heterogeneity across time and sectors. The operational definitions of all variables are presented in Table 2.

TABLE 2. Variable definition

Variable	Descriptive	Source
Variable Dependent		
FRDQ	FRDQ stands for Financial Risk Disclosure Quality score, consisting of a total of 35 items, where a score of 1 indicates the disclosure of a risk item and 0 indicates no disclosure, according to Gull et al. (2023).	Annual Report
Variable Independent		
KOTHARI	The absolute value of discretionary accruals from the Kothari models	OSIRIS
Variable Interaction		
RMC	Dummy variable, coded as 1 for firms with a risk management committee and 0 if it does not.	Annual Report
Variable Controls		
BSIZE	The total count of board members, including both directors and commissioners.	Annual Report
INCOM	Number of independent commissioners on the board.	Annual Report
FSIZE	The natural logarithm applied to total assets.	OSIRIS
FAGE	Years since the firm's IPO	Annual Report
ROA	Net income over total assets.	OSIRIS
LEV	Total debt over total equity.	OSIRIS
LOSS	Dummy variable, coded as 1 for firms reported negative income after tax and 0 if it does not.	OSIRIS

This study employed pooled OLS with industry and year fixed effects as the baseline specification to examine the associations between earnings management and financial risk disclosure quality using variations across firms and over time. Industry fixed effects account for persistent differences across industries, while year fixed effects capture common annual shocks. Standard errors were clustered at the firm level to accommodate heteroskedasticity and within-firm error correlation. MRA was applied to test whether the RMC moderates this relationship. All regression models were estimated in STATA 17.0 and include all fixed effects. The empirical procedures were comprised of descriptive statistics, correlation matrix analysis, and least squares regression. To mitigate the influence of extreme values and potential outliers, this study applied winsorization at the 1% and 99% levels to the continuous variables before conducting the regression analysis. Winsorization was not applied to the dummy variables because their values are restricted to 0 and 1. This treatment helped to attenuate the effect of abnormal observations while preserving the original interpretation of the categorical variables (Reifman & Garrett, 2010). The regression models employed in the analysis are presented below.

Model 1:

$$FRDQ_{it} = \beta_0 + \beta_1 KOTHARI_{it} + \beta_2 RMC_{it} + \beta_3 BSIZE_{it} + \beta_4 INCOM_{it} + \beta_5 FSIZE_{it} + \beta_6 FAGE_{it} + \beta_7 ROA_{it} + \beta_8 LEV_{it} + \beta_9 LOSS_{it} + IndustryFE + YearFE + \varepsilon$$

Model 2:

$$FRDQ_{it} = \beta_0 + \beta_1 KOTHARI_{it} + \beta_2 RMC_{it} + \beta_3 KO_RMC_{it} + \beta_4 BSIZE_{it} + \beta_5 INCOM_{it} + \beta_6 FSIZE_{it} + \beta_7 FAGE_{it} + \beta_8 ROA_{it} + \beta_9 LEV_{it} + \beta_{10} LOSS_{it} + IndustryFE + YearFE + \varepsilon$$

To further assess the consistency of the main findings, this study also conducted additional subsample analyses based on the COVID-19 period, profitability status, and industry technology intensity. These classifications were selected because macroeconomic shocks, firm performance conditions, and industry-level risk complexity may influence managerial reporting incentives and financial risk disclosure behavior.

FINDINGS

This study used 1,550 firm-year observations drawn from all firms listed on the Indonesia Stock Exchange on 2015 – 2023 period. The distribution of the sample across SIC industry codes and years is reported in Table 3. Among the industries, Health, Legal, and Educational Services & Consulting (SIC 8) contribute the smallest number of observations, while Construction Industries (SIC 2) account for the largest observation. In terms of time, the sample is densest in 2016 and scarcest in 2023.

TABLE 3. Tabulation of SIC YEAR

	YEAR									
Industry	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
SIC 0 (Agriculture, forestry and fisheries)	9	12	9	9	9	10	10	11	10	89
SIC 1 (Mining)	31	33	25	22	25	25	27	29	21	238
SIC 2 (Construction industries)	55	51	57	50	55	58	55	55	39	475
SIC 3 (Manufacturing)	26	27	25	25	30	26	32	31	20	242
SIC 4 (Transportation, Communications and Utilities)	28	30	27	24	22	27	27	26	18	229
SIC 5 (Wholesale & retail trade)	12	13	14	9	10	10	11	14	14	107
SIC 7 (Service industries)	14	16	13	13	14	13	12	14	8	117
SIC 8 (Health, legal, and educational Services & consulting)	2	2	2	1	2	2	2	2	1	16
Total	177	184	172	153	167	171	176	182	131	1550

