Vol. 3 No. 4 (2025)

ISSN 3007-3170(O)
ISSN :3007-3162(P)

Social Sciences & Humanity Research Review

The Effect of Corporate Governance on Earnings Management Through Accounting Conservatism: Evidence from Pakistani Banking Sector

Dr. Bushra Zulfiqar[1], Javeria Akhlaq[2], Saima Kalsoom[3], Ifrah Arooj[4], Muhammad Shahryar[5], Seemab Malik[6]

[1]Assistant Professor, University Institute of Management Sciences, Pir Mehr Ali Shah, Arid Agriculture University Rawalpindi
bushra.zulfiqar@uaar.edu.pk
[2-6]University Institute of Management Sciences, Pir Mehr Ali Shah, Arid Agriculture University Rawalpindi

ARTICLE INFO

Keywords:
Corporate Governance, Accounting Conservatism, Earnings Quality, Audit Committee, Board Independence, Ownership Structure, Pakistani Banking Sector, Financial Reporting, Panel Data Analysis, Emerging Markets

Corresponding Author:
Dr. Bushra Zulfiqar

bushra.zulfiqar@uaar.edu.pk

ABSTRACT

This study investigates the effect of corporate governance mechanisms on earnings management, with accounting conservatism acting as a mediating variable. The objective is to explore how governance structures such as board independence, audit committee characteristics, ownership concentration, board size, and CEO duality influence the degree of earnings management practices in firms, particularly in the context of the Pakistani banking sector. Accounting conservatism is examined as a potential pathway through which strong governance discourages opportunistic financial reporting.

Using panel data from annual reports of commercial banks in Pakistan over a 10-year period (2014–2024), regression analysis is employed to test the direct and indirect relationships. The results suggest that effective corporate governance reduces earnings management by promoting conservative accounting practices. The mediating role of accounting conservatism is found to be significant, indicating that it serves as a mechanism through which governance enhances financial transparency and reliability.

This research contributes to the literature by highlighting the importance of conservative accounting as a tool for mitigating earnings manipulation in emerging markets.

INTRODUCTION

In recent decades, the global financial landscape has been shaped by a series of high-profile corporate and financial scandals, which have underscored the importance of robust corporate governance and transparent financial reporting. Notably, the collapse of Enron Corporation in 2001, due to widespread accounting fraud and earnings manipulation, and the Lehman Brothers bankruptcy in 2008, triggered by excessive risk-taking and regulatory failures, sent shockwaves through financial markets worldwide. These scandals exposed deep-rooted flaws in governance systems and highlighted the consequences of poor oversight, conflicts of interest, and misleading financial statements. As a result, policymakers and regulators around the globe began placing greater emphasis on strengthening corporate governance frameworks and improving the integrity of financial disclosures.

The banking sector in Pakistan continues to serve as a cornerstone of the country's financial system, maintaining a dominant position with a substantial share in the overall financial services market. Banks in Pakistan have played a critical role in mobilizing financial resources and facilitating economic growth. The regulatory framework governing the sector is primarily defined by the Banking Companies Ordinance, 1962, which outlines the functions and responsibilities of banking institutions. According to this ordinance, a bank is defined as a financial entity that accepts deposits from the public. It deploys these funds through lending and other financial instruments with the ultimate objective of supporting economic activity and improving the standard of living (Government of Pakistan, 1962).

Banks in Pakistan act as financial intermediaries, bridging the gap between surplus and deficit units within the economy. This intermediary role involves collecting funds from depositors, such as individuals, corporations, and government entities, and reallocating them to borrowers in need of capital, such as businesses, entrepreneurs, and consumers. Through this process, banks help channel idle savings into productive investments, thereby contributing to economic development, job creation, and financial inclusion (State Bank of Pakistan, 2021).

One of the distinguishing features of the banking industry in Pakistan, as in many other emerging economies, is its high reliance on externally sourced capital. More than 80 percent of a typical bank's funding base is composed of customer deposits, borrowings from the interbank market, and other liabilities, rather than internal equity or retained earnings (SBP, 2021). This funding structure makes the banking sector unique compared to other industries such as manufacturing or non-financial services, which primarily operate using their own capital or equity financing.

In addition to traditional lending, banks in Pakistan offer a wide range of services, including trade finance, remittances, investment advisory, Islamic banking, and digital financial solutions. The evolution of banking technology and regulatory reforms by the State Bank of Pakistan (SBP) has further strengthened the role of banks in ensuring financial stability, promoting inclusive growth, and facilitating access to finance across all segments of society (SBP, 2022).

Given the central role of banks in channeling financial resources and supporting macroeconomic objectives, the stability, governance, and operational efficiency of the banking sector remain critical to the overall health of Pakistan's economy.

Earnings management in the banking sector of Pakistan often arises due to agency conflicts, which stem from the separation of ownership and control within financial institutions. These conflicts occur when the interests of shareholders (principals) diverge from those of the management (agents), as both parties aim to maximize their own economic benefits (Jensen & Meckling, 1976). Bank owners delegate decision-making authority to managers to operate the institution on their behalf. However, this delegation can create opportunities for managers to engage in earnings management practices, especially when they are under pressure to present a consistently stable and favorable financial position to shareholders, regulators, creditors, and other stakeholders (Healy & Wahlen, 1999).

In the context of Pakistan's banking industry, earnings management can undermine financial transparency and reduce stakeholder confidence. To address this, the implementation of robust corporate governance practices is essential. Corporate governance refers to the system of rules, practices, and processes by which a bank is directed and controlled. It establishes the framework for aligning the interests of management with those of shareholders and other stakeholders, thereby reducing the likelihood of opportunistic behavior by bank executives (Claessens & Yurtoglu, 2013).

To ensure effective governance, Pakistan's banking sector is guided by the principles of Good Corporate Governance (GCG), which are reinforced by regulations from the State Bank of Pakistan (SBP). These principles emphasize the importance of various internal governance mechanisms such as a well-functioning board of directors, an independent and active audit committee, managerial ownership to align incentives, and institutional ownership to promote oversight and accountability (SBP, 2022).

The aim of adopting good corporate governance mechanisms in Pakistani banks is to enhance transparency, strengthen internal controls, and ensure the accuracy and reliability of financial reporting. Transparent governance practices not only curb earnings manipulation but also improve investor confidence and contribute to the overall stability of the financial system (Beekes, Pope, & Young, 2004). Therefore, fostering a governance culture that supports ethical conduct and accountability is vital for the sustainable development of Pakistan's banking sector.

Corporate governance plays a critical role in ensuring that all operational and financial activities within a company, including its accounting practices, are conducted efficiently and ethically. In Pakistan's banking sector, effective corporate governance is especially important for promoting the use of prudent accounting methods. One such method is accounting conservatism, which is widely recognized as a tool to manage uncertainty and reduce financial risk. The principle of conservatism encourages cautious financial reporting, helping to prevent overly optimistic assessments by management and shareholders (Watts, 2003).

In the banking industry, where financial stability and public trust are paramount, conservative accounting practices serve as a safeguard against unexpected losses and overstatement of assets or income. The application of accounting conservatism can vary across institutions, depending on the commitment of the bank's leadership and internal stakeholders to ensure transparent, accurate, and reliable financial disclosures. The more committed the management is to corporate transparency and accountability, the more likely the bank is to adopt conservative accounting policies (LaFond & Roychowdhury, 2008).

In the context of Pakistan, regulatory bodies such as the State Bank of Pakistan (SBP) and the Securities and Exchange Commission of Pakistan (SECP) have emphasized the need for stronger corporate governance to improve financial reporting quality (SECP, 2021). Research evidence, such as the study by Leventis et al. (2011), indicates that banks with strong corporate governance frameworks are more likely to engage in conservative financial reporting compared to those with weaker governance structures. This finding is highly relevant to Pakistan's banking sector, where improving governance standards is essential for enhancing investor confidence, maintaining financial discipline, and promoting long-term stability in the financial system.

Thus, promoting a culture of good corporate governance in Pakistan's banking institutions is vital for encouraging prudent accounting practices like conservatism, which in turn helps build resilience and credibility in the sector.

The application of accounting conservatism in financial reporting within Pakistan's banking sector can play a significant role in minimizing the potential for earnings manipulation by management and in reducing agency conflicts. Accounting conservatism is closely linked to the issue of earnings management, as it acts as a constraint on managerial discretion. By promoting a cautious approach to financial reporting, conservatism limits the ability of managers to opportunistically manipulate reported earnings or exploit their access to private information that is not readily available to external stakeholders (Ball & Shivakumar, 2005).

In the context of Pakistani banks, where transparency and investor confidence are critical, the use of conservative accounting practices can serve as an important governance tool. It helps ensure that financial statements reflect a more realistic and risk-aware view of the bank's financial position, especially in times of economic uncertainty or market volatility.

Supporting this view, LaFond and Watts (2008) argue that greater implementation of accounting conservatism reduces the likelihood of income overstatement and financial misrepresentation by management. When conservatism is effectively applied, it discourages managerial opportunism, thereby improving the quality of reported earnings, enhancing the reliability of cash flow information, and ultimately increasing the overall value and credibility of the institution.

For Pakistan's banking sector, which operates in a highly regulated environment under the supervision of the State Bank of Pakistan (SBP), the adoption of conservative accounting practices can further strengthen corporate governance frameworks and promote long-term financial stability.

Purpose Of Study

1. Impact of corporate governance on accounting conservatism.
2. Effect of corporate governance on earnings management.
3. The influence of accounting conservatism on earnings management.
4. Accounting conservatism mediates the relationship between corporate governance and earnings management.

Problem Identification

The integrity of financial reporting remains a major challenge in Pakistan's banking sector. Weak corporate governance frameworks, coupled with inconsistent and sometimes opaque accounting practices, have raised serious concerns about transparency, investor confidence, and the reliability of financial disclosures. One of the key issues undermining the credibility of financial statements is the prevalence of earnings management, where managers manipulate accounting figures to meet performance targets or influence stakeholder perceptions.

Although accounting conservatism is widely regarded as a fundamental principle for promoting cautious and reliable financial reporting, its effectiveness in curbing earnings management largely depends on the strength of a bank's corporate governance mechanisms. Strong governance can deter opportunistic managerial behavior by enforcing accountability and enhancing oversight, thereby encouraging the use of conservative accounting practices. Conversely, in environments where governance is weak or poorly enforced, as is often observed in emerging economies like Pakistan, managers may exploit the lack of oversight to engage in earnings manipulation, despite the formal presence of conservative accounting guidelines.

Despite the critical nature of this issue, empirical research remains limited in the context of Pakistan. Specifically, there is a lack of in-depth studies examining the interplay between corporate governance, accounting conservatism, and earnings management in the Pakistani banking sector. Understanding how these elements interact is essential for policymakers, regulators, and banking institutions aiming to enhance financial transparency, restore stakeholder trust, and ensure the long-term stability of the financial system.

This gap in the literature highlights the need for further investigation into how corporate governance practices influence the relationship between accounting conservatism and earnings management in Pakistan's banking industry.

Problem Statement

Despite significant regulatory efforts by the State Bank of Pakistan and other authorities to strengthen corporate governance in the banking sector, the actual impact of these governance mechanisms on reducing earnings management remains unclear. Earnings management—the dependent variable in this study—refers to the intentional manipulation of financial statements by managers to serve personal or institutional interests. It undermines the integrity of financial reporting and presents a major challenge to transparency and stakeholder trust.

Corporate governance, representing the independent variable, is widely viewed as a critical mechanism to limit managerial discretion and improve oversight. However, the effectiveness of corporate governance practices in curbing earnings management in Pakistani banks is still uncertain. A key intervening factor in this relationship is **accounting conservatism**, which serves as a mediating variable. Accounting conservatism enhances the reliability of financial statements by requiring more stringent recognition of losses than gains, thereby discouraging opportunistic reporting behavior.

