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Effect Of Earning Managements On Firm Performance And Moderating Role Of Gender Diversity: Evidence From Bric

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ABSTRACT

Purpose: This study aims to investigate how earnings management and gender diversity affect the firm performance of companies listed in BRIC. Additionally, it examines how board gender diversity moderates the association between accrual earnings management and firm performance.

Design and Methodology: The sample data were collected from 712 non-financial companies from the BRIC nations from 2017 to 2022. To investigate how firm performance is affected by earnings management, we have used the Generalized Method of Momemnt(GMM) regression technique because this technique is best suited to address the endogeneity problem in the data.

Findings: The result shows a significantly positive effect of earnings management on return on assets and a non-significant negative effect on Tobin's Q. A significant factor in forming this relationship is the gender diversity of the board. Gender-diverse boards in private companies provide greater governance and stronger supervision by lessening the effect of AEM on ROA and TQ. Gender diversity, on the other hand, boosts the beneficial impact of AEM on TQ in state-owned businesses, which could be a result of political influence or symbolic governance. Overall, the study shows that strong governance practices work better in private companies than in state-owned enterprises and that the success of board diversity is dependent on the ownership structure. According to this research, putting more women on corporate boards, particularly in private companies, can enhance financial openness and lessen earnings manipulation. In the BRIC nations, gender-diverse boards are mostly symbolic in state-owned businesses but play a significant governance role in private companies.

Implications: The findings provided useful insight for policymakers that, in order to improve corporate governance, deter unethical financial activities, and promote sustainable growth in emerging economies, specific gender diversity policies are required. This study adds to the limited body of research on firm performance in varied ownership environments, earnings management, and gender diversity.

Keywords: Financial Performance (FP), Earnings Management (EM), Board Gender Diversity (BGD), Accrual Earnings Management (AEM), Return on Asset (ROA), and Tobin's Q (TQ).

1. Introduction

Agency theory states that managers and shareholders have a conflictual relationship in the presence of unbalanced information (Jenson & Meckling, 1976). According to (Guidry et al., 1999; Healy, 1985; Jensen, 1993; Katherine Schipper, 1989), managers sometimes use their accounting discretion in order to maximize their utilities and alter the profitability of the firms. There are several reasons, according to earlier studies, to comprehend the driving forces behind profit manipulation (Scott and O'Brien, 2003). Managers, for instance, employ their accounting discretion to meet investor and financial market expectations (Jiraporn et al., 2008), maximize bonuses (Guidry et al., 1999; Healy, 1985), and achieve earnings benchmarks (Dechow & Skinner, 2000; Matsunaga & Park, 2001).

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However, earnings management can be useful in signaling confidential information about a company's prospects, based on signal theory (Al-Shattarat et al., 2022; Gul et al., 2003; K. Schipper, 1989; Subramanyam, 1996). As a result, there are two opposing viewpoints on earnings management: "opportunistic earnings management" and "signaling earnings management." In this context, the study aims to investigate the close connection between the financial success of a firm and earnings management practices in BRIC, which is consistent with the neoclassical theory's claim that managers' only duty is to improve profit and shareholder welfare (Friedman, 2007).

The effect of earnings management on financial performance has been the subject of numerous studies (Cohen & Zarowin, 2010; Debnath, 2017). Nevertheless, the empirical findings are inconclusive. While some researchers suggest a positive influence (Al-Shattarat et al., 2022; Gunny, 2010; Gunny, 2013; Lee & Son, 2009), other confirms the existence of a negative effect (Anh & Khuong, 2022; Q. Luu Thu, 2023; Tang & Chang, 2015). Therefore, it is very important and demanding to investigate the relationship in the presence of a moderator variable, like gender diversity. Organizational diversity is very important and can help reduce unethical practices. This study anticipates that, particularly in the context of the BRIC countries—Brazil, Russia, India, and China—the moderating influence of gender diversity will greatly influence the effect of EM on FP. In the context of BRIC countries, considering gender diversity is crucial due to deeply rooted cultural traditions, economic imbalances, and societal expectations, which pose significant challenges to promoting GD.