Table 4 summarizes the descriptive statistics of the raw data before winsorization. We present the pre-winsorized values to provide a transparent overview of the initial characteristics of the research data, including variation, skewness, and the presence of extreme values in several variables. The FRDQ values range from 0 to 35 but within the sample, they have a minimum value of 4 and a maximum value of 22, with an average of 14.790. Additionally, the average value for earnings management (KOTHARI) is 0.417. This relatively high maximum value indicates that some firm-year observations contain unusually large discretionary accruals, which may reflect abnormal accrual adjustments or firm-specific financial conditions. The RMC has a mean value of 0.147, indicating that approximately 14.7% of companies have implemented an RMC. The control variables show the following average values: BSIZE is 8.932, INCOM is 1.611, FSIZE is 6.800, and FAGE is 37.351. The financial control variables ROA, LEV, and LOSS have average values of 0.023, 1.386, and 0.276, respectively. The LEV variable also shows a wide range, with a minimum value of -753.358 and a maximum value of 370.574. This pattern suggests severe skewness, which is likely related to firms with negative or very small equity values causing the debt-to-equity ratio to become unusually large or negative. These observations reflect firms with unusual capital structures or financial distress conditions. Therefore, while Table 4 reports the raw data to maintain transparency, the regression analyses use winsorized continuous variables to reduce the potential influence of extreme observations on the empirical results.

TABLE 4. Descriptive statistics

Variables	Mean	Minimum	Median	Maximum
FRDQ	14.790	4.000	15.000	22.000
KOTHARI	0.417	0.000	0.311	42.623
RMC	0.147	0.000	0.000	1.000
BSIZE	8.932	4.000	8.000	18.000
INCOM	1.611	0.000	1.000	4.000
FSIZE	6.800	2.398	6.817	10.551
FAGE	37.351	4.000	35.000	121.000
ROA	0.023	-0.419	0.023	0.364
LEV	1.386	-753.358	0.930	370.574
LOSS	0.276	0.000	0.000	1.000

The Pearson correlation test results are shown in Table 5. The analysis reveals that KOTHARI has a negative but non-significant influence on FRDQ. In contrast, RMC has a significantly positive influence on FRDQ. Additionally, BSIZE, INCOM, FSIZE, and FAGE also exhibit significantly positive influences on FRDQ. However, ROA, LEV, and LOSS do not show significant results.

TABLE 5. Pearson correlation

		[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
[1]	FRDQ	1.000									
[2]	KOTHARI	-0.021	1.000								
		(0.250)									
[3]	RMC	0.125***	-0.008	1.000							
		(0.000)	(0.679)								
[4]	BSIZE	0.293***	-0.089***	0.198***	1.000						
		(0.000)	(0.000)	(0.000)							
[5]	INCOM	0.219***	-0.026	0.123***	0.655***	1.000					
		(0.000)	(0.157)	(0.000)	(0.000)						
[6]	FSIZE	0.291***	-0.064***	0.180***	0.584***	0.397***	1.000				
		(0.000)	(0.000)	(0.000)	(0.000)	(0.000)					
[7]	FAGE	0.118***	-0.022	0.039	0.188***	0.199***	0.148***	1.000			
		(0.000)	(0.366)	(0.114)	(0.000)	(0.000)	(0.000)				
[8]	ROA	0.013	-0.030*	0.046**	0.195***	0.083***	0.189***	0.071***	1.000		
		(0.464)	(0.093)	(0.013)	(0.000)	(0.000)	(0.000)	(0.003)			
[9]	LEV	-0.001	0.002	0.000	-0.006	0.004	0.002	-0.008	-0.035**	1.000	
		(0.963)	(0.924)	(0.999)	(0.740)	(0.815)	(0.931)	(0.726)	(0.049)		
[10]	LOSS	-0.011	0.058***	0.003	-0.145***	-0.057***	-0.180***	-0.056**	-0.633***	0.010	1.000
		(0.534)	(0.001)	(0.883)	(0.000)	(0.002)	(0.000)	(0.019)	(0.000)	(0.570)	

p-values in parentheses
** $p < 0.05$, *** $p < 0.01$

To ensure the reliability of the regression estimates, this study conducted diagnostic checks for multicollinearity, heteroskedasticity, and within-firm serial correlation. Multicollinearity was assessed using the variance inflation factor (VIF). The results show that the mean VIF is 2.18 and the highest VIF value is 5.42, both scores of which are below the commonly accepted threshold of 10, indicating that multicollinearity is not a serious concern. Given the firm-year panel structure of the data, all regression models were estimated using standard errors clustered at the firm level. This approach addresses potential heteroskedasticity and allows for serial correlation within firms over time, thereby providing a more reliable statistical inference.