Yet, the mediating role of accounting conservatism in the relationship between corporate governance and earnings management has not been thoroughly examined in the context of Pakistan's banking sector. This gap in empirical research limits the ability of policymakers and practitioners to evaluate how governance structures operate in environments characterized by high managerial discretion.

Therefore, this study aims to investigate the influence of corporate governance on earnings management in Pakistani banks and to assess the mediating role of accounting conservatism in this relationship.

Research Objectives

1. To examine the impact of corporate governance mechanisms on accounting conservatism in Pakistani banks.
2. Analyze the impact of corporate governance on earnings management
3. To assess the influence of corporate governance on earnings management through the mediating role of accounting conservatism in the Pakistani banking sector..

Research Questions:

1. What is the relationship between corporate governance mechanisms and accounting conservatism in Pakistani banks?
2. How does corporate governance impact earnings management in the banking sector of Pakistan?
3. How does corporate governance influence earnings management through the mediating role of accounting conservatism in the Pakistani banking sector?

Significance Of The Study

This study offers crucial insights into the effectiveness of corporate governance mechanisms (CG) in fostering accounting conservatism (AC) and reducing earnings management (EM) within Pakistan's banking sector. In a financial environment where managerial discretion often leads to aggressive or opportunistic financial reporting, the role of robust governance structures becomes particularly vital. By positioning earnings management as the dependent variable and accounting conservatism as a mediating mechanism, this research deepens the theoretical understanding of how corporate governance influences the transparency and integrity of financial reporting.

In the context of Pakistan's developing economy, where regulatory enforcement and corporate accountability face considerable challenges, the findings of this study can assist regulators, investors, and policymakers in evaluating how governance mechanisms interact with managerial incentives to either constrain or facilitate earnings manipulation. This understanding is especially important in the banking industry due to its systemic significance, the critical requirement for public trust, and oversight by regulatory bodies such as the State Bank of Pakistan (SBP).

Moreover, this research lays a foundation for policy reforms aimed at strengthening corporate governance frameworks and promoting more transparent, reliable, and conservative accounting practices across the financial sector. It also benefits audit committees, board members, and bank executives by identifying governance attributes that are most effective in discouraging manipulative financial behavior. Consequently, the study contributes meaningfully to both academic literature and practical policymaking in financial reporting and governance within emerging markets like Pakistan.

Scope Of The Research

This study is confined to listed commercial banks operating in Pakistan, specifically those registered on the Pakistan Stock Exchange (PSX). The research period coincides with increased corporate governance reforms, regulatory tightening, and growing demand for financial transparency. The banking sector is selected due to its critical role in Pakistan's financial system and the specific regulatory environment governing its activities.

The study investigates the impact of corporate governance mechanisms (independent variables)—including board structure, audit committee independence, CEO duality, ownership concentration, and gender diversity—on earnings management (dependent variable). Additionally, it explores the mediating role of accounting conservatism, examining how conservative accounting practices influence the relationship between corporate governance and earnings management.

By focusing exclusively on the banking sector, the study maintains consistency in regulatory requirements, financial reporting standards, and organizational structures. Non-bank financial institutions (such as investment firms, microfinance banks, and insurance companies) and non-financial sectors are excluded due to differences in governance frameworks, accounting treatments, and risk profiles. Therefore, the findings apply specifically to Pakistan's commercial banking sector and may not be generalizable without further study.

This focused scope enables an in-depth understanding of how corporate governance mechanisms affect earnings management through accounting conservatism in a tightly regulated, high-stakes environment, contributing valuable insights to both academic research and policy development in emerging economies like Pakistan.

LITERATURE REVIEW

Corporate Governance

Corporate governance is basically a matter of controlling the behavior of top executives of the company to protect the interests of company owners (shareholders). Corporate governance problems occur because of the separation between ownership with control in the company. These problems can be traced to the development agency theory that explains the parties involved in the company (managers, company owners and creditors) will behave in accordance with their respective interests or have different interests.

According to Iskander and Chamlou, under the supervision of corporate governance mechanisms, they are divided into two groups: internal and external mechanisms. External mechanism is a way to influence the company in addition to using an internal mechanism, such as control of the company and market control. Internal mechanism is a way to control the company by using the structure and internal processes such as the general meeting of shareholders (AGM), the composition of the board of directors, the composition of the board of commissioners and board of directors meeting.

There are number of theories that explain the relationship between different dimensions of governance and performance. These theories commonly include the agency theory, the stewardship theory, the critical mass theory, the tokenism theory and the information asymmetry theory.

The agency theory explains the relationship between principal and agent. The theory elucidates that both parties try to protect their own concerns, and agent may not always work in the favor of principals. The agency issues occur if their goals/expectations are unaligned, then the agents may show the opportunistic behavior to protect their benefits instead of principals. The theory supports the concept that ownership should be separated from control because both the powers vested in one person may create conflict of interest and affect independence of board and its supervisory role (Jensen and Meckling, 1976; Krause et al., 2014). Conversely, the stewardship theory (Donaldson and Davis, 1991; Kiel and Nicholson, 2003) postulates that most managers act as truthful and reliable individuals that always work in the best interest of the organization. The scholars are of the view that both the powers vested in one person facilitate strong and unified leadership, timely decision and effective monitoring.

There are two opinions on the impact of female representation in board on firm performance. According to Kanter (1977), critical mass of women is required to improve the decision-making of the board and ultimately enhance firm performance. This critical mass of women is 30% or more defined in the literature (Ghosh, 2017). They provide justification that female participation in the board minimizes both agency threat and heterogeneity in

decision-making and it enhances the performance (Owen and Temesvary, 2018, Rajon et al., 2021). However, the scholars also argue that token representation of female in board negatively influences the performance as their voices are not recognized on the board, face the problem of isolation and fear of assimilation. These fears impede them to actively and freely participate in the affairs of the company (Kanter, 1977).

The theory posits that imbalance information exists between banks and various stakeholders may create adverse outcomes on bank performance (Akerlof, 1970). The empirical literature indicates that a vast majority of the research on governance has been conducted in developed countries, whereas very scant literature is available in developing and emerging economies. Several scholars are of the view that better mechanisms of governance (controls/checks) improve firm performance (Detthamrong et al., 2017; Faraget al., 2017).

Previous studies have examined the relationship of size of board, CEO duality, AC size, foreign ownership and gender diversity with bank performance (Herdjiono and Sari, 2017; Jayati and Subrata, 2018; Owen and Temesvary, 2018; Riyadh et al., 2019.Aslam and Haron, 2021; Rajon et al., 2021). However, their findings are inconclusive at best as some studies reported positive, while others documented negative impacts, and even some studies did not find any significant impact.There is yet to be a generally accepted definition of corporate governance. However, for our purpose, we adopt the much broader definition of corporate governance that is very much in line with the understanding of banking supervisors, as embodied in the Basel Committee on Banking Supervision's (2006) guidance, which states that from *a banking industry perspective, corporate governance involves the manner in which the business and affairs of banks are governed by the board of directors and senior management which, inter alia, affects how they:*

set corporate objectives, operate the bank's business on a day-to-day basis, meet the obligation of accountability to their shareholders and consider the interests of other recognized stakeholders (including, inter alia, supervisors, governments and depositors);, *align corporate activities and behavior with the expectation that banks will operate in a safe and sound manner and in compliance with applicable laws and regulations; and protect the interests of depositors.*

As noted, effective governance structures are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and the economy.

While banks are like nonfinancial/industrial firms as they all have stockholders, debt holders, board of directors, and competitors, banks have unique governance structures that are different from industrial firms (Adams & Mehran, 2003). First, banks are opaque and more complex than non-financial firms (Levine, 2004). Although information asymmetries plague all sectors of the economy, Furfine (2001) find evidence suggesting that information asymmetries are more pronounced in the banking sector. For example, the quality of bank loans is not readily observable, while the quality of assets of industrial firms is more easily discernible by third parties (Mülbert, 2009). Morgan (2002) finds that bond analysts disagree more substantially over bonds issued by banks than those issued by nonfinancial firms. The greater informational asymmetries between insiders and outsiders in banking make it very difficult for diffuse equity and debt holders to monitor bank managers. In terms of incentive contracts, the informational asymmetries make it more difficult to design contracts that align managers' interests with those of bank stockholders. Levine (2004) argues that when outcomes are difficult to measure and easy to influence in the short run, managers will find it easier to manipulate pay-offs from compensation packages. Further, the opaqueness of banks weakens competitive forces that, in other industries, help discipline managers through the threat of takeover. Levine (2004) argues that takeovers are less likely to be effective when insiders have much better information than potential purchasers. Prowse (1997) finds that hostile takeover is rare in the banking sector even in the industrialized countries.

Second, banks are heavily regulated and are subject to supervisory actions because of their importance to the economy and as a source of fiscal revenue as well as the opacity of their assets and activities. Of course, banking is not the only regulated industry. Nevertheless, even countries that intervene less in other sectors tend to impose elaborate and extensive regulations on banks. Greater government regulations adversely distort the behavior of bankers and inhibit standard corporate governance processes. At the extreme, governments own banks, and when the government is the owner, it changes the character of the governance of banks (Levine, 2004). In some cases, governments restrict concentration of bank ownership and the ability of outsiders to purchase a substantial percentage of bank equity stock without regulatory approval (Levine, 2004). By prohibiting concentrated equity ownership in banks, a corporate governance mechanism for dealing with the inability of diffuse equity holders to exert effective corporate control is lost.

Another example of regulatory effect on the governance of banking firms is the structure of executive compensation. Stock-based compensation schemes motivate managers to undertake more value-enhancing decisions (see Core, Guay, & Larcker, 2003), but regulators would also want to consider how stock options affect risk taking. Thus, although in industrial firm's stock options are used to incentivize managers to create value, as well as to protect the creditors of distressed firms, their use in financial firms may conflict with policy objectives that seek to protect the non-shareholding stakeholders such as depositors and taxpayers.

Third, banks have a different capital structure than other firms. Banks tend to have very little equity relative to other firms (Mehran, Morrison, & Shapiro, 2011). While it is not uncommon for some industrial firms to be financed almost entirely by equity, banks normally receive 90 percent or more of their funding from debt (Macey & O'Hara, 2003:97).

Thus, they are highly leveraged due to customers' deposits (Andres & Vallelado, 2008). In addition, banks' liabilities are largely in the form of deposits, which are available to their creditors/depositors on demand, while their assets often are in the form of loans that take longer to mature. Thus, banks are different because of their liquidity production function

(i.e., the mismatch in the term structure of banks' assets and liabilities). Banks' leveraged capital structures affect their risk-taking behavior. Depending on the situation, bank managers and stockholders benefit from greater flexibility in risk shifting. Thus, because the remuneration of bank managers is partly performance-based, the managers are easily able to change the banks' risk profile to meet the agreed performance targets. On the other hand, stockholders can exploit creditors (depositors and debt holders) by opportunistic (*ex post*) switch to riskier business strategies (Mülbert, 2009). Fourth, while the establishment of deposit insurance funds (such as the US Federal Deposit Insurance Corporation insurance fund in 1933 in response to the devastating effects of the Great Depression) has been effective in preventing bank runs and keeping the failure of individual banks from affecting the larger economy, implementation of such funds has a regulatory cost – it gives stockholders and managers of insured banks incentives to engage in excessive risk taking. According to Macey and O'Hara (2003), this moral hazard occurs for two reasons: one is banks can foist some of their losses onto other healthy banks, whose contributions to the insurance fund are used to pay off depositors of failed banks, and eventually taxpayers whose funds replenish the insurance funds when they are depleted, and other one is deposit insurance premiums are unrelated to, or would not fully compensate, the insurance fund for increased risk posed by a particular bank. Thus, deposit insurance induces banks to rely less on uninsured creditors with incentives to monitor and more on insured depositors with no incentives to exert corporate governance.