Brazilian women's engagement in the workforce is frequently limited by traditional gender stereotypes, particularly when it comes to leadership jobs. The Brazilian Constitution forbids gender discrimination, among other legal frameworks that promote gender equality. However, these rules are not consistently applied, which results in persistent differences in corporate governance (Machado, 2019). In Russia, the labor market is characterized by women typically working in lower-paying industries (Oshchepkov, 2021). The Soviet legacy of encouraging women to enter the workforce has not resulted in parity for women in positions of leadership. Despite the introduction of anti-discrimination laws in Russia, such as the Russian Federation Labour Code, their influence has been limited by enduring cultural biases and a lack of enforcement (Kimmel, 2017). Moreover, in Russia, men predominate in governance. Generally, women are found in support roles, like assistants or lower-level supervisors, rather than in decision-making roles. This holds for leaders in both the public and private sectors (Rebrey, 2023). Gender diversity in India is severely constrained by economic limitations and traditional social expectations, creating a challenging environment for women. Women are severely underrepresented in corporate leadership because they are frequently expected to put family duties ahead of career aspirations. Due to cultural reluctance and inadequate enforcement, regulations such as the Companies Act of 2013, which requires a specific percentage of women on corporate boards, have not led to significant progress (Pande & Ford, 2012). In addition, the problem is made worse by economic inequality and restricted educational options, which leave many women without the credentials and chances to grow in their careers (Deshpande, 2022). In contrast, China has made some strides toward advancing gender diversity, especially in state-owned businesses where the government has pushed for the appointment of women to executive positions. However, Confucian norms continue to prevail, often relating women to supportive roles both at home and in business. Despite regulations like the law on the protection of the rights and interests of women, which are intended to promote gender diversity, Cultural resistance and economic objectives still hinder substantial progress (Liu, 2013). The prioritization of economic performance over gender diversity in Chinese corporate practices has resulted in a slower rate of change (Cooke, 2013).

This study contributes in numerous respects to the body of current knowledge. First, unlike previous studies, where single metrics are employed for financial performance to test the relationship with earnings management, our study utilizes return on assets and Tobin's Q as indicators for firm performance. By using these indicators, this study provide a nuanced analysis to investigate the relationship between firm performance and earnings management. Second, this study investigates how the relationship between EM and FP is influenced when gender diversity is used as a moderator variable. The goal of this research is to draw attention to the significance of gender diversity as a corporate governance tool and the requirement for a strong set of guidelines and standards to support it. Gender

diversity has the potential to significantly influence EM and improve financial performance, especially in light of the unique cultural and economic circumstances of the BRIC nations. With the implementation of diverse policies and programs, including diversity standards and gender quotas, these countries have acknowledged the importance of gender diversity. Companies operating in these nations are under growing pressure to follow these guidelines to improve financial, social, and economic governance. Third, this study employed the generalized method of the Moment technique, which is considered one of the most reliable methods for panel data analysis. GMM is particularly valued for its ability to handle endogeneity, a situation in which explanatory variables are correlated with the error term. Additionally, GMM is considered a versatile tool for providing more accurate and reliable estimates because it also addresses the issues related to heteroskedasticity and autocorrelation. Fourth, this study is of interest not only to shareholders and management but also to policymakers. It will provide valuable insight that could help the government introduce new policies at the corporate level to promote gender diversity and reduce EM practices.

2 Review of the literature and hypothesis development

2.1 Literature review

Scholarly work hs focused mostly on the interaction of GD, EM, and FP inside the CG domains. Specifically, EM has emerged as one of the most significant topics covered in accounting and financial literature in recent decades (Chi, 2015). Although the main goal of management is to maximize the wealth of shareholders, managers sometimes engage in corporate perks and empire-building at the cost of the shareholders. In doing so, they attempt to influence the shareholder perception, ultimately affecting the true performance of the firm (Healy & Wahlen, 1999). EM frequently occurs when managers are given the authority to choose the accounting guidelines and procedures (Handajani et al., 2009). The relationship between EM and FP is a topic of much discussion in both theoretical and empirical literature, as one might expect (Hao & Yao, 2010; Jiraporn et al., 2008). In general, there are not many theories put up to describe how managers consciously use their discretion to shape stakeholders' opinions on accounting procedures. The agency and signal theory are the two approaches that explain the relationship between EM and FP.