Table 6 presents the results of the OLS regression test examining the effect of earnings management on financial risk disclosure quality. Specification (1) focuses on the effect of the control variables on financial risk disclosure, while specification (2) examines the direct effect between earnings management and financial risk disclosure quality. Specification (3) is similar to specification (2) but includes the control variables. In specification (3), earnings management is identified as having a significantly positive correlation with financial risk disclosure quality, with a coefficient value of 0.521 (t = 3.95) at a 1% significance level. This result indicates that companies engaging more in earnings management tend to have higher financial risk disclosure quality, lending support to Hypothesis 1. The coefficient of KOTHARI in the main regression model is 0.521. This indicates that a one-unit increase in earnings management is associated with an increase of approximately 0.521 financial risk disclosure items, holding other variables constant. Since FRDQ is measured using a 35-item disclosure index, this effect represents approximately 1.49% of the maximum possible FRDQ score.

TABLE 6. Ordinary least square regression and moderated regression analysis

	(1) FRDQ	(2) FRDQ	(3) FRDQ	(4) FRDQ	(5) FRDQ
KO_RMC					2.005***
					(3.42)
KOTHARI		-0.140*	0.521***	0.584***	0.408**
		(-1.69)	(3.95)	(4.57)	(2.48)
RMC				0.773***	-0.031**

				(2.92)	(-2.09)
BSIZE	0.221***		0.225***	0.216***	0.217***
	(4.79)		(4.88)	(4.61)	(4.66)
INCOM	0.114		0.112	0.141	0.154
	(0.77)		(0.76)	(0.94)	(1.03)
FSIZE	0.447***		0.449***	0.428***	0.424***
	(5.63)		(5.65)	(5.32)	(5.29)
FAGE	0.014***		0.014***	0.013**	0.013**
	(2.62)		(2.63)	(2.40)	(2.34)
ROA	-1.963		-2.295	-1.931	-2.026
	(-1.40)		(-1.64)	(-1.34)	(-1.42)
LEV	-0.008		-0.007	-0.007	-0.006
	(-0.58)		(-0.52)	(-0.51)	(-0.44)
LOSS	0.610**		0.531*	0.530*	0.509*
	(2.09)		(1.82)	(1.77)	(1.70)
_cons	9.744***	15.816***	9.521***	9.530***	9.658***
	(12.51)	(32.91)	(12.11)	(12.09)	(12.24)
Industry FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
r2_a	0.159	0.036	0.161	0.173	0.177
N	1550	1550	1550	1550	1550

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

The results of the MRA are presented in Table 6, specifications (4) and (5), which examine how the RMC influences the moderation of the effect between earnings management and financial risk disclosure. Specification (4) includes the RMC as a moderating variable in the model. The finding reveals that KOTHARI and RMC have a significantly positive effect on Financial Risk Disclosure Quality (FRDQ) at the 1% significance level, with coefficient values of 0.584 and 0.773, respectively (t = 4.57 and 2.92). Specification (5) demonstrates that the RMC can strengthen the effect of earnings management and financial risk disclosure at the 1% significance level, with a coefficient value of 2.005 (t = 3.42). The interaction coefficient between KOTHARI and RMC is 2.005, suggesting that the marginal effect of earnings management on FRDQ is substantially stronger for firms with an RMC. Specifically, the total marginal effect for firms with an RMC is 2.526 items (0.521 + 2.005), equivalent to approximately 7.22% of the maximum FRDQ score. This indicates that the presence of an RMC meaningfully strengthens the association between earnings management and financial risk disclosure quality.

To further interpret the moderating effect of RMC, Figure 2 presents the interaction plot, while Table 7 reports the conditional marginal effects, or simple slopes. For firms without an RMC, the estimated slope is 0.408, whereas for firms with an RMC, it is 2.413 (0.408 + 2.005). The latter indicates that a one-unit increase in the magnitude of accrual-based earnings management is associated with approximately 2.413 additional disclosure items, equivalent to 6.89% of the maximum FRDQ score, holding other variables constant. The steeper slope for firms with an RMC in Figure 2 illustrates the stronger positive association in this group.