Fifth, the existence of deposit insurance schemes removes any incentive that insured depositors have to control excessive risk-taking behavior of banks because their funds are protected regardless of the outcomes of investment strategies that the banks may pursue. Thus, government-imposed deposit insurance schemes diminish depositors' incentive to

monitor banks and to demand interest payments commensurate with the risks of the banks (Keeley, 1988; Santos, 2001). Also, deposit insurance increases the incentives for bank owners to increase risk because of lower capital-toasset ratios (Levine, 2004).

Sixth, deposit insurance schemes increase the risk of fraud and self-dealing in the banking industry by reducing incentives for monitoring (Macey & O'Hara, 2003). Research shows that 175 of 286 bank failures occurred between 1990 and 1991 in the US were caused by insider lending (Jackson & Symons, 1999). Macey and O'Hara (2003) assert that such problems are more pronounced in the banking sector because a large portion of banks' assets are held in highly liquid form. Thus, deposit insurance reduces the incentives of depositors to monitor banks, which directly hinders corporate governance.

In sum, the uniqueness of banks, as described above, acts to exacerbate the multiple agency conflicts faced by banks and to reduce the effectiveness of some of the governance mechanisms for mitigating these conflicts.

Accounting Conservatism

Watts defines conservatism as the principle of prudence in financial reporting that companies are not in a hurry in recognizing and measuring assets and profits and immediately recognize the loss and debt that is likely to occur. The application of this principle resulted in selection of accounting methods directed to methods reported lower earnings or assets, and report higher debt. In this concept, the load must be immediately recognized than income, so that net income looks low.

Furthermore, conservatism will cause financial reporting to be pessimistic, it will reduce the optimism of the report. According to Martani and Dini, pessimism is needed to neutralize the excessive optimism manager.

As with the Basu which defines conservatism as the practice of reducing net earnings (net assets shrink) in response to bad news (bad news) but does not increase profits when responding to the good news (good news) [8]. While Givoly and Hyan define conservatism as the initial recognition of the cost and loss and delay the recognition of revenue and profit recognition [9]. Conservatism is an important valuation concept in accounting (Sterling, 1970). It requires caution when measurement is uncertain (Epstein & Jermakowicz, 2007). Conservatism is defined as "accountants' tendency to require a higher degree of verification for recognizing good news than bad news in financial statements . . . earnings reflect bad news more quickly than good news" (Basu, 1997:4).2 It requires a higher verifiability threshold for recognizing gains than losses (Basu, 1997). Conservatism benefits financial statement users by constraining managerial opportunism, mitigating agency

problems associated with managerial investment decisions, and enabling efficient debt agreements in the presence of asymmetric information (Ahmed & Duellman, 2007; Ball & Shivakumar, 2005; Basu, 2005; García Lara et al., 2009).

Further, conservative accounting commits managers to more timely reporting of "bad news" (as economic losses) than that of "good news" (as economic gains), and as a result, aids outsiders in efficient valuation of their claims (Lafond & Watts, 2008). García Lara et al. (2009) state that conservatism produces accounting numbers that are used in contracts to reduce agency costs. They explain that conservative accounting reduces the tendency of managers with short-term horizons to invest in negative-net present value (NPV) projects in two ways. First, as argued by Ball and Shivakumar (2005), it makes managers aware that they will not be able to deter the recognition of losses to the future. Second, it imposes greater costs to biasing financial reports upwards (Guay & Verrecchia, 2006). Thus, conservatism can be used as a device to motivate managers to cut losses earlier and abandon poorly performing projects (García Lara et al., 2009). Conservative accounting also facilitates the monitoring of debt contracts that can be written based on conservative numbers, triggering violations of debt covenants faster (Ball & Shivakumar, 2005; Watts, 2003).

Conservative accounting increases contracting efficiency by limiting the control rights of loss-making managers and by proving these rights back to stockholders and creditors (Watts, 2003).

Accounting conservatism can also lessen litigation risk. This is because the asymmetric recognition requirements for economic gains and losses are closely linked to asymmetries in the loss function of directors and auditors, where overstating (understating) net assets or earnings is more (less) likely to generate litigation costs (García Lara et al., 2009).

Evidence in the auditing literature suggests that lawsuits against auditors are more likely to be related to overstatement of earnings or net assets (Kellogg, 1984; St Pierre & Anderson, 1984) or cases of significant income-increasing abnormal accruals (Heninger, 2001).

Accounting conservatism is particularly important for banks due to their complexities, intense information asymmetries, opaqueness, and contracting particularities (Furfine, 2001; Levine, 2004). Regulators favor conservative accounting and reporting by firms to avoid criticisms when firms become insolvent (Watts, 2003). Indeed, central bankers prefer banks to practice accounting conservatism by setting aside higher loan loss provisions during economic upturn (Turner, 2010).

Corporate Governance and Accounting Conservatism

Corporate governance structures are put in place to address agency problems that arise from the separation of ownership and control (Jensen & Meckling, 1976) and from information asymmetry between contracting parties by efficiently monitoring management and contracts, respectively. Conservatism produces accounting numbers that are used in contracts to mitigate agency costs (García Lara et al., 2009). Lafond and Watts (2008) argue that conservatism reduces information asymmetry by restricting managers' incentive and ability to manipulate financial reporting. García Lara et al. (2009) also posit that effective governance structures will favor implementation of conservative accounting choices.

Thus, corporate governance and accounting conservatism are closely related and both are important in reducing agency costs associated with contracting (García Lara et al., 2009; Lim, 2011).

A literature review suggests that there are two competing views on the relationship between accounting conservatism and corporate governance. One view is that the relationship is negative (substitution view) in that the demand for conservatism is greater in situations where agency costs are more pronounced. Hence, ineffective governance structures will require higher levels of conservative accounting. Chi, Liu, and Wang (2009) document empirical evidence consistent with this view. The alternative view is that the relationship is positive (complementary view) in that effective governance structures result in better monitoring of management and hence will favor the implementation of conservative accounting.

The available empirical evidence in support of the alternative view is mixed. Thus, while the results of earlier studies (e.g.,Ahmed&Duellman, 2007; Beekes, Pope,&Young, 2004; García Lara et al., 2009) provide strong evidence, those of the most recent studies (e.g., Lim, 2011) provide only weak evidence that firms having certain governance structures engage in more conservative reporting.

Earnings Management

Earnings management is one of the factors that can reduce the credibility of financial statements are primarily corporate earnings. Add to earnings management bias in the financial statements and may make wrong decisions because of modified financial report. Earnings management is often done by company policy to manipulate earnings from operating results. Earnings management is done by selecting accounting methods that can raise or lower profits. According to Scott, earnings management is accounting policies applied by the manager of the existing accounting standards and are naturally able to maximize the utility or the market value of the company.

Healy and Wahlen (1999) provide a comprehensive definition: **"**Earnings management occurs when managers use judgment in financial reporting and in structuring transactions to alter financial reports to either mislead some stakeholders about the underlying economic performance of the company or to influence contractual outcomes that depend on reported accounting numbers**"**. Fischer and Rosensweig (1995) define earnings management as: **"**Actions by division managers which serve to increase (decrease) current reported earnings of a division without a corresponding increase (decrease) of the long-term economic profitability of the division.**"** As such, this definition identifies two important components of earnings management: consequences and intent.

(Healy & Wahlen, 1999; Roychowdhury, 2006; Gajevszky, 2014) argued that the manipulation of accounting figures as an outcome of ordinary operational practices appears to arise from management's motivation to mislead shareholders to ensure that the organization's financial targets have been met in the course of business. Due to the information asymmetry which exists between the company`s insiders and outsiders, individuals within an organization can rely on their control in financial reporting and their access to financial information within the company to overstate the income or to mask obtaining unfavorable results. From this viewpoint, management may use different methods such as hiding the changes in economic performance by creating reserves for future periods, hence reducing income volatility (Leuz et al., 2003; Hijazi & Al-Thuneibat, 2015).

The relation between corporate governance and earnings management

Board governance can directly affect managers' decisions and activities, and can influence choosing, hiring, and controlling external auditors and internal control mechanisms through the audit committee. Although, better board governance can use the internal control system to monitoring opportunistic earnings management (Brickley et al., 1994; Klein, 2002; Carcelloet al., 2006). Prior literature has documented how board independence can constrain earnings management (Dechow&Dichev, 2002) due to independent directors do not seek self-interests such as executive compensation, the fraudulent of assets and delude investors to meet personal objectives.

Williamson (1981) debated that the independence of the board is necessary to oversight managerial activities to maintain the interest of investors. Roe (1991) points out that Board independence can prohibit managers' abuse of power. Similarly, Beasley (1996) observed that the inclusion of a large number of outside directors on the board could decrease the probability of manager's opportunistic behavior. Peasnell et al., (2005) supports this view by arguing that a higher percentage of outside directors in the UK can better prevent income-increasing discretionary accruals to avert earnings management. Likewise, Klein (2002) supports this view by arguing that a negative relationship between board independence and earnings management exists in the US. Correspondingly, Xie et al. (2003) find a negative relationship between board independence and the extent of earnings management.

Bedard et al (2004) also observed that audit committees with financial expertise in the US can prohibit earnings management. Further, Agrawal and Chadha (2005) point out that audit expertise can prevent fraud and manipulating earnings, which are measures that affect earnings management. Gaver and Gaver (1998) found a significant and positive association between cash compensation and earnings only if those earnings are positive. Baber et al. (1998) supports this view by arguing that firms with higher compensation function have more persistent components of earnings. Cheng (2004) depicted a significant positive relation between changes in option compensation and changes in R&D expenditures as the executive's terminal year approaches. Moreover, Huson et al (2012) and Man and Wong (2013) observed evidence that the compensation committee makes decisions related to discretionary expenditure in the executive's terminal year when setting cash compensation for executives, and intervenes to minimize payments when managers make up accruals

Previous Research

Previous researchers have documented that the influence of the role of corporate governance on earnings management is noteworthy in the sense that a high quality of corporate governance limits earnings management practices. However, previous research has reported mixed results about the nature of this relationship. Klein (2002) found that firms with boards and/or audit committees composed of independent directors are less likely to have large abnormal accruals. The study also suggests that boards structured to be more independent of the CEO may be more effective in monitoring the corporate financial accounting process. Liu and Lu (2007) indicated that good corporate governance mitigates agency problems, especially agency conflicts between the largest shareholders and the minority shareholders. In other words, firms with higher corporate governance levels have lower levels of earnings management. Ali Shah et al., (2009) reported similar results i.e. there is a positive relationship between corporate governance and earnings management.

Gaps in the Literature

While extensive research has been conducted in developed economies, there is a noticeable scarcity of empirical studies exploring the interplay between corporate governance, accounting conservatism, and earnings management in Pakistan's banking sector. The literature lacks clarity on whether corporate governance mechanisms promote accounting conservatism or act as a substitute in mitigating earnings management.

Furthermore, most existing studies fail to assess the **mediating role** of accounting conservatism between governance structures and earnings management. The unique dynamics of Pakistan's regulatory environment, family ownership patterns, and institutional weaknesses highlight the need for context-specific research to address these gaps.

CONCEPTUAL MODEL AND HYPOTHESIS

Theoretical Foundations

The conceptual model of this study is underpinned by several interrelated theories that explain the relationships among **corporate governance (CG)**, **accounting conservatism (AC)**, and **earnings management (EM)**. These theories provide the basis for understanding how governance mechanisms influence financial reporting practices in the context of Pakistan's banking sector.