According to agency theory, EM has a negative effect on the FP. This conflictual relationship between the principal (shareholders) and the agent (managers) intensifies when the shareholders hand over the decision-making power to the agents (Jenson & Meckling, 1976; Morris, 1987). A shareholder serves as the principal and pressures the manager to deliver the best outcomes from the business operations. However, with decision-making powers, the agents (managers) are motivated to maximize their utility at the cost of the shareholders. In summary, the agency theory states that a manager acts opportunistically to pursue their interests while making decisions (Healy & Wahlen, 1999; Jenson & Meckling, 1976; Watts, 1978). Due to this conflict of interest between managers and shareholders, agency problems arise (Hill & Jones, 1992; Prior et al., 2008). Taking into account the opportunistic actions of managers, rational stakeholders' ultimate goal is to oversee management and evaluate the credibility of financial reporting. It should be considered that poor quality of information not only impacts an FP but also affects the perception of the shareholders and the level of trust and confidence from the public (Prior et al., 2008). As a result, the practice of earnings management is seen as a manipulative action that has a detrimental effect on a company's FP (Bouaziz et al., 2020; Cohen & Zarowin, 2010; Graham et al., 2005; Jiraporn et al., 2008).

Conversely, signal theory suggests that EM has a positive effect on FP when there is low information asymmetry (Morris, 1987). In this context, when the information between manager and shareholder is equitably distributed, EM might benefit shareholders and the capital market (Gunny, 2010; Subramanyam, 1996). The idea is that managers, who possess the most detailed knowledge about the firm's prospects, use their discretion to report private information in a way that aligns with shareholders' interests, potentially leading to better financial performance (Arya, 2003; Henock Louis, 2005; Spence, 1974; Subramanyam, 1996). Managers should disclose confidential information about

a firm's viewpoints since they are the most knowledgeable actors, according to Spence (1974). They make decisions based on what is best for those involved (stakeholders) (Guay et al., 1996), which results in improved financial outcomes (Arya, 2003; Henock Louis, 2005; Subramanyam, 1996).

2.2 Hypothesis development

2.2.1 Earnings management and financial performance of firms

According to current organisational theories, managers control earnings for several purposes. Several earlier studies also validate these hypotheses and provide data showing EM reduces the FP. From the Vietnamese stock exchange, Anh and Khuong (2022) investigated how EM affected listed companies' performance. Their research reveals that companies that managed their earning before listing had a notable drop in performance once they listed, which means that they show positive returns just to increase their listing price, which negatively affects the firm's performance after listing. Similarly, another finding suggests that firms that manipulate their earnings by using accrual EM will face financial difficulties (Luu, 2023). Another result about company stock liquidity shows that companies involved in active earnings management show low market liquidity (Ajina & Habib, 2017), as this approach increases information asymmetry, resulting in broader bid-ask spreads. Consistent with this other result, EM shows a significant and negative correlation with the ROA and TQ for businesses running in a country with poor governance (Hui-wen Tang, 2013). Additionally, in some family-controlled firms. The ownership in this context exhibits a high level of concentration, with banks serving as the primary source of capital and limited protection for external investors (La Porta et al., 2002; Othman, 2006). In family-owned companies, managers are primarily tasked with maximizing the wealth of shareholders, often at the expense of other stakeholders such as tax authorities, banks, suppliers, customers, and employees (La Porta et al., 2002). The benefits of shareholders are optimized by using accounting discretion, which involves transferring wealth from stakeholders through practices like earnings management. As a result, the accounting information reported does not accurately reflect the firm's performance truly and fairly. Furthermore, "agency theory" backs up these empirical findings, which states that when a conflict of interest develops between owners (shareholders) and managers or with other stakeholders, then managers manipulate earnings, which negatively affects firm performance and gives losses to owners (Meckling & Jensen, 1976). Based on the above findings from earlier literature, we propose the following hypothesis:

H1. EM has a significant negative effect on FP.