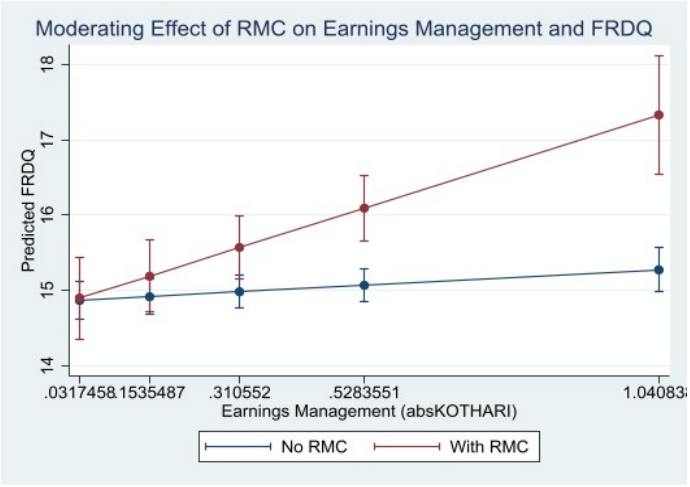


FIGURE 2. Interaction plot of earnings management and RMC on FRDQ

TABLE 7. Marginal effects and simple slope analysis

RMC	dy/dx of KOTHARI	Std. Error	t-value	p-value	Interpretation
0	0.408	0.163	2.51	0.012	Positive and significant
1	2.413	0.519	4.65	0.000	Stronger positive effect

ROBUSTNESS TEST

This study conducted three robustness tests: alternative measurements, two-stage least-squares (2SLS), and the Heckman two-stage model. As an alternative proxy, earnings management is also measured using the modified Jones model (Jones 1991), to ensure the results are not driven by the Kothari model alone. The regressions in Table 8 show that earnings management remains positively correlated with financial risk disclosure, that RMC is positively related to disclosure, and that the moderating interaction between earnings management and RMC is also significant. These results corroborate the finding that firms engaging in earnings management tend to disclose financial risks more extensively, and that this relationship is consistently strengthened by the presence of an RMC, regardless of the earnings management measure used.

TABLE 8. Regression results using different measures of earnings management

	(1) FRDQ	(2) FRDQ	(3) FRDQ
JO_RMC			1.200**
			(2.02)
RMC		0.786***	0.422*
		(2.94)	(1.79)
JONES	0.468***	0.555***	0.530***
	(4.54)	(6.29)	(6.26)
_cons	9.583***	9.588***	9.605***
	(12.24)	(12.21)	(12.24)
Controls	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
r2_a	0.160	0.172	0.172
N	1550	1550	1550

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

To address potential endogeneity concerns, this study employed 2SLS regression using industry-year average earnings management as an instrument for firm-level earnings management. The first-stage results indicate that the instrument is strongly associated with firm-level earnings management, with a robust first-stage F-statistic of 81.815, which is well above the conventional threshold of 10. This suggests that weak instrument concerns are unlikely. The endogeneity test does not reject the null hypothesis that earnings management is exogenous, with a robust score chi-square p-value of 0.6998 and a robust regression F-test p-value of 0.7004. An over-identification test is not reported because the model is exactly identified, using one excluded instrument for one endogenous regressor. Regarding the exclusion restriction, industry and year fixed effects are included to control for time-invariant sectoral characteristics and common year-specific shocks that may jointly affect earnings management and disclosure. Therefore, after accounting for these controls, the instrument is expected to affect FRDQ primarily through firm-level earnings management rather than directly through firm-specific disclosure decisions. As reported in Table 9, the first-stage regression confirms the relevance of the instrument, with MEAN_KO significantly predicting firm-level discretionary accruals (coef = 0.199, t = 9.13). In the second stage, the instrumented earnings management variable (PREDKOTHARI) remains positively associated with FRDQ (coef = 1.914, t = 1.81), providing further validation of our main findings. The interaction term between earnings management and the risk management committee (KO_RMC) also remains significant (coef = 2.405, t = 3.30), reinforcing the moderating role of RMC. These findings strengthen the causal interpretation of the effect of earnings management and financial risk disclosure quality.