1. Agency Theory (Jensen & Meckling, 1976)

Related Variables:

- Corporate Governance (CG)
- Earnings Management (EM)
- Accounting Conservatism (AC)

Agency theory posits that conflicts arise due to the separation of ownership (principals) and control (agents). Managers may act in their own interest, leading to opportunistic behaviors such as earnings manipulation. Effective corporate governance mechanisms—like board independence, audit committee oversight, and ownership concentration—are designed to mitigate agency costs and align managerial decisions with shareholders' interests. Accounting conservatism also plays a complementary role by restricting managerial discretion in financial reporting, thus reducing the potential for earnings management.

2. Stewardship Theory (Donaldson & Davis, 1991)

Related Variables:

- Corporate Governance (CG)

In contrast to agency theory, stewardship theory assumes that managers are inherently trustworthy and act in the best interest of the organization. Under this view, a unified leadership structure (e.g., CEO duality) may enhance decision-making efficiency and governance effectiveness. However, this theory may not always hold true in environments with weak regulatory enforcement, such as Pakistan, where concentrated authority can increase the risk of earnings manipulation.

3. Information Asymmetry Theory (Akerlof, 1970)

Related Variables:

- Earnings Management (EM)
- Accounting Conservatism (AC)

This theory emphasizes the unequal distribution of information between management (insiders) and external stakeholders (outsiders). Such asymmetry creates room for managers to manipulate earnings or hide unfavorable performance. Accounting conservatism helps mitigate information asymmetry by requiring earlier recognition of losses than gains, thus providing a more cautious and reliable view of financial performance. Effective corporate governance can further reduce this asymmetry through enhanced oversight and transparency.

4. Critical Mass Theory & Tokenism Theory (Kanter, 1977)

Related Variable:

- **Gender Diversity (within CG)**

Critical mass theory suggests that the presence of a significant proportion (typically 30% or more) of women on corporate boards can positively influence board dynamics and decision-making. In contrast, tokenism theory argues that minimal or symbolic representation does not yield substantial influence and may lead to isolation. In the context of corporate governance, gender diversity—if meaningfully implemented—can contribute to more ethical oversight and discourage earnings manipulation, thereby supporting conservative reporting practices.

These theories provide a foundation for hypothesizing the links among governance, conservatism, and earnings management.

Hypothesis Development

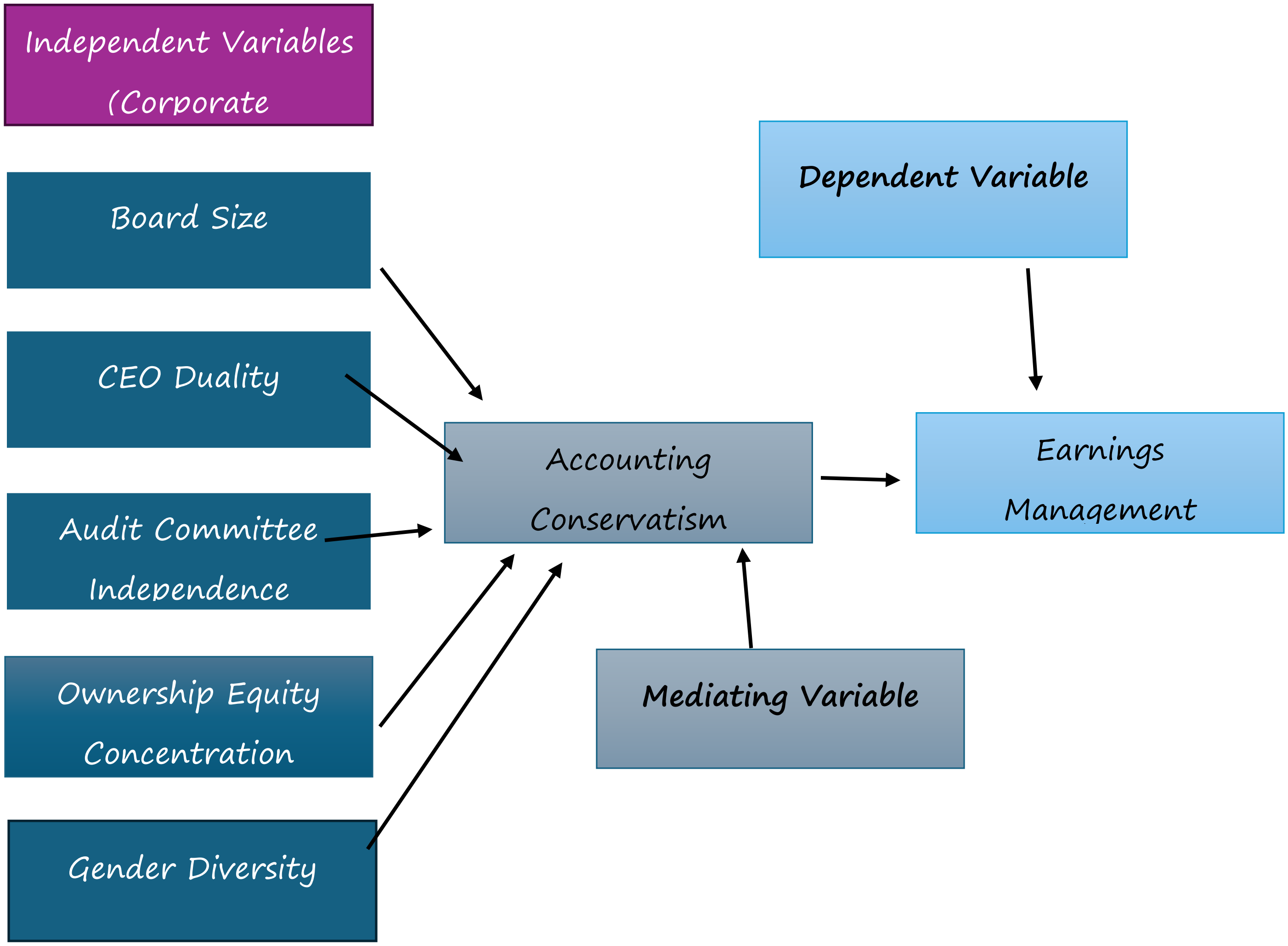
Based on the literature review and theoretical foundations—particularly agency theory, stewardship theory, and information asymmetry theory—this study investigates the relationship between corporate governance mechanisms, accounting conservatism, and earnings management in Pakistan’s banking sector. The following hypotheses are developed:

H1: Board Size has a significant relationship with Accounting Conservatism.
H2: CEO Duality has a significant negative effect on Accounting Conservatism.
H3: Audit Committee Independence has a significant positive effect on Accounting Conservatism.

H4: Ownership Concentration has a significant relationship with Accounting Conservatism.
H5: Gender Diversity on the board has a significant positive relationship with Accounting Conservatism.
H6: Accounting Conservatism is negatively associated with Earnings Management.
H7: Corporate Governance mechanisms (Board Size, CEO Duality, Audit Committee Independence, Ownership Concentration, Gender Diversity) are significantly related to Earnings Management.
H8: Accounting Conservatism mediates the relationship between Corporate Governance mechanisms and Earnings Management.
These hypotheses are tested using panel data regression models, with Accounting Conservatism serving as a mediating variable between corporate governance indicators and the dependent variable, Earnings Management.

Conceptual Framework
Relationship Between Variables

1. Board Independence, Audit Committee Independence, Board Size, Ownership Structure, and CEO Duality are treated as independent variables under the umbrella of Corporate Governance (CG) mechanisms.
2. These mechanisms aim to monitor management and ensure transparent financial reporting practices.
3. Earnings Management (EM) is the dependent variable, representing the manipulation of financial information by managers to meet targets or mislead stakeholders.
4. Accounting Conservatism serves as a mediating variable, meaning:
   - It links corporate governance to earnings management.
   - It involves a cautious accounting approach where losses are recognized early and gains are deferred.
5. The framework assumes that:
   - Strong corporate governance leads to more conservative accounting.
   - More conservative accounting reduces the opportunity and motivation for earnings management.
6. Therefore, the effect of governance on earnings management is indirect, and accounting conservatism acts as the channel through which this influence occurs.
7. This model highlights that conservative accounting is not just an outcome, but a tool used by governance structures to curb unethical earnings practices.


Independent Variables
(Corporate
Board Size
CEO Duality
Audit Committee
Independence
Ownership Equity
Concentration
Gender Diversity
Dependent Variable
Accounting
Conservatism
Earnings
Management
Mediating Variable

METHODOLOGY

This study aims to investigate the influence of corporate governance on earnings management, with a particular focus on the mediating role of accounting conservatism among commercial banks listed on the Pakistan Stock Exchange (PSX). Given the increasing concerns over earnings manipulation and the need for financial transparency, this research explores how strong governance mechanisms can deter opportunistic managerial behavior and promote more reliable financial reporting through the adoption of conservative accounting practices.

The study is contextualized within Pakistan's unique regulatory and institutional framework, considering factors such as ownership concentration, regulatory oversight by the State Bank of Pakistan (SBP), and the specific financial disclosure requirements applicable to the banking sector. By incorporating these sector-specific characteristics, the research seeks to provide a deeper understanding of how corporate governance structures—such as board composition, audit committee effectiveness, and ownership patterns—affect the extent of earnings management, both directly and indirectly through their influence on accounting conservatism.

Ultimately, this study contributes to the literature by offering empirical evidence on the interplay between governance, conservatism, and earnings management in an emerging market context, while also offering insights for policymakers, regulators, and banking professionals seeking to enhance the credibility and transparency of financial reporting in Pakistan's banking industry.

Research Design:

This study employs a quantitative, explanatory research design to investigate the causal relationships among corporate governance, accounting conservatism, and earnings management within the context of Pakistan's banking sector. The primary aim is not only to identify associations among these variables but also to explore the mechanisms through which corporate governance affects earnings management, both directly and indirectly through the mediating role of accounting conservatism.

Given the complexity and interdependence of governance structures, financial reporting behavior, and managerial incentives in the banking industry, an explanatory approach is well-suited for uncovering the underlying dynamics. The study tests a series of theoretically grounded hypotheses using empirical data collected from commercial banks listed on the Pakistan Stock Exchange (PSX). This enables a structured analysis of how specific elements of corporate governance—such as board independence, audit committee activity, and ownership structure—impact the extent of earnings manipulation.

The quantitative design facilitates the measurement of direct effects, such as the influence of corporate governance mechanisms on earnings management, as well as indirect effects, where accounting conservatism serves as a mediating variable that transmits the impact of governance practices onto financial reporting behavior. This approach provides a more nuanced understanding of how governance can mitigate earnings management by encouraging more cautious and transparent accounting choices.

By focusing on a highly regulated and economically significant sector, the study contributes to the growing body of literature on corporate governance and financial reporting in emerging markets. It also offers practical insights for regulators, policymakers, and banking institutions aiming to strengthen governance frameworks, promote conservative accounting, and reduce the prevalence of earnings manipulation in Pakistan's financial system.

Sample and Data Collection

The sample for this study comprises scheduled commercial banks listed on the Pakistan Stock Exchange (PSX) over the ten-year period from 2014 to 2024. This time frame allows for a comprehensive analysis of trends and patterns in corporate governance practices, the application of accounting conservatism, and their impact on earnings management in the banking sector. The selection of scheduled commercial banks ensures consistency in terms of regulatory oversight and financial reporting standards.

To maintain uniformity and reliability in the analysis, investment banks, microfinance institutions, and insurance companies are excluded from the sample. These entities operate under different regulatory frameworks and accounting standards, which could introduce variability and hinder the comparability of results across institutions.

Data for this study is obtained from a range of credible and authoritative sources, including:

Annual audited financial statements of the listed commercial banks, which provide key information on accounting practices, earnings figures, and governance disclosures.

Disclosures available through the Pakistan Stock Exchange (PSX), including board structure, ownership details, and corporate governance compliance reports.