1.2.2 Moderating role of gender diversity

A large body of literature has been done on the effect that EM has on FP. It's still difficult to prove consensual outcomes, though, as a result, it would be worthwhile to reevaluate this relationship while taking moderating elements like gender diversity into account. Since its inception, this idea has generated a lot of curiosity in our culture and caught the focus of practitioners, scholars, and regulators. In fact, companies are urged to take on greater responsibility, pay attention to social and environmental issues, and prioritize public welfare (Awaysheh, 2020; Barauskaite, 2021). Although gender diversity has many definitions, the main premise is that companies should aim to create an inclusive workplace in order to improve organizational performance and equity, especially at the executive level (Kirsch, 2018).

In the BRIC context, where the importance of gender diversity is increasingly recognized because BRICS women have grown into a powerful global network with their own platforms (Klomegah, 2024), Opportunistic earnings management is less common in organizations with diverse leadership because of the negative correlation between accrual-based earnings management (AEM) and women on board (Anh & Khuong, 2022). Similarly, there is also evident literature available on CG and EM that provides evidence on how CG both positively affects FP and negatively influences EM. According to Farooq et al. (2022), corporate governance improves market indices and

accounting returns. Likewise, another result shows that managers in organizations with inadequate governance are more prone than those in companies with good governance to misuse accounting discretion, which results in lower FP (Hui-wen Tang, 2013). Thus, considering the body of research on CG and EM, we use GD as the CG variable to investigate how it affects the link between EM and FP, particularly in the BRIC setting when GD is slack. The fundamental view about GD is that it influences FP by bringing various skills, information, experience, beliefs, values, and changes in styles of leadership. Many studies on GD confirm this premise, as the results of Adams and Ferreira (2009) underlined the need for diversity in lowering agency costs and improving strategic boardroom decision-making. These supportive studies also indicate that gender diversity within the board has a positive effect on FP (Amin, et al., 2022 ; Amin et al, 2022; Li & Chen, 2018). Furthermore, some literature also supports the claim that GD affects EM negatively. As Anh and Khuong (2022) discovered, gender diversity on the board has a negative correlation with accrual-based earnings management. Concurrently, additional studies confirm our claim and indicate that the empirical evidence based on earnings management supports the notion that businesses with a larger percentage of female directors are better equipped to stop EM (Attia et al., 2024). Alves (2023) likewise shows a negative link between earnings management and female directors. Based on the preceding debate and results of earlier studies, we can argue that poor performance of the company results from earnings management; hence, we can avoid this effect by implementing CG actions. Moreover, GD is a good corporate governance tool to improve FP. From this, then, we can formulate our second hypothesis.

H2. Gender diversity moderates the relationship between EM and FP and can mitigate the negative effect of EM.