TABLE 9. Regression results using 2SLS

	(1) MEAN_KO	(2) FRDQ
d_KOTHARI	0.199***	
	(9.13)	
PREDKOTHARI		1.914*
		(1.81)
KO_RMC		2.405***
		(3.30)
RMC	0.107**	0.108
	(2.28)	(1.28)
_cons	0.512***	8.098***
	(19.19)	(9.88)
Controls	Yes	Yes
r2_p		0.129
N	1550	1550

t statistics in parentheses
* $p < 0.1$, *** $p < 0.01$

Table 10 presents the results of the Heckman two-stage model correcting for sample selection bias, ensuring unbiased findings. We used the average earnings management (MEAN_KO) as an instrumental variable to address simultaneity and

reverse causality. Including this variable does not weaken the effect of earnings management, RMC, and financial risk disclosure. In the second specification, MILLS denotes the inverse Mills ratio derived from the probit selection model. An optimal Heckman two-stage model is characterized by three conditions: the instrumental variable must show a significant association with the selection variable, the selection variable should exhibit a significant link with the main dependent variable, and the coefficient on MILLS should be statistically insignificant. Table 10 shows there to be a positive relationship between MEAN_KO and KOTHARI (coef = 2.942, t = 9.309) in the first stage, indicating that earnings management in one company influences others in the same industry. In the second stage, a significant relationship between KOTHARI and FRDQ was found, and RMC strengthens this link. The MILLS variable is insignificant, confirming the absence of endogeneity bias.

TABLE 10. Regression results using the Heckman two-stage model

	First Stage	Second Stage	
	(1)	(2)	(3)
	KOTHARI	FRDQ	FRDQ
KO_RMC			2.031***
			(3.467)
RMC		0.680*	-0.051**
		(1.888)	(-2.147)
KOTHARI		0.552***	0.448***
		(4.128)	(2.843)
MEAN_KO	2.942***		
	(9.309)		
MILLS		0.399	0.522
		(0.831)	(1.128)
_cons	-1.638***	9.132***	9.152***
	(-4.948)	(9.861)	(9.854)
Controls	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
r2_p	0.193	0.174	0.191
F		13.720	13.924
N	1550	1550	1550

t statistics in parentheses
* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

ADDITIONAL ANALYSIS

This study conducts additional subsample analyses to examine whether the relationship between earnings management and financial risk disclosure quality varies across different firm conditions. The subsamples are selected based on three considerations. First, the pre- and post-COVID classification is used to assess whether the baseline relationship is sensitive to major macroeconomic shocks. Second, the profit- and loss-making firm classification is used because profitability status may shape managerial reporting incentives. Profit-making firms may face stronger pressure to maintain favorable market perceptions and meet stakeholder expectations, whereas loss-making firms may have different reporting incentives due to financial distress or weaker performance. Third, the high- and low-technology industry classification is used because technology intensity may influence business uncertainty, risk complexity, and disclosure incentives. These classifications provide additional insight into the conditions under which earnings management is more strongly associated with financial risk disclosure quality.

The first additional test separates the sample into pre- and post-COVID periods to examine whether the baseline relationship is sensitive to major macroeconomic shocks. For the additional analysis in Table 11 Panel A, the sample is divided into pre- and post-COVID periods. The results show that earnings management is positively and significantly correlated with financial risk disclosure quality in the pre-COVID period, while the relationship becomes statistically insignificant in the post-COVID period. This suggests that earnings management and financial risk disclosure are mainly driven by observations before the COVID-19 outbreak.

The second test splits firms based on profitability to see whether the relationship differs between loss- and profit-making firms. Table 11 Panel B indicates a positive and significant effect between earnings management and financial risk disclosure quality only for-profit firms, whereas for loss firms, the coefficient for earnings management is not significantly different from zero. Thus, the overall baseline result appears to be concentrated among companies that report positive earnings.

The third test classifies firms by industry type to assess whether technological intensity shapes the effect of earnings management and financial risk disclosure quality. In Table 11 Panel C, firms are classified into high-technology and low-technology industries. The regression results show that earnings management has a statistically positive and significant effect on financial risk disclosure quality only in low-technology industries, while in high-technology industries, the relationship is not significant. These additional tests suggest that the positive effect of earnings management on financial risk disclosure is present primarily in the pre-COVID period, specifically among profit-making firms and within low-technology sectors.