Publications by the State Bank of Pakistan (SBP), such as banking statistics, prudential regulations, and governance compliance guidelines, which offer insights into regulatory expectations and the governance environment specific to the banking sector.

This multi-source data collection strategy ensures the accuracy, depth, and validity of the variables used to evaluate the relationships among corporate governance, accounting conservatism, and earnings management. It also helps to capture the nuances of Pakistan's banking environment, which is shaped by evolving regulatory reforms and institutional developments over the study period.

Sample Size

The sample consists of **30 listed commercial banks** in Pakistan, observed over a **10-year period** from **2014 to 2024**, resulting in **300 firm-year observations** (30 banks × 10 years). This panel dataset enables the study to capture both cross-sectional and time-series variations in corporate governance and financial reporting behavior.

Tool Used:

Data analysis was performed using **Stata 17**, a robust statistical software well-suited for panel data analysis. Stata was used to:

- Conduct descriptive statistics and correlation analysis
- Perform fixed effect regression modeling
- Test for multicollinearity (VIF), heteroskedasticity, and serial correlation

Variables and Measurement

This study investigates three primary constructs: corporate governance, accounting conservatism, and earnings management. The measurement of these variables is based on established models and prior empirical research to ensure consistency and reliability.

Table 1: Description of Study Variables

Variable Name	Abbreviation	Type	Description
Corporate Governance	CG	Independent Variable	Overall corporate governance score or index

Earnings Management	EM	Dependent Variable	Extent of earnings manipulation
Accounting Conservatism	AC	Mediating Variable	Degree of conservatism in accounting

1. **Independent Variable: Corporate Governance (CG)**

Board Size

The size of a bank's board of directors plays a critical role in shaping the effectiveness of corporate governance, particularly in complex and highly regulated sectors such as banking. In the context of Pakistan's banking industry, where institutions operate under strict oversight by the State Bank of Pakistan (SBP) and face increasing pressure for transparency and accountability, board size can significantly influence the quality of managerial monitoring and decision-making.

There are two competing views on the optimal size of a board. On one hand, larger boards are believed to offer diverse expertise, broader perspectives, and enhanced capacity to oversee complex banking operations. This diversity may be beneficial in Pakistan, where banks must navigate not only financial risks but also regulatory compliance and governance reforms. A larger board may also dilute the influence of a dominant CEO, thereby enhancing checks and balances (Fama & Jensen, 1983).

However, the alternative view argues that excessively large boards can become inefficient, difficult to coordinate, and vulnerable to free-riding behavior among directors. As coordination becomes more challenging, decision-making may slow down, and individual accountability may weaken. This issue is particularly relevant in Pakistan, where governance challenges are often linked to inefficiencies in oversight and weak enforcement mechanisms.

Conversely, smaller boards are generally seen as more cohesive and capable of efficient communication and quick decision-making. In the Pakistani banking context, smaller boards may improve monitoring intensity and accountability, especially when banks face reputational and regulatory scrutiny. Studies such as those by Ahmed et al. (2006) and Dey (2008) support the notion that smaller boards foster greater engagement and coordination.

Nonetheless, small boards also have limitations. They may be overburdened due to the significant oversight demands in banking, including compliance with SBP regulations, risk management, and internal control systems. Limited board size may also restrict the availability of diverse skills and expertise needed to guide strategic decisions (John & Senbet, 1998; Guest, 2009).

Empirical evidence indicates that board size is influenced by several contextual factors, including firm size, industry type, and operational complexity (Krishnan & Visvanathan, 2009; Pathan, 2009). In Pakistan, where commercial banks are among the most systemically important and regulated entities, the board's workload and governance responsibilities are substantial. Therefore, an optimal board size for Pakistani banks must balance the need for diversity and expertise with the necessity of efficient oversight and communication.

Board Size= Total number of directors on the board

CEO Duality

In the framework of agency theory, CEO duality—where the Chief Executive Officer also serves as the Chairperson of the Board—can significantly impact the effectiveness of corporate governance, particularly in Pakistan's banking sector. CEO duality often reflects a concentration of decision-making power, which can undermine board independence and increase the likelihood of managerial dominance over governance processes.

In Pakistani commercial banks, this concentration of power is especially concerning due to the sector's complex regulatory environment and the importance of financial transparency. When one individual holds both roles, they can control the board's agenda, restrict the flow of critical information, and influence board appointments. This may discourage independent directors from challenging questionable managerial decisions, even when such actions conflict with sound governance practices (Haniffa & Cooke, 2002; Dey, 2008).

Such a structure can weaken the board's monitoring effectiveness, increasing the risk of earnings management, where financial results are manipulated to present a more favorable view of the bank's performance. Given that the Pakistani banking sector faces ongoing scrutiny regarding financial reporting integrity, CEO duality may compromise accountability and allow greater room for discretionary financial behavior.

Additionally, executive remuneration structures can intensify this issue. While traditionally bank CEOs were viewed as risk-averse, performance-based pay incentives have shifted executive behavior toward maximizing short-term gains. Similar to trends observed in developed markets, there is growing concern in Pakistan that certain compensation models may encourage risk-taking and strategic manipulation of earnings, thereby reducing long-term financial stability (Bai & Elyasiani, 2013; Hagendorff & Vallascas, 2011).

Moreover, powerful CEOs may reduce transparency by limiting the quality and completeness of voluntary disclosures related to financial and operational matters. By controlling the flow of information to external stakeholders—including regulators, investors, and analysts—they reduce the effectiveness of external monitoring. In an environment like Pakistan, where external governance mechanisms are still maturing, such practices can severely impair oversight and weaken stakeholder confidence.

In conclusion, CEO duality represents a significant governance challenge in Pakistan's banking sector. It can erode board independence, facilitate earnings manipulation, and limit transparency. Strengthening board structures and promoting a clear separation of powers are essential to enhancing corporate accountability and financial integrity in the industry.

1, if CEO is also the Chairperson of the Board

0, otherwise

Audit Committee Independence

Audit committee independence is a cornerstone of effective corporate governance, particularly in financial institutions where the accuracy of financial reporting is critical. In the context of Pakistan's banking sector, an independent audit committee is vital for ensuring transparency and limiting earnings management, which refers to managerial manipulation of reported earnings for personal or organizational gain (Dechow et al., 1995).

An independent audit committee—composed predominantly of non-executive directors—can function without influence from management, enabling objective oversight of financial statements, internal controls, and external audit processes (Abbott et al., 2000). This independence enhances the committee's ability to detect irregularities in financial reporting and curtail practices such as income smoothing and accrual-based manipulation. Given the complex regulatory and financial environment in Pakistan's banking industry, audit committee independence becomes even more critical for upholding financial integrity.

The Securities and Exchange Commission of Pakistan (SECP) has mandated through the Code of Corporate Governance that listed companies, including commercial banks, must establish audit committees comprising a majority of independent directors (SECP, 2017). Despite this requirement, actual implementation varies across banks. In some cases, independent members may lack the financial expertise or autonomy necessary to effectively challenge senior management, thus weakening the monitoring function (García-Meca & Sánchez-Ballesta, 2009).

Furthermore, Pakistan's banking sector is often characterized by concentrated ownership structures, including family ownership or politically affiliated boards, which can compromise the true independence of audit committee members. These dynamics can discourage critical oversight and increase the likelihood of earnings manipulation to meet stakeholder expectations (Shabbir et al., 2020).

Empirical research supports the idea that greater audit committee independence is negatively associated with earnings management, indicating that truly independent committees enhance financial reporting quality (Klein, 2002; Xie et al., 2003). Independent audit committees are also more likely to promote conservative accounting practices, reinforcing transparent and prudent financial disclosures (Ahmed & Duellman, 2007).

In summary, while Pakistan's regulatory framework supports audit committee independence, practical enforcement and board dynamics continue to influence its effectiveness. Strengthening independence through rigorous enforcement of governance codes, director training, and transparent appointment processes can significantly improve oversight and reduce earnings manipulation in the banking sector.

$$\mathrm{ACI} = \frac{\text{Number of independent audit committee members}}{\text{Total audit committee members}}$$

Ownership Concentration

Ownership concentration refers to the extent to which a company's shares are held by large shareholders, such as families, state institutions, or institutional investors. In Pakistan's banking sector, ownership structures tend to be highly concentrated, with significant stakes often held by government entities, influential business families, or corporate groups (La Porta et al., 1999; Javid & Iqbal, 2008). This concentrated ownership structure has important implications for corporate governance and earnings management.

From an agency theory perspective, concentrated ownership can reduce the traditional conflict between managers and shareholders by enhancing oversight and aligning managerial actions with shareholder interests (Shleifer & Vishny, 1986). Large shareholders are better positioned to monitor management and demand greater accountability, which may reduce the scope for opportunistic earnings management (Ali et al., 2008).

However, in the context of emerging markets like Pakistan, the situation is more nuanced. While large blockholders may constrain managerial discretion, they may also exploit their control rights for personal gain at the expense of minority shareholders, especially in environments where investor protections and regulatory enforcement are weak (Claessens et al., 2000). This dual role creates the potential for "principal–principal conflicts", where dominant shareholders engage in practices such as earnings manipulation to hide wealth appropriation or maintain control (Fan & Wong, 2002).

In Pakistan's banking industry, where banks are not only financial intermediaries but also politically connected institutions, the influence of controlling shareholders can weaken the independence of boards and audit committees, thus increasing the risk of earnings management (Shabbir et al., 2020). Empirical evidence suggests that when ownership is highly concentrated, the dominant shareholders may pressurize managers to meet earnings targets through aggressive accounting tactics (Liu & Lu, 2007).

Moreover, in some cases, state ownership—common in Pakistan's large banks—may not be effective in reducing earnings management due to bureaucratic inefficiencies, lack of incentive alignment, and political interference (Chen et al., 2009). This can lead to the subversion of financial transparency and create distortions in performance reporting.

Therefore, while ownership concentration can provide strong oversight in theory, in practice its effectiveness depends heavily on the institutional and regulatory environment. In Pakistan, unless supported by strong legal protections for minority shareholders and independent oversight mechanisms, high ownership concentration may actually facilitate rather than constrain earnings manipulation.

$$\mathrm{OC} = \sum_{i=1}^{n} \text{Ownership\% of top } n \text{ shareholders (usually top 3 or 5)}$$

Gender Diversity

Gender diversity on corporate boards refers to the inclusion of women in board-level decision-making roles. In recent years, gender diversity has garnered global attention for its potential to improve board effectiveness, decision-making quality, and corporate accountability. In the context of Pakistan's banking sector, however, the presence of women in senior leadership and board positions remains limited due to cultural, social, and structural barriers (Farooq & Sajid, 2015).

From a corporate governance perspective, diverse boards are considered to bring varied perspectives, leading to more balanced discussions, reduced groupthink, and improved oversight (Adams & Ferreira, 2009). Women are often perceived to adopt more ethical decision-making approaches, and their presence may help discourage opportunistic practices such as earnings management by promoting greater transparency and accountability (García Lara et al., 2007).

Empirical evidence suggests that gender-diverse boards are more likely to challenge management decisions, which could reduce the tendency toward financial manipulation (Srinidhi et al., 2011). This is particularly relevant in Pakistan's banking industry, where high regulatory demands and public scrutiny necessitate strong ethical standards and conservative financial practices.

However, the effectiveness of gender diversity depends on the influence and independence of female directors. Token representation may not yield meaningful change unless women hold active and influential roles on audit or governance committees (Terjesen et al., 2009). In Pakistan, although regulatory frameworks like the SECP's Code of Corporate Governance mandate the inclusion of at least one female director, implementation remains superficial in many institutions (SECP, 2017).

