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Do female directors improve the ability of Ind-AS to mitigate earnings management? Evidence from Indian-listed Companies

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Abstract

This study aims at analysing if female directors make Indian Accounting Standards (Ind-AS) effective in improving accounting quality. Though the introduction of Ind-AS was to enhance the transparency and convergence with International Financial Reporting Standards (IFRS), it is still unclear how much the benefits would rely on the corporate governance mechanisms. Based on agency theory and the resource dependence theory, this study examines the interaction between female directors and the relationship between the adoption of Ind-AS and accrual earnings management (AEM). Discretionary accruals (DAC) and performance-adjusted discretionary accruals (PDAC) are used as proxies for earnings management using a sample of 290 Indian listed companies. Fixed-effects and pooled OLS regression models are estimated. The results show that there is no significant impact of the adoption of Ind-AS on earnings management. But female directors are linked to less earnings management. Most importantly, the relationship between Ind-AS and female directors is positive and statistically significant, suggesting that the presence of female directors enhances the effectiveness of Ind-AS in reducing managerial discretion and enhancing accounting quality. The results indicate that accounting standards may not be an effective means of enhancing the quality of accounting information. Improved board monitoring with good gender diversity goes hand in hand with accounting reform and improves financial reporting quality.

Keywords: Ind-AS, Female Directors, Earnings Management, Accounting Quality, Corporate Governance, Board Gender Diversity.

1. Introduction

High-quality financial reporting is fundamental to efficient capital markets and investors' decision-making (Dechow et al., 2010). To ensure transparency, comparability and reliability of financial reports, India has implemented Indian Accounting Standards (Ind-AS) that are in substantial convergence with International Financial Reporting Standards (IFRS) (Himanshu et al., 2020). Implementing Ind-AS is one of the most significant accounting changes in India (Ministry of Corporate Affairs [MCA], 2015). Even though evidences of the expected benefits of these Ind-AS are mixed, there is a need to see the effectiveness for the improvement of accounting quality. Adopting high quality accounting standards is not sufficient to ensure good financial reporting results (Himanshu & Singh, 2022a). The effectiveness of accounting standards will only be achieved if there is proper corporate governance in place to ensure faithful implementation (Ball, 2006; Christensen et al., 2015).

Board gender diversity has received a considerable amount of research and policy interest. Women directors are believed to be more scrupulous supervisors, more cautious and less accepting of opportunistic management techniques. Gender-diverse boards can then be a crucial factor in meeting accounting standards and enhancing the quality of reports (Adams & Ferreira, 2009; Srinidhi et al., 2011). This creates a special case with India as the Companies Act, 2013 required at least 1 female director in specific types of companies. This regulatory action is an opportunity to explore if women directors is a complement to accounting reform like Ind-AS.

Based on this, this study aims to examine if the adoption of Ind-AS affects the relationship between accrual earnings management and listed firms in India, irrespective of the director's gender. Therefore, this study examines whether the impact of Ind-AS adoption on the accrual earnings management and listed companies in India are moderated by gender of the director. The study is a valuable addition to the literature, as it combines accounting regulation and board gender diversity perspectives in accounting quality explanations.

2. Literature review and hypothesis development

2.1 Ind-AS and Earnings Management

Ind-AS was conceptualized to make the Indian accounting standards more efficient and in line with global accounting principles. The standards highlight fair value accounting principles, additional disclosures, transparency (Ministry of Corporate Affairs, 2015). Better accounting standards will minimize managerial discretion and earnings manipulation. But previous research indicates that good reporting quality can only be achieved through accounting standards, if effective governance arrangements are in place (Ball, 2006). Therefore:

H1: The adoption of Ind-AS is negatively related with accrual earnings management.

2.2 Moderating Role of Female Directors

The agency theory assumes that one of the functions of the board is to act as a monitoring device to mitigate agency problems between managers and shareholders (Jensen & Meckling, 1976). It is usually believed that women directors make more independent, moral and conservative decisions. Past research has found that companies with more women on the board are less likely to manipulate earnings and report with higher quality (Adams & Ferreira, 2009). Ind-AS gives a framework for preparing high quality financial reporting but the manager has a wide latitude in accounting estimates and judgments. Women directors could provide enhanced monitoring and compliance with Ind-AS norms (Srinidhi et al., 2011). By improving monitoring, female directors can help curb opportunism and promote compliance with accounting principles. Thus:

H2: Women directors reinforce the relationship between adoption of Ind-AS and accounting quality.

3. Research Methodology

3.1 Sample

The sample includes 290 already incorporated Indian listed companies that covers the post implementation period of Ind-AS.

3.2 Variables measurement

Dependent Variable: An accrual earnings management (AEM) method. There are two alternative proxies used: Discretionary Accruals (DAC) and Performance Adjusted Discretionary Accruals (PDAC)

Independent Variable: IND-AS = Dummy variable (1 if the firm reported under Ind-AS, 0 otherwise).

Moderator: BODWOMEN = Percent of women directors on the board.

Control Variables: Firm Size (SIZE), Growth Opportunities (GROWTH), Leverage (LEV), Executive Independence (EI), Director Independence (DI), Asset Turnover (TURN), Operating Cash Flow (OCF), Audit Quality (AUD), Insider Ownership (INSIDER_OWN)

3.3 Regression Model

$$AEM_{it} = \beta0 + \beta1INDAS_{it} + \beta2BODWOMEN_{it} + \beta3INDAS \times BODWOMEN_{it} + \beta4Controls_{it} + \text{industry FE} + \text{Year FE} + \varepsilon_{it}$$

4. Results

The regression results are presented in the table 1. The coefficient of the variable IND-AS is not significantly different from zero in any of the models. The fact that the adoption of Ind-AS did not significantly decrease the earnings management practice among the Indian firms indicates that Ind-AS has not been effective in minimizing earnings management, consistent with Himanshu and Singh (2022b).