TABLE 11. Regression result for additional analysis

PANEL A: Regression result with subsample post and before covid period		
	Post Covid Period	Before Covid Period
	(1)	(2)
	FRDQ	FRDQ
KOTHARI	-2.941	0.645***
	(-1.55)	(4.81)
_cons	11.623***	9.670***
	(3.66)	(11.97)
Controls	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes
r2_a	0.048	0.181
N	176	1374
PANEL B: Regression Result Subsample by Loss and Profit Firm		
	Loss Firm	Profit Firm
	(1)	(2)
	FRDQ	FRDQ
KOTHARI	0.913	0.643***
	(1.59)	(4.84)
_cons	9.472***	9.708***
	(5.35)	(10.74)
Controls	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes
r2_a	0.258	0.159
N	403	1147
PANEL C: Regression Result Subsample by Industry High and Low Tech		
	High Tech	Low Tech
	(1)	(2)
	FRDQ	FRDQ
KOTHARI	-0.463	0.798***
	(-0.95)	(3.81)
_cons	9.607***	8.814***
	(9.82)	(9.64)
Controls	Yes	Yes
Industry FE	Yes	Yes
Year FE	Yes	Yes
r2_a	0.273	0.230
N	566	984

t statistics in parentheses
*** $p < 0.01$

DISCUSSION

The positive relationship between earnings management and financial risk disclosure quality should not be interpreted as evidence that earnings management improves transparency by itself. Rather, this finding reflects a more complex disclosure response. From an agency perspective, earnings management may remain opportunistic because it can obscure underlying performance, increase information asymmetry, and create credibility concerns among shareholders and other stakeholders. However, once credibility concerns arise, managers may have stronger incentives to provide more detailed financial risk disclosure to offset the negative perception associated with managed earnings. This interpretation is consistent with a signaling and legitimacy perspective. Firms engaging in earnings management may use financial risk disclosure as a compensating mechanism to signal that they remain aware of financial risks and have procedures in place to identify, measure, and manage those risks. By providing more comprehensive information about risk exposure, risk measurement, and risk management practices, firms may attempt to reduce perceived opacity, reassure investors, and preserve stakeholder trust. Therefore, the positive association documented in this study suggests that financial risk disclosure may operate as a complementary communication strategy when earnings management creates reputational and informational concerns, rather than as evidence that earnings management is inherently beneficial.

This finding is consistent with Han et al. (2023), who indicated that firms with aggressive earnings management practices often face greater financial and operational risks. To mitigate these risks and reassure stakeholders, such firms may be more inclined to provide comprehensive and high-quality risk disclosures. Similarly, Febrianto et al. (2022) suggests that high-quality risk disclosure can be used to reassure investors about a company's stability and risk management capability. Thus, the findings reconcile the seemingly contradictory interpretation by showing that earnings management may create the need for additional disclosure, while financial risk disclosure helps firms manage the credibility concerns arising from such reporting behavior. The findings also extend the recent evidence on the relationship between information asymmetry, earnings management, and disclosure quality. Chen et al. (2025) document that firms may increase their disclosure and improve said disclosure quality in response to higher information asymmetry. This supports the interpretation that firms facing credibility concerns may use disclosure as a mechanism to reduce information gaps and reassure market participants. In a related emerging-market context,

Nuhu et al. (2024) examine the nexus between disclosure quality, discretionary accruals, real earnings management, and corporate risk disclosure among Malaysian public firms. Compared with these studies, the present study contributes by focusing specifically on financial risk disclosure quality and by showing that earnings management is positively associated with FRDQ in the Indonesian context. This suggests that financial risk disclosure may serve as a compensating disclosure mechanism when discretionary accruals raise credibility concerns.

RMCs enhance the positive effect of earnings management on FRDQ. In line with the research by Nugraha et al. (2019), the RMC is important for monitoring and controlling the risk-taking behavior of firm management. With a RMC in place, companies can ensure that earnings management practices are conducted without compromising financial transparency. This strengthens the effect between earnings management and the quality of financial risk disclosure where the RMC acts as a control mechanism to ensure accurate and transparent risk disclosures. Additionally, according to Agustina et al. (2021), the existence of a RMC makes companies more aware of the risk implications of their strategic decisions, including earnings management. This increased awareness helps to integrate risk matters into decision-making, ultimately encouraging more comprehensive and transparent risk disclosures. The moderating role of the RMC is also consistent with recent studies emphasizing the importance of governance mechanisms in improving risk disclosure. El-Deeb et al. (2024) show that audit committee characteristics are associated with risk disclosure and that audit quality strengthens this relationship. Similarly, Erin et al. (2023) found that risk governance mechanisms, including board risk committee characteristics, CRO presence, and ERM frameworks, influence risk disclosure quality. The present study extends this literature by documenting a stronger positive association between earnings management and FRDQ among firms with an RMC. This finding is consistent with the possible role risk governance has in shaping disclosure responses when managerial reporting discretion raises credibility and concerns about information asymmetry. However, the analysis does not establish that an RMC presence ensures accurate disclosure or prevents opportunistic reporting.