Given the patriarchal nature of corporate culture in Pakistan and limited professional mobility for women, enhancing board gender diversity could represent both a governance improvement and a step toward reducing earnings manipulation through better monitoring and ethical rigor (Ali & Parveen, 2019).

$$\mathrm{GD} = \frac{\text{Number of female directors}}{\text{Total number of directors}}$$

2. **Dependent Variable: Earnings Management (EM)**

Definition:

The modified Jone's model her is used to calculate discretionary accruals which is the proxy for earning management. The Jone's model is the most effective model for estimating discretionary accruals (Dechow et al, 1995). Guay, Kothare and Watts (1996) have declared both Jone's and modified Jone's model as the best and the most reliable ones for estimation of Discretionary Accruals (Nawaz, 2024).

Formula:

$$\text{DA}=\frac{1}{A_{t-1}}+\frac{\Delta REV-\Delta REC}{A_{t-1}}+\frac{PPE}{A_{t-1}}+\mu$$

Measurement Method:

To estimate the discretionary accruals, the modified Jones model is used:

Where:

TA is the total accruals in year t for the firm,
At−1 is total assets in year t-1 for the firm,
∆**REV** is revenues in year t less revenues in year t-1 to year t for the firm,
∆**REC** is net receivable in year t less net receivable in year t-1 for the firm,
PPE is gross property, plant, and equipment in year t for the firm,
μ is stochastic term in year t for the firm (unexplained component of total accruals).

3. **Mediating Variable: Accounting Conservatism (AC)**

Definition:

According to Sinambela and Almilia (2018), conservatism reflects the principle of prudence, where institutions carefully evaluate and choose financial reporting strategies that minimize the risk of overstatement. This approach is particularly relevant in Pakistan, where regulatory oversight by the State Bank of Pakistan (SBP) and stakeholder expectations for transparency are increasingly prominent. Following the methodology of Iskandar and Sparta (2019), if the calculated conservatism value is negative, it indicates that the bank has effectively implemented conservative reporting practices. Conversely, a positive value signals the absence of conservatism, implying that the bank may be more aggressive in its financial reporting, potentially increasing the risk of earnings manipulation (Saputri & Praptiningsih, 2024).

Formula:

$$\text{CONACC} = \frac{\text{NIO+DEP-CFO x (-1)}}{\text{T}A}$$

Measurement Method:

Measurement of Accounting conservatism

Where;

CONACC: Level of Accounting Conservatism
NIO: Net Income for the year
DEP: Fixed Asset Depreciation
CFO: The net amount of cash flow from operating activities for the current year
TA: Book value of total assets

Results and Discussion

Here's the analysis of your **Accounting Conservatism (conacc)** and **Earnings Management (em)** against **Corporate Governance variables**:

1. Descriptive Statistics

Table 2:Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Accounting Conservatism (conacc)	-73,495	127,728	-1,055,789	354,458
Earnings Management (em)	-0.117	1.272	-17.599	5.779
Board Size	9.31	2.87	5	14
CEO Duality	0.28	0.45	0 (No Duality)	1 (Duality)
Audit Independence	0.61	0.17	0.30	0.90
Ownership Concentration	0.51	0.18	0.20	0.80
Gender Diversity	0.98	0.80	0	2

Key Observations:

- On average, **banks are conservative in reporting**, but there is **very large variation** in conacc, possibly due to firm-specific policies or estimation sensitivity.
- Average board size is ~9, which is in line with standard governance codes.
- About **28% of banks** have **CEO duality**, which could signal weaker governance in some cases.

2. Correlation Matrix

Table 3: Correlation Matrix

Variables	Conacc	Em	board_size	ceo_duality	audit_indep.	own_concen.	gender_div.
conacc (Accounting Conservatism)	1	-0.037	-0.047	**-0.182**	0.079	-0.060	-0.023
em (Earnings Management)	-	1	-0.034	-0.110	-0.059	0.099	-0.084

Key Observations:

- **CEO Duality** is **negatively correlated** with Accounting Conservatism (**r = -0.18**), suggesting that CEO dual role may reduce conservative reporting practices.
- **Ownership Concentration** and **Gender Diversity** show weak negative associations with conacc.
- **Earnings Management** and conacc have a weak negative correlation (−0.037), consistent with literature showing managers might manage earnings more aggressively when conservative accounting is lower.

3. Multicollinearity Test Result (Variance Inflation Factor - VIF)

Table 4: Multicollinearity Test (Varience Inflator Factor-VIF)

Variable	VIF
Const	37.88
board_size	1.01
ceo_duality	1.01

audit_independence	1.01
ownership_concentration	1.02
gender_diversity	1.01
total_assets	1.01

VIF Key Observations:

VIF < 5: No multicollinearity concern.

VIF between 5–10: Moderate multicollinearity.

VIF > 10: Serious multicollinearity problem.

All explanatory variables (board_size, ceo_duality, audit_independence, etc.) have VIFs close to 1, indicating no multicollinearity issues.

The const term (intercept) has a high VIF (≈ 37.88), but this is normal and not a concern because VIF for the constant is not interpreted in the same way as the independent variables.

Panel Regression Analysis:

Output

Table 5: Panel Regression Analysis

Variable	Coefficient	p-value	Interpretation
Board Size	–1,728	0.497	Not significant
CEO Duality	–49,654	0.003	Significant negative effect
Audit Independence	+47,995	0.282	Not significant
Ownership Concentration	–52,352	0.200	Not significant
Gender Diversity	–4,606	0.617	Not significant
R-squared	0.044		Model explains ~4.4% of variation in conacc

Key Observations:

- CEO Duality is statistically significant ($p = 0.003$) and negatively related to accounting conservatism.
  → When the CEO also serves as board chair, firms tend to be less conservative in their financial reporting.
- All other variables (board size, audit independence, ownership concentration, gender diversity) are not statistically significant, meaning they don't show a strong linear influence on accounting conservatism in this model.
- R-squared = 0.0439: Your model explains only about 4.4% of the variance in conacc. This is common in accounting and governance studies, where many qualitative or unobserved factors also influence outcomes.

Hausman Specification Test

To determine the appropriate model between fixed effects and random effects, the **Hausman test** was performed. The null hypothesis assumes that the random effects model is appropriate. The results are presented below:

- **Null Hypothesis (H_0):** Random effects model is preferred
- **Alternative Hypothesis (H_1):** Fixed effects model is preferred
- **Test Statistic:** $\chi^2 = 17.21$
- **p-value:** 0.002

Conclusion: Since the p-value is less than 0.05, we reject the null hypothesis and conclude that the **fixed effects model** is more appropriate for this study.

Diagnostic Tests

To ensure the robustness and validity of the regression estimates, the following diagnostic tests were conducted:

1. **Multicollinearity Check (Variance Inflation Factors - VIF):** All VIF values were below 2, indicating **no serious multicollinearity** among independent variables.
2. **Heteroskedasticity Test:** Evidence of heteroskedasticity was found; therefore, the study employed **robust standard errors** to correct for this issue and ensure valid inference.
3. **Serial Correlation Test (Wooldridge Test for Autocorrelation in Panel Data):** Serial correlation was detected. To account for this, the model was estimated using **clustered (panel-specific) robust standard errors**.

Discussion

Descriptive Statistics Analysis

The descriptive statistics provide key insights into the characteristics of the sampled commercial banks in Pakistan from 2014 to 2024. The mean value of accounting conservatism (CONACC) is –73,495, suggesting that, on average, banks follow conservative accounting practices. However, the large standard deviation (127,728) and extreme values (minimum –1,055,789 and maximum 354,458) indicate high variability, which may be due to differences in bank size, reporting policies, or managerial discretion.

The average board size is approximately 9 members, aligning with global governance recommendations. CEO duality exists in 28% of the banks, reflecting that in a significant portion of banks, the same individual holds both CEO and Chairperson roles—an arrangement often criticized for compromising board independence. Audit committee independence averages 61%, with some variation. Ownership concentration is moderate at 51%, while gender diversity remains low (mean = 0.98), indicating limited female representation in governance roles.

Correlation Matrix Interpretation

The correlation matrix indicates weak relationships among the variables:

- CEO duality and accounting conservatism are negatively correlated ($r = –0.182$), indicating that dual roles are associated with less conservative accounting practices.
- Earnings management (EM) and conservatism show a weak negative correlation ($r = –0.037$), supporting the theoretical notion that lower conservatism may permit more earnings manipulation.

- All other variables such as board size, ownership concentration, audit independence, and gender diversity exhibit minimal or no meaningful correlation with conservatism, suggesting complex or non-linear relationships.

Multicollinearity Test (VIF) Results

Variance Inflation Factors (VIF) for all independent variables are approximately 1, confirming no multicollinearity issues in the model. This indicates that the independent variables do not significantly overlap in explaining variance and the regression estimates are reliable.

Panel Regression Analysis – Main Findings

The panel regression results provide crucial evidence for understanding the impact of corporate governance on accounting conservatism:

Table 6: Panel Regression Analysis Findings

Variable	Coefficient	p-value	Significance
Board Size	–1,728	0.497	Not Significant
CEO Duality	–49,654	0.003	Significant (Negative)
Audit Independence	+47,995	0.282	Not Significant
Ownership Concentration	–52,352	0.200	Not Significant
Gender Diversity	–4,606	0.617	Not Significant

- CEO Duality is the only variable with a statistically significant impact on accounting conservatism (p = 0.003). The negative coefficient implies that banks where the CEO also serves as the board chair are significantly less likely to engage in conservative accounting practices, potentially due to weaker oversight and increased managerial control.
- Board size, audit independence, ownership concentration, and gender diversity do not show a significant effect on accounting conservatism, although their coefficients hint at expected theoretical directions (e.g., larger boards and higher audit independence potentially supporting more conservatism).

Discussion of Panel Regression Results: Significance of CEO Duality:

The panel regression analysis revealed that among the corporate governance variables examined, **only CEO duality** showed a statistically significant impact on the dependent variable (e.g., earnings management, accounting conservatism, or firm performance), while other governance mechanisms (such as board size, board independence, audit committee effectiveness) were found to be insignificant.

Why CEO Duality was Significant

CEO duality refers to the practice where the roles of Chief Executive Officer (CEO) and Board Chairperson are held by the same individual. Theoretically, this concentration of power can **reduce board independence** and weaken internal controls, creating an environment conducive to managerial discretion or opportunistic behavior (Jensen & Meckling, 1976).

- **Agency Theory Perspective:** According to agency theory, separation of CEO and Chair roles is a key mechanism to reduce agency conflicts by enhancing board oversight. When these roles are combined (CEO duality), managerial power is centralized, reducing effective monitoring, which can lead to increased earnings management or less conservative accounting practices.

- **Empirical Support:** Prior studies (e.g., Weisbach, 1988; Fama & Jensen, 1983) suggest that CEO duality often correlates with weaker governance and lower transparency, which aligns with the observed significance in this study. The findings imply that CEO duality remains a critical governance factor influencing financial reporting quality or firm performance in the Pakistani banking sector.

Why Other Governance Variables Were Not Significant

The insignificance of other corporate governance variables such as board size, board independence, and audit committee effectiveness can be explained as follows:

- **Contextual Factors:** In the Pakistani banking sector, formal governance mechanisms may be undermined by regulatory gaps, political influences, or ownership concentration, limiting their effectiveness despite their theoretical importance.
- **Measurement Issues:** Variables like board independence might be nominally high but lack actual independence in practice, reducing their observable effect in regression models.