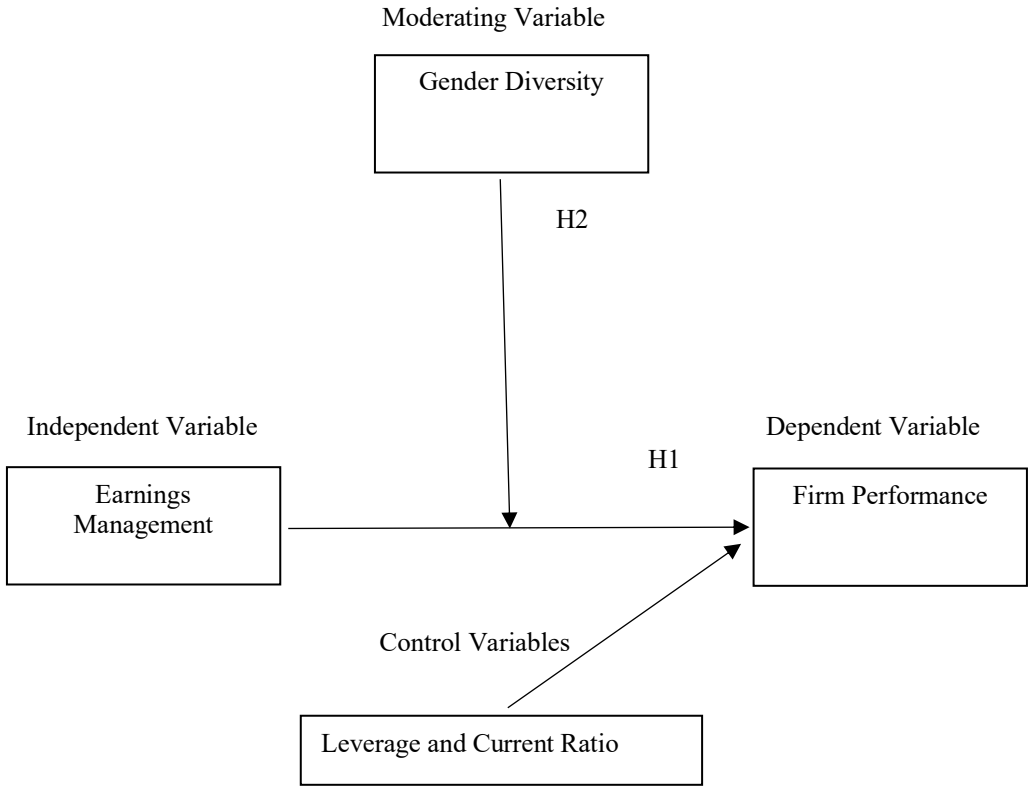

Figure 3.1: Research Model

2.2.3 Control Variables: Leverage and Current Ratio Effect on Firm Performance

There have been several studies conducted on the effects of financial leverage and current ratio on corporate performance, resulting in a mixed but significant effect on company performance. Higher leverage increases market value and profitability as businesses increase their leverage to maximize shareholder wealth, according to certain studies (Cheng & Tzeng, 2014; Lartey et al., 2013). However, other research suggests that more profitable companies tend to favor lesser leverage, using retained earnings instead of borrowing money; as a result, there is a negative correlation between leverage and performance (Ayub, 2015; Enqvist, 2014). The findings of Iqbal and Usman (2018) also have a mix of results that suggest that there is a significant and negative effect of leverage on ROE but a significant positive effect on ROA. Align with this another finding reveals that there is a negative relationship between leverage indicators and ROE and ROA which is measured for FP. From previous literature, it is clear that there is a significant effect of leverage on FP mostly negative. So, from this we can conclude our third hypothesis;

H3: Leverage has a significant effect on firm performance.

A firm's ability to satisfy short-term obligations is typically indicated by its current ratio, which is a measure of liquidity. Previous literature shows mixed results for the effect of CR on FP, some suggest non-significant while some suggest a positive effect. As Husna and Satria (2019) and Nurul et al (2019) show that CR does not significantly affect firm performance. Another study shows a significant positive effect of the current ratio on firm value (Kartikasari et al., 2023). Similarly, Karim et al. (2023) suggest that there is a positive relation between CR and ROA. From previous literature related to the connection between CR and FP, we can say that;

H4: Current ratio has a positive effect on firm performance

3. Methodology

3.1 Sample size and data source

Four countries comprise this study sample, which are known as the BRIC (Brazil, Russia, India, and China). Because firm-level data were not available for South Africa, that's why this study excludes the specific country. The study population consists of every publicly traded company in these four nations, but our sample consists of data on non-financial firms because of the different nature of financial firms due to differences in regulations, which make it difficult to compare financial firms with non-financial firms, resulting in the lack of generalizability of the study. So our final sample consists of 712 firms. Annual financial data of 712 firms are compiled for the period between 2017 and 2022 from a reputed data source called Refinitiv Eikon.

3.2 Estimation models

There are multiple techniques available for regression analysis but this study uses the generalized method of momentum (GMM) because there is heteroskedasticity in the dependent variable TQ and endogeneity in both dependent variables(ROA & TQ), which suggests that simple OLS estimations may be biassed, and an advance technique such as the Generalised Method of Moments (GMM) must be used to produce reliable estimates.