Committee-related benefits should not be assumed across settings. Laili et al. (2024) found that sustainability committees do not significantly strengthen the relationship between corporate governance and sustainability performance. Although their committee and outcome measures differ from ours, their findings provide a useful contrast and reinforce the need for caution when interpreting committee presence as evidence of effectiveness.

In addition, during the COVID-19 pandemic, many companies faced severe financial pressure and shifted their priorities toward survival, liquidity management, and operational continuity rather than discretionary reporting strategies such as earnings management (Lassoued & Khanchel 2021). In the post-COVID period, regulatory attention and the stakeholder demand for crisis-related financial information has increased. During this period, the Indonesia Financial Services Authority (OJK) and the Indonesia Stock Exchange introduced several pandemic-related policies, including the relaxation of reporting deadlines and market-stabilization measures (OJK, 2020, 2021), while the IAI/DSAK has issued guidance on the application of relevant accounting standards, such as PSAK 8 and PSAK 71 (IAI, 2020a, 2020b). These developments have placed greater emphasis on liquidity, credit risk, fair value measurement, expected credit losses, impairment, and going-concern uncertainty. Thus, the pre-COVID findings suggest that earnings management encouraged firms to use financial risk disclosure as a compensating mechanism, whereas the post-COVID relationship weakened as disclosure became more influenced by crisis pressures and investors' information needs.

For profit-generating firms, a stronger pressure to meet or beat market expectations encourages the use of earnings management to smooth or adjust reported performance and to manage how financial risks are perceived by external users (Febrianto et al. 2022). These firms also have greater incentives to maintain a favorable market image and to signal stability to investors, creditors, and analysts. Consequently, they may complement earnings management with higher-quality financial risk disclosure as a way to provide a coherent narrative that justifies reported results, mitigates concerns about opportunistic behavior, and sustains investor confidence. This mechanism is consistent with the finding that the positive effect of earnings management on financial risk disclosure is concentrated among profit-reporting firms.

In low-technology industries, simpler business models, lower innovation pressure, and relatively modest growth expectations can create an environment in which short-term financial performance and perceived stability receive greater emphasis (Ferri et al. 2021; Gélinas 2007). In such settings, earnings management may be used as a tool to preserve the appearance of stable earnings and a sound financial position, while financial risk disclosure serves to construct a reassuring narrative around that performance. By contrast, high-technology firms operate in more rapidly changing and uncertain environments, characterized by high intangible intensity and expected volatility, so investors may already anticipate elevated risk levels. Accordingly, the marginal role of earnings management in shaping financial risk disclosure is less pronounced in high-tech industries, which is in line with the evidence that earnings management significantly affects financial risk disclosure quality only in low-technology sectors.

IMPLICATIONS

Theoretically, this study refines the agency-theory perspective by suggesting that accounting discretion and disclosure completeness need not move in opposite directions. Risk disclosure may address stakeholders' information demands while also serving managerial reporting incentives; greater completeness should therefore not automatically be interpreted as reduced opportunism. The role of the RMCs presence suggests that governance structures may condition this relationship, although the underlying mechanisms require further investigation.

Practically, boards could use the 35-item index to identify reporting gaps and assign RMCs the explicit responsibility for reviewing risk disclosures in coordination with audit committees. Investors should evaluate disclosure completeness alongside earnings management indicators rather than treating broader disclosure as an assurance of reporting credibility. For policymakers, the findings encourage the further evaluation of RMCs in relation to disclosure oversight but do not establish a basis for mandatory formation. Such a recommendation requires evidence on committee effectiveness, including independence, expertise, and activity, beyond the presence-based measure used in this study.

CONCLUSION

This study examines the effect between earnings management, RMCs, and the quality of financial risk disclosure. Using data from firms listed on the Indonesia Stock Exchange from 2015 to 2023, this study found that firms with higher levels of earnings management tend to provide higher-quality financial risk disclosures. This indicates that companies engaging in earnings management may simultaneously seek to strengthen their transparency and communication about financial risks. The presence of an RMC further reinforces this relationship, suggesting that the committee helps ensure that risk disclosures remain adequate even when earnings are being managed. The results are robust across alternative measures and methods, including 2SLS and the Heckman two-stage model. Additional analyses show that the main findings hold in several subsamples: before the COVID-19 pandemic, among profit-reporting firms, and within low-technology industries. These results suggest that the positive effect of earnings management on risk disclosure quality is not driven by crisis conditions, firm underperformance, or industry technology intensity.