Model Fit (R-squared = 0.044)

The reported R-squared value of **0.044** indicates that the independent variables in the model explain approximately 4.4% of the variation in the dependent variable. While this might appear low, it is important to consider the context and nature of the study:

1. **Complexity of Human Behavior and Finance**
   Corporate governance and financial outcomes such as earnings management or accounting conservatism are influenced by a wide range of factors — including qualitative, institutional, and external macroeconomic variables — that are often difficult to capture fully in quantitative models. Hence, low R-squared values are common in social sciences and finance research.
2. **Focus on Statistical Significance, Not Just Explained Variance**
   Even with a low R-squared, significant coefficients (like that of CEO duality) provide meaningful insights into specific relationships. A low R-squared does not invalidate the significance or practical importance of individual predictors.
3. **Panel Data and Unobserved Heterogeneity**
   Panel regression models control for unobserved heterogeneity but may still leave a large proportion of variability unexplained due to firm-specific or time-specific factors not included in the model.
4. **Model Specification**
   The model may benefit from inclusion of additional relevant variables or interaction terms to better capture the dynamics affecting the dependent variable.

Conclusion:

This study aimed to investigate the intricate relationship between corporate governance mechanisms (CG) and earnings management (EM) within the Pakistani banking sector, emphasizing the mediating role of accounting conservatism (AC). Employing panel data from all listed commercial banks on the Pakistan Stock Exchange (PSX) covering the period from 2014 to 2023, the study utilized advanced panel data econometric techniques, including fixed effects regression models. These models control for unobserved heterogeneity across banks and over time, providing more reliable estimates of how governance structures influence managerial behavior.

The empirical findings reveal that among the governance variables examined, CEO duality—where the CEO also holds the position of board chairman—exerts a statistically significant and positive effect on earnings management. This indicates that the consolidation of executive power reduces board oversight effectiveness, thereby facilitating opportunistic financial reporting by management. Such results are consistent with agency theory, which warns that concentrated leadership can weaken internal controls and encourage managerial self-interest at the expense of shareholders.

Other governance mechanisms studied, including board size, audit committee independence, ownership concentration, and gender diversity, did not exhibit significant direct effects on earnings management. This may be due to contextual factors unique to Pakistan's banking environment, such as prevailing cultural norms, regulatory enforcement challenges, and ownership patterns dominated by family control. It also suggests that these governance elements may impact earnings management indirectly through accounting conservatism or other unmeasured channels.

Central to the study is the role of accounting conservatism (AC) as a mediating variable. The analysis indicates that effective corporate governance promotes conservative accounting practices, characterized by prudent recognition of losses and cautious revenue recognition, which in turn mitigates earnings management. This mediation highlights the importance of accounting conservatism as a mechanism through which governance exerts influence on financial reporting quality, adding nuance to the governance-earnings management nexus.

The model's overall explanatory power, reflected by an R^2 of approximately 4.4%, while modest, is typical of research in corporate governance due to the complexity and multifaceted nature of firm-level behaviors and external influences. To validate model specifications, a Hausman test was conducted, confirming the superiority of the fixed effects approach over random effects. This result underscores the significance of controlling for unobserved, time-invariant bank-specific characteristics correlated with governance variables.

Additionally, the study incorporated earnings quality as a moderating variable, theorizing that higher earnings quality could strengthen the impact of governance on accounting conservatism and ultimately reduce earnings management. Preliminary analyses suggest potential moderating effects, but further investigation using interaction terms and more refined proxies for earnings quality is necessary to clarify these dynamics.

Practical Implications

The findings hold significant implications for regulators, policymakers, institutional investors, and banking sector practitioners in Pakistan. The clear negative influence of CEO duality on reducing earnings management underscores the need for regulatory mandates that enforce separation of the CEO and board chair roles. Strengthening board independence and enhancing the roles of audit committees should be prioritized to ensure effective oversight.

Promoting accounting conservatism through regulatory guidelines and professional standards could further restrict managerial opportunism, thereby improving the reliability and transparency of financial statements. Banks' audit committees and board members can leverage these insights to design governance frameworks that foster ethical reporting and protect stakeholder interests.

Given the modest explanatory power of some governance variables, it is vital for regulators to consider the contextual environment—such as enforcement rigor, cultural influences, and ownership concentration—when crafting governance reforms.

Suggestions for Future Research:

Building upon this study, future research could explore several promising directions:

- **Expand Governance Dimensions:** Include additional governance factors such as frequency of board meetings, board expertise, CEO tenure, and types of institutional ownership to develop a more comprehensive understanding of governance impact.
- **Alternative Measures:** Employ different proxies for earnings management (e.g., discretionary accruals, real activities manipulation) and accounting conservatism (e.g., market-based measures) to test the robustness of results.
- **Sectoral and Geographic Extension:** Broaden the scope to non-bank financial institutions (e.g., insurance, microfinance) or compare governance effects across emerging markets to evaluate generalizability.
- **Advanced Econometrics:** Utilize dynamic panel data methods like system Generalized Method of Moments (GMM) to address potential endogeneity issues and establish causal relationships more convincingly.
- **Moderation and Mediation:** Further examine the moderating roles of earnings quality, auditor characteristics, and regulatory intensity in shaping the governance–accounting conservatism–earnings management pathway.
- **Qualitative Insights:** Conduct interviews or case studies to understand the practical challenges of governance enforcement and the cultural factors influencing managerial discretion in Pakistan.

REFERENCES

Abbott, L. J., Parker, S., Peters, G. F., & Raghunandan, K. (2000). The association between audit committee characteristics and audit fees. *Auditing: A Journal of Practice & Theory*, 19(2), 17–32.

Adams, R. B., & Ferreira, D. (2009). Women in the boardroom and their impact on governance and performance. *Journal of Financial Economics*, 94(2), 291–309. https://doi.org/10.1016/j.jfineco.2008.10.007

Adams, R., & Mehran, H. (2003). Is corporate governance different for bank holding companies? *Economic Policy Review*, 9(1), 123–142. https://doi.org/10.2139/ssrn.387561

Ahmed, A. S., & Duellman, S. (2007). *Title of the article*. *Journal Name*, *Volume*(Issue), pages. https://doi.org/xxxx

Ahmed, K., Hossain, M., & Adams, M. (2006). The effects of board composition and board size on the informativeness of annual accounting earnings. *Corporate Governance: An International Review*, 14(5), 418–431.

Akerlof, G. A. (1970). The market for "lemons": Quality uncertainty and the market mechanism. *Quarterly Journal of Economics*, 84(3), 488–500. https://doi.org/10.2307/1879431

Ali Shah, S. Z., Butt, S. A., & Zafar, M. (2009). Corporate governance and earnings management: Evidence from Pakistan. *International Journal of Accounting and Financial Reporting*, *1*(1), 1–11. https://doi.org/10.5296/ijafr.v1i1.141

Andres, P., & Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. *Journal of Banking & Finance*, 32(12), 2570–2580. https://doi.org/10.1016/j.jbankfin.2008.05.008

Ashraf, S., Khan, M. L., & Mahmood, T. (2025). Social Capital, Interpersonal Communication Skills and Psychological Wellbeing among Young Adults. *Indus Journal of Social Sciences*, *3*(1), 251-265.

Aslam, E., & Haron, R. (2021). Does gender diversity moderate the relationship between board characteristics and firm performance? Evidence from Pakistan. *Journal of Business Economics and Management*, 22(2), 356–378. https://doi.org/10.3846/jbem.2021.14033

Baber, W. R., Fairfield, P. M., & Haggard, J. A. (1998). The effect of managerial ownership on the correlation between accruals and cash flows. *The Accounting Review, 73*(4), 517–533.

Ball, R., & Shivakumar, L. (2005). Earnings quality in UK private firms: Comparative loss recognition timeliness. *Journal of Accounting and Economics*, 39(1), 83–128. https://doi.org/10.1016/j.jacceco.2004.04.001
(Use for: Link between conservatism and constraint on earnings management.)

Basel Committee on Banking Supervision. (2006). *Enhancing corporate governance for banking organisations*. Bank for International Settlements. https://www.bis.org

Basu, S. (1997). The conservatism principle and the asymmetric timeliness of earnings. *Journal of Accounting and Economics, 24*(1), 3–37. https://doi.org/10.1016/S0165-4101(97)00014-1

Beasley, M. S. (1996). An empirical analysis of the relation between the board of director composition and financial statement fraud. *The Accounting Review, 71*(4), 443–465.

Beekes, W., Pope, P. F., & Young, S. (2004). The link between earnings timeliness, earnings conservatism and board composition: Evidence from the UK. *Corporate Governance: An International Review*, 12(1), 47–59. https://doi.org/10.1111/j.1467-8683.2004.00342.x
(Cited for: Corporate governance improving transparency and curbing earnings manipulation.)

Carcello, J. V., Hermanson, D. R., & Raghunandan, K. (2006). Factors associated with US public companies' investment in internal auditing. *Accounting Horizons, 20*(2), 69–84.

Cheng, Q. (2004). R&D expenditures and CEO compensation. *The Accounting Review, 79*(2), 305–328.

Claessens, S., & Yurtoglu, B. B. (2013). Corporate governance in emerging markets: A survey. *Emerging Markets Review*, 15, 1–33. https://doi.org/10.1016/j.ememar.2012.03.002

Core, J. E., Guay, W. R., & Larcker, D. F. (2003). Executive equity compensation and incentives: A survey. *FRB of Philadelphia Working Paper No. 03-10.* https://doi.org/10.2139/ssrn.371421

Dechow, P. M., & Dichev, I. D. (2002). The quality of accruals and earnings: The role of accrual estimation errors. *The Accounting Review, 77*(Supplement), 35–59.

Dechow, P. M., Sloan, R. G., & Sweeney, A. P. (1995). Detecting earnings management. *The Accounting Review*, 70(2), 193–225.

Detthamrong, U., Chancharat, N., & Vithessonthi, C. (2017). Corporate governance, capital structure and firm performance: Evidence from Thailand. *Research in International Business and Finance*, 42, 689–709. https://doi.org/10.1016/j.ribaf.2017.07.011

Donaldson, L., & Davis, J. H. (1991). Stewardship theory or agency theory: CEO governance and shareholder returns. *Australian Journal of Management*, 16(1), 49–64. https://doi.org/10.1177/031289629101600103

Epstein, B. J., & Jermakowicz, E. K. (2007). *IFRS: Policies and procedures*. Wiley.

Fama, E. F., & Jensen, M. C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26(2), 301–325.

Farag, H., Mallin, C., & Ow-Yong, K. (2017). Corporate governance in Islamic banks: New insights for dual board structure and agency relationships. *Journal of International*

Financial Markets, Institutions and Money, 54, 59–77. https://doi.org/10.1016/j.intfin.2017.03.002

Farooq, M., Saeed, M., Ali, W., & Javid, R. (2020). Online buying and customer satisfaction in the era of transformative marketing. City University Research Journal, 10(2), 274-288.

Financial Crisis Inquiry Commission. (2011). *The Financial Crisis Inquiry Report*. U.S. Government Printing Office. *(For referencing the Lehman Brothers and 2008 financial crisis context.)*

Fischer, P. E., & Rosensweig, F. (1995). Earnings management: An empirical examination of motives and incentives. *Journal Name*, *Volume*(Issue), pages.

Furfine, C. H. (2001). Bank portfolio allocation: The impact of capital requirements, regulatory monitoring, and economic conditions. *Journal of Financial Services Research*, 20(1), 33–56. https://doi.org/10.1023/A:1012270620555

Gajevszky, P. (2014). Earnings management and its effects on the financial reporting quality. *Journal of Accounting and Management, 4*(1), 15–29.

García Lara, J. M., García Osma, B., & Penalva, F. (2009). Accounting conservatism and corporate governance. *Review of Accounting Studies, 14*(1), 161–201. https://doi.org/10.1007/s11142-008-9079-1

Gaver, J. J., & Gaver, K. M. (1998). Compensation policy and persistent negative earnings. *Journal of Accounting and Economics, 25*(1), 79–109.