Table 1. Empirical Results

Using AEM as a FRQ metric						
Dependent Variable: AEM (DAC/PDAC)	**Fixed effect (DAC)**	**Pooled OLS (DAC)**	**Pooled OLS (DAC)**	**Fixed effect (PDAC)**	**Pooled OLS (PDAC)**	**Pooled OLS (PDAC)**
	woINDUM	**woINDUM**	**INDUM**	**woINDUM**	**woINDUM**	**INDUM**
IND-AS	—	0.177	0.177	—	0.127	0.130
		(0.142)	(0.142)		(0.142)	(0.142)
BODWOMEN	-0.182***	-0.189*	-0.189*	-0.275***	-0.287***	-0.288***
	(0.0315)	(0.106)	(0.106)	(0.0495)	(0.106)	(0.106)
INDASBY BODWOMEN	0.208***	0.237*	0.237*	0.251**	0.291**	0.290**
	(0.0480)	(0.129)	(0.129)	(0.0695)	(0.130)	(0.130)
SIZE	0.0798*	0.0788**	0.0790**	0.0885*	0.0872**	0.0849**
	(0.0365)	(0.0378)	(0.0380)	(0.0368)	(0.0379)	(0.0381)
GROWTH	-0.00347	0.213	0.214	-0.0864	0.168	0.160
	(0.191)	(0.193)	(0.194)	(0.205)	(0.194)	(0.194)
LEV	-0.000764	-0.00862	-0.00864	0.0143	0.00619	0.00638
	(0.0408)	(0.0299)	(0.0299)	(0.0362)	(0.0300)	(0.0300)
EI	0.0839	0.223	0.222	0.0204	0.148	0.163
	(0.712)	(1.236)	(1.237)	(0.817)	(1.240)	(1.241)
DI	0.634	0.473	0.472	0.821	0.633	0.646
	(0.429)	(0.889)	(0.890)	(0.624)	(0.892)	(0.892)
TURN	-0.0362	-0.0301	-0.0303	-0.0331	-0.0259	-0.0240
	(0.0301)	(0.0371)	(0.0374)	(0.0266)	(0.0372)	(0.0375)
OCF	-0.0901**	-0.115***	-0.115***	-0.111***	-0.140***	-0.141***
	(0.0274)	(0.0351)	(0.0352)	(0.0233)	(0.0352)	(0.0353)
AUD	-0.00438	-0.00539	-0.00544	-0.0312	-0.0322	-0.0318
	(0.0313)	(0.0316)	(0.0317)	(0.0359)	(0.0317)	(0.0317)
INSIDER_OWN	-0.0547	-0.0705	-0.0700	-0.120	-0.141	-0.146
	(0.0747)	(0.203)	(0.204)	(0.0927)	(0.204)	(0.204)
CONSTANT	-0.0621	-0.189	-0.184	-0.0621	-0.157	-0.196
	(0.0555)	(0.121)	(0.143)	(0.0640)	(0.121)	(0.143)
R-squared	0.034	0.041	0.041	0.043	0.049	0.049
Number of companies	290	290	290	290	290	290

Both coefficients of BODWOMEN with DAC and PDAC are negative and significant. The result confirms that companies with higher levels of female directors have lower levels of earnings management, which aligns with the monitoring function of female directors (Chen & Gavious, 2016). The most important result across all specifications is that the interaction term INDAS × BODWOMEN is positive and has a high level of significance at the 1% level of significance. The above finding reveals that female directors have an impact on the effectiveness of Ind-AS implementation. The findings suggest that there are governance mechanisms to complement accounting standards, to accomplish their goals (Himanshu & Baker, 2025). Women directors seem to improve the financial reporting system's monitoring and promote adherence to the requirements of Ind-AS (Al-Absy, 2022).

Control Variables

For earnings management, there is a positive and significant relationship between firm size, suggesting that the larger the firm, the more likely it is to have incentives and opportunities to manage its earnings. This indicates that operating cash flow is negatively related to earnings management, meaning that firms with lower operating cash flow tend to have more discretionary accounting adjustments. The other control variables are relatively unimportant in each of the model specifications.

Robustness Analysis

The results are similar if alternative earnings management proxies (DAC and PDAC), Fixed-effects estimation, and Pooled OLS estimation are used. The uniformity of the results within the different methodologies enhances the reliability of the results.

5. Conclusion

The aim of this study is to examine the moderation effect of female directors on the relation between the adoption of Ind-AS and accrual earnings management in listed companies in India. The results indicate that the adoption of Ind-AS has not significantly affected the level of earnings management. Earnings manipulation is, however, associated with female directors. First, the female directors enhance the effectiveness of Ind-AS for improving the quality of accounting (Zhang et al., 2026). The evidence indicates that successful accounting reform requires an accompanying governance mechanism(s). The desired benefits of Ind-AS are not likely to be realised in practice unless there are gender diverse boards (Rahman et al., 2026). The findings could be analyzed in future studies for the effects on real earnings management, audit quality, ESG performance, and firm value.

Theoretical Implications

The results contribute to the agency theory literature by showing that female directors act as effective monitoring mechanisms that increase quality of financial reporting. The study also adds to IFRS/Ind-AS literature by demonstrating the relationship of the quality of accounting standards with effectiveness of the governance.

Practical Implications

Study results are relevant to policy and regulation. First, it is possible that accounting reforms are not enough to enhance the quality of accounting. On the other hand, the board's gender diversity should not only be treated as a compliance issue, but as a governance tool that improves the financial reporting process. Third, investors can take into account the presence of women on the board for a better sign of financial reporting oversight.

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