This study has certain limitations. The sample size is relatively limited, and the analysis includes only firms with an identifiable financial risk section in their annual reports. This criterion may introduce sample selection bias and limits the generalizability of the findings to firms providing such a section. Future research could assess financial risk information throughout annual reports to examine the sensitivity of the findings to this restriction. Furthermore, because RMCs are not mandatory in Indonesia, this study cannot compare their role under voluntary and mandatory regulatory regimes. Future research would benefit from considering different regulatory environments to better understand how governance structures shape risk management and financial risk disclosure practices.

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Sri Ningsih (corresponding author)
Department of Accounting
Faculty of Economics and Business & PUI-PT Bisnis Berkelanjutan
Universitas Airlangga
Jl. Airlangga No. 4-6, Surabaya, INDONESIA.
E-Mail: sri.ningsih@feb.unair.ac.id

Siti Nur Aini
Department of Accounting
Faculty of Economics and Business & PUI-PT Bisnis Berkelanjutan
Universitas Airlangga
Jl. Airlangga No. 4-6, Surabaya, INDONESIA.
E-Mail: siti.nur.aini-2022@feb.unair.ac.id

Fajar Kristanto Gautama Putra
Department of Accounting
Faculty of Economics and Business & PUI-PT Bisnis Berkelanjutan
Universitas Airlangga
Jl. Airlangga No. 4-6, Surabaya, INDONESIA.
E-Mail: putra.fajar@feb.unair.ac.id

Khairul Anuar Kamarudin
School of Business
University of Wollongong in Dubai
UOWD Building, Dubai Knowledge Park, Dubai, UNITED ARAB EMIRATES.
E-Mail: KhairulKamarudin@uowdubai.ac.ae

APPENDIX

APPENDIX 1: Risk Disclosure Index

Risk Type	Risk Disclosure Index (RDI)
Interest Rate Risk	1. Risk disclosure and how the risks manifest 2. Objectives, policies, and procedures for managing risks and the methods used to measure risks 3. Changes in risk exposure, risk measurement, and objectives, policies, and processes for managing risks from the previous period 4. Summary of quantitative data on risk exposure as of the reporting date 5. Sensitivity analysis of interest rates indicating how profit and equity would be affected by changes in relevant risk variables that may occur on that date. 6. Methods and assumptions used in preparing sensitivity analysis 7. Interest rate risk concentration if not evident from quantitative data summaries and sensitivity analysis
Currency Risk	1. Risk disclosure and how the risks manifest. 2. Objectives, policies, and processes for managing risks and the methods used to measure risks. 3. Changes in risk exposure, risk measurement, and objectives, policies, and processes for managing risks from the previous period. 4. Summary of quantitative data on risk exposure as of the reporting date. 5. Sensitivity analysis of currency risk indicating how profit or loss and equity would be affected by changes in relevant risk variables that may occur on that date. 6. Methods and assumptions used in preparing sensitivity analysis. 7. Currency risk concentration if not evident from quantitative data summaries and sensitivity analysis.
Other Price Risk	1. Risk disclosure and how the risks arise. 2. Objectives, policies, and processes for managing risks, and the methods used to measure risks. 3. Changes in risk exposure, risk measurement, and objectives, policies, and processes for managing risks from the previous period. 4. Summary of quantitative data on risk exposure as of the reporting date. 5. Sensitivity analysis of other price risk indicating how profit or loss and equity would be affected by changes in relevant risk variables that may occur on that date. 6. Methods and assumptions used in preparing sensitivity analysis. 7. Concentration of other price risk if not evident from quantitative data summaries and sensitivity analysis.
Liquidity Risk	1. Risk disclosure and how the risks arise. 2. Objectives, policies, and processes for managing risks, and the methods used to measure risks. 3. Changes in risk exposure, risk measurement, and objectives, policies, and processes for managing risks from the previous period. 4. Summary of quantitative data on risk exposure as of the reporting date. 5. Maturity analysis for financial liabilities showing the remaining contractual maturities.
Credit Risk	1. Risk disclosure and how the risks arise. 2. Objectives, policies, and processes for managing risks, and the methods used to measure risks. 3. Changes in risk exposure, risk measurement, and objectives, policies, and processes for managing risks from the previous period. 4. Summary of quantitative data on risk exposure as of the reporting date. 5. Credit risk concentration if not evident from quantitative data summary and sensitivity analysis. 6. Maximum credit risk exposure (before deducting collateral). 7. Description of collateral used as security and other additional credit enhancements. 8. Information on the quality of financial assets with credit risk that are neither past due nor impaired. 9. The carrying amount of financial assets that are past due or impaired, where the terms have been renegotiated.