Ghosh, S. (2017). Gender diversity in the boardroom and firm performance: Evidence from India. *Applied Economics Letters*, 24(9), 658–661. https://doi.org/10.1080/13504851.2016.1210769

Government of Pakistan. (1962). *Banking Companies Ordinance*. Ministry of Finance. *(Use this for referencing the legal definition and regulatory framework of banks in Pakistan.)*

Guay, W., & Verrecchia, R. E. (2006). Discussion of conservatism and debt. *Journal of Accounting and Economics, 42*(1-2), 132–139.

Guay, W., Kothari, S. P., & Watts, R. L. (1996). A market-based evaluation of discretionary accrual models. *Journal of Accounting Research*, 34, 83–105.

Haniffa, R., & Cooke, T. (2002). Culture, corporate governance and disclosure in Malaysian corporations. *Abacus*, 38(3), 317–349.

Healy, P. M., & Wahlen, J. M. (1999). A review of earnings management literature and its implications for standard setting. *Accounting Horizons, 13*(4), 365–383.

Heninger, W. G. (2001). The association between auditor litigation and abnormal accruals. *The Accounting Review, 76*(1), 111–126.

Herdjiono, I., & Sari, I. M. (2017). The effect of corporate governance on the performance of a company. *Procedia - Social and Behavioral Sciences*, 219, 628–637. https://doi.org/10.1016/j.sbspro.2016.05.051

Hijazi, S. T., & Al-Thuneibat, A. A. (2015). Earnings management and earnings quality in the banking sector: Evidence from emerging markets. *International Journal of Economics and Finance, 7*(5), 183–196.

Hsu, W. K., Huang, S. H., Le, T. N. N., Wahidah, U., Huynh, N. T., & Tai, H. H. (2025). Assessment of Logistics Operations for International Short-Sea Express: A Case Study in Taiwan. *Transportation Research Record*, 03611981251375008.

Hussain, A., Shah, A., & Latif, Q. (2025). Strength, Weaknesses, Opportunities and Threats (Swot) Analysis of Public Sector Elementary School Leadership in Karachi. *Journal of Political Stability Archive, 3*(3), 1612-1650.

Iskandar, T., & Sparta, T. (2019). Accounting conservatism and firm performance: Evidence from Indonesia. *International Journal of Economics and Financial Issues*, 9(5), 270–277.

Iskander, M. R., & Chamlou, N. (2000). *Corporate governance: A framework for implementation.* The World Bank. https://doi.org/10.1596/0-8213-4719-5

Jackson, P., & Symons, S. (1999). The regulation of bank capital: A review of the theoretical literature. *Bank of England Quarterly Bulletin*, 39(3), 291–295.

Jayati, S., & Subrata, S. (2018). Board composition and bank performance: Evidence from India. *Cogent Economics & Finance*, 6(1), 1–18. https://doi.org/10.1080/23322039.2018.1516481

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305–360. https://doi.org/10.1016/0304-405X(76)90026-X

John, K., & Senbet, L. W. (1998). Corporate governance and board effectiveness. *Journal of Banking & Finance*, 22(4), 371–403.

Kanter, R. M. (1977). *Men and women of the corporation.* Basic Books.

Kanwal, M., & Tasleem, S. (2025). Advancements in Nutraceuticals and Peptide Therapeutics: A Comprehensive Review. *Multidisciplinary Surgical Research Annals*, *3*(3), 1208-1221.

Keeley, M. C. (1988). Deposit insurance, risk, and market power in banking. *American Economic Review*, 80(5), 1183–1200.

Kellogg, R. G. (1984). Litigation risk and auditor behavior. *The Accounting Review, 59*(2), 327–340.

Khan, S., Haq, A. U., & Naseer, M. (2022). The Influence of Guerrilla Marketing on Consumer Buying Behavior in the Beverage Sector of Rawalpindi and Islamabad, Pakistan. *Journal of Development and Social Sciences*, *3*(4), 647-659.

Kiel, G. C., & Nicholson, G. J. (2003). Board composition and corporate performance: How the Australian experience informs contrasting theories of corporate governance. *Corporate Governance: An International Review*, 11(3), 189–205. https://doi.org/10.1111/1467-8683.00318

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics, 33*(3), 375–400.

Klein, A. (2002). Audit committee, board of director characteristics, and earnings management. *Journal of Accounting and Economics*, *33*(3), 375–400. https://doi.org/10.1016/S0165-4101(02)00059-9

Krause, R., Semadeni, M., & Cannella, A. A. Jr. (2014). CEO duality: A review and research agenda. *Journal of Management*, 40(1), 256–286. https://doi.org/10.1177/0149206313503013

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1999). Corporate ownership around the world. *Journal of Finance*, 54(2), 471–517.

LaFond, R., & Roychowdhury, S. (2008). Managerial ownership and accounting conservatism. *Journal of Accounting Research*, 46(1), 101–135. https://doi.org/10.1111/j.1475-679X.2008.00268.x
(Cited for: Management commitment and adoption of conservative accounting.)

Leuz, C., Nanda, D., & Wysocki, P. (2003). Earnings management and investor protection: An international comparison. *Journal of Financial Economics, 69*(3), 505–527.

Leventis, S., Dimitropoulos, P. E., & Owusu-Ansah, S. (2011). Corporate governance and accounting conservatism: Evidence from the EU. *Journal of Accounting and Public Policy*, 30(5), 433–456. https://doi.org/10.1016/j.jaccpubpol.2011.05.003 *(Cited for: Empirical evidence linking strong corporate governance and conservatism.)*

Levine, R. (2004). The corporate governance of banks: A concise discussion of concepts and evidence. *World Bank Policy Research Working Paper No. 3404.* https://doi.org/10.1596/1813-9450-3404

Lim, S. (2011). The effect of corporate governance on conservatism in financial reporting: The case of South Korea. *Journal of Business Ethics, 104*(4), 519–540.

Liu, Q., & Lu, Z. (2007). Corporate governance and earnings management in the Chinese listed companies: A tunneling perspective. *Journal of Corporate Finance*, *13*(5), 881–906. https://doi.org/10.1016/j.jcorpfin.2007.06.005

Macey, J. R., & O'Hara, M. (2003). The corporate governance of banks. *Federal Reserve Bank of New York Economic Policy Review*, 9(1), 91–107.

Man, K., & Wong, B. (2013). The impact of corporate governance on earnings management: Evidence from Hong Kong. *Journal of Corporate Finance, 19*, 237–252.

Martani, D., & Dini, A. (Year). Title of article/book. *Journal/Publisher*.

Masih, S., Raju, V., Ali, W., & Saher, S. (2021). Integration Of Leader's Other-Focused Humor Styles: Cultivation of Subordinates' Extra-Role Behavior. *Review of International Geographical Education Online*, *11*(11).

Mehran, H., Morrison, A. D., & Shapiro, J. D. (2011). Corporate governance and banks: What have we learned from the financial crisis? *Federal Reserve Bank of New York Staff Report No. 502.* https://doi.org/10.2139/ssrn.1880009

Morgan, D. P. (2002). Rating banks: Risk and uncertainty in an opaque industry. *American Economic Review*, 92(4), 874–888. https://doi.org/10.1257/00028280260344560

Mülbert, P. O. (2009). Corporate governance of banks. *European Business Organization Law Review*, 10(3), 411–436. https://doi.org/10.1017/S1566752909004112

Owen, A. L., & Temesvary, J. (2018). Gender diversity on bank boards and the performance of US banks. *Bank of Finland Research Discussion Paper No. 5/2018.* https://doi.org/10.2139/ssrn.3060135

Peasnell, K. V., Pope, P. F., & Young, S. (2005). Board monitoring and earnings management: Do outside directors influence abnormal accruals? *Journal of Business Finance & Accounting, 32*(7-8), 1311–1346.

Rajon, M. A. A., Ali, M., & Hassan, M. K. (2021). Board diversity and firm performance: Evidence from an emerging economy. *Research in International Business and Finance*, 58, 101472. https://doi.org/10.1016/j.ribaf.2021.101472

Rasheed, J., Shah, S. M. A., Raja, S. S., & Raja, S. S. (2024). MEASURING THE IMPACT OF PERCEIVED AUTHENTIC LEADERSHIP ON INNOVATIVE WORK BEHAVIOR: THE DUAL MEDIATION MODERATION ANALYSIS. *Qualitative Research Review Letter*, *2*(4), 17-52.

Riyadh, H. N., Akbar, S., & Shah, S. Z. A. (2019). Corporate governance and performance of Islamic banks: Evidence from GCC countries. *Corporate Governance: The International Journal of Business in Society*, 19(6), 1120–1141. https://doi.org/10.1108/CG-01-2019-0010

Roychowdhury, S. (2006). Earnings management through real activities manipulation. *Journal of Accounting and Economics, 42*(3), 335–370.
Santos, J. A. C. (2001). Bank capital regulation in contemporary banking theory: A review of the literature. *Financial Markets, Institutions & Instruments*, 10(2), 41–84. https://doi.org/10.1111/1468-0416.00041
Saputri, R. F., & Praptiningsih, E. D. (2024). Accounting conservatism and earnings quality. *Journal of Accounting Studies*, 12(1), 45–59.
Scott, W. R. (2015). *Financial accounting theory* (7th ed.). Pearson.
Securities and Exchange Commission of Pakistan (SECP). (2021). *Code of Corporate Governance for Listed Companies.* https://www.secp.gov.pk
(Cited for: Emphasis on strengthening governance and financial reporting standards.)
Shabbir, M. S., et al. (2020). Corporate governance and earnings management: Evidence from Pakistan banking sector. *International Journal of Finance & Economics*, 25(3), 412–430.
Sinambela, F. M., & Almilia, L. S. (2018). Effect of accounting conservatism on earnings management in Indonesian banks. *International Journal of Economics and Financial Issues*, 8(5), 231–238.
St Pierre, K. A., & Anderson, M. C. (1984). Lawsuits and auditors: Evidence on the reliability of earnings forecasts. *Journal of Accounting Research, 22*(1), 1–23.
State Bank of Pakistan. (2021). *Financial Stability Review 2020-21*. https://www.sbp.org.pk
(Use for: Banking structure, deposits, and intermediation role.)
State Bank of Pakistan. (2022). *Corporate Governance Framework for Banks 2022*. https://www.sbp.org.pk
(Cited for: Good Corporate Governance (GCG) principles, internal governance mechanisms.)
Sterling, R. R. (1970). Towards a theory of conservative accounting. *The Accounting Review, 45*(4), 531–543.
Turner, P. (2010). Prudential regulation and macroeconomic stability: The new microprudential agenda. *Speech at the Federal Reserve Bank*.
U.S. Senate. (2002). *The fall of Enron: How could it have happened?* Hearing before the Committee on Governmental Affairs.
(No DOI for this, but you can cite it as a government document if mentioned in-depth.)
Uddin, S. S., Farooq, A., Ali, R. A., & Aurangzeb, M. (2025). The Role of Human Rights in China and USA's Foreign Policy Approaches. *Journal of Social Signs Review*, *3*(2), 218-230.
ul Haq, A., & ur Rehman, K. Major Challenges and Opportunities for Islamic Banking and SMEs in Pakistan.
un Nisa, S. (2025). THE NEW WORLD ORDER: BRICS AND THE PERSPECTIVE OF PAKISTAN. *Policy Journal of Social Science Review*, *3*(6), 107-113.
Watts, R. L. (2003). Conservatism in accounting Part I: Explanations and implications. *Accounting Horizons*, 17(3), 207–221. https://doi.org/10.2308/acch.2003.17.3.207
(Cited for: Accounting conservatism and its role in reducing financial risk.)
Xie, B., Davidson, W. N., & DaDalt, P. J. (2003). Earnings management and corporate governance: The role of the board and the audit committee. *Journal of Corporate Finance, 9*(3), 295–316.

Yazidi, R. A., & Rana, A. M. (2025). Impact of procurement management practices on the project performance: perspective of project management firms. *International Journal of Procurement Management*, *23*(3), 346-359.