This research makes use of four different regression models in this investigation. The simple effect of AEM on FP is modeled in two different ways. One of the models uses ROA, which is a measure that serves as the accounting foundation for FP, while the other model utilizes TQ, which serves as the market-based measure for FP. In the

remaining two models, the moderating influence of GD on the link between AEM and FP (ROA and TQ) is taken into consideration. Each of these models is;

Equation 1:

$$ROA_{it} = \beta_0 + \beta_1 AEM_{it} + \beta_2 BGD_{it} + \beta_3 SOE_{it} + \beta_4 CR_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Eqution 2:

$$TQ_{it} = \beta_0 + \beta_1 AEM_{it} + \beta_2 BGD_{it} + \beta_3 SOE_{it} + \beta_4 CR_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Eqution 3:

$$ROA_{it} = \beta_0 + \beta_1 AEM_{it} + \beta_2 BGD_{it} + \beta_3 (AEM * BGD)_{it} + \beta_4 SOE_{it} + \beta_5 CR_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

Eqution 4:

$$TQ_{it} = \beta_0 + \beta_1 AEM_{it} + \beta_2 BGD_{it} + \beta_3 (AEM * BGD)_{it} + \beta_4 SOE_{it} + \beta_5 CR_{it} + \beta_6 LEV_{it} + \varepsilon_{it}$$

In the above equations, return on asset (ROA) and Tobin's (TQ) are used as measures for our dependent variable, firm performance. Accrual earnings management (AEM) and board gender diversity (BGD) are used as independent variables. The interaction term between AEM and BGD (AEM*BGD) represents the moderating term between the connection between FP and EM. There are also some other variables in the equations, which are the current ratio (CR) and leverage (Lev), which are employed as control variables in the study model. β_0 is the constant term, while it represents the number of firms and time period.

The first model looks at the basic impact AEM has on return on assets (ROA), a statistic derived from accounting that indicates firm performance. Though the accrual earnings management (AEM) is an independent variable in this model, the current ratio (CR) and leverage (LEV) are control variables. To consider unobserved elements, this model also features an error term. In the second model, we look at the straightforward effect AEM has on TQ, a market-based metric used for evaluating corporate performance. It operates with AEM acting as an independent variable and CR and LEV acting as control variables, and SOE is our dummy variable, similar to the first model.

Dedicated to the research of the moderating influence BGD has on the link between AEM and FP (ROA & TQ), both the third and fourth models. Under this paradigm, the word "BGD" describes the percentage of men and women serving on the board of directors of a commercial company. This study incorporates the interaction term between AEM and BGD, expressed as AEMBGD, to assess the moderating effect of BGD. This helps in investigating the impact it has on FP. In these two models, Lev and CR are the control variables of our particular attention.

This study also uses another four models for comparative moderating effect of BGD on FP (ROA and TQ) between Private (SOE=0) and State-owned (SOE=1)enterprises.

3.3 Variables and their measurement

3.3.1 Dependent variables

The FP variable is the main dependent variable. To evaluate financial performance (FP), traditionally, a range of criteria, including ROA, ROE, EPS, and TQ, has been used. By contrast, most research uses two measures: TQ and ROA.in which one measure comes from a market-based assessment while the other from account account-based

assessment (Laskar et al., 2023). For market-based assessments, TQ will be applied; for accounting-based assessments in this study, ROA will be used. One can derive these elements by computing as

$$ROA = \frac{Net\ Profit\ After\ Tax}{Total\ Assets}$$

$$TQ = \frac{Market\ Capitalization + Total\ Debt}{Total\ Asstes}$$

Dividing a firm's net income after tax by its total assets yields its return on assets. Whereas TQ is computed by dividing total assets by the market capitalization of a company by including its debt.

3.3.2 Independent variable

EM stands as an independent variable in this study. Walker (2013) notes that one typical approach to identify manipulation is by looking at discretionary accruals, therefore helping one to grasp how businesses handle their profits. This study used a modified Jones model, first proposed by Dechow and Skinner (2000), to estimate the degree of EM practices using this method. This model is well-known and has been regularly applied in many past studies, as indicated by (Alves, 2023; Arioglu, 2020; Arun et al., 2015; Belaounia et al., 2020; Peasnell et al., 2005).

Stated another way, the modified Jones model analyzes total accruals using a mathematical formula. These accruals reflect statistically significant changes in specific financial facets of a company. This model links three basic elements—variations in revenue, variations in accounts receivable, and the net value of the company's property, plant, and equipment—to total accruals. By means of this procedure, one can acquire a better knowledge of the ways in which these elements affect a company's reported profits.

The equation for the modified Jones model is given below,

$$TAAC_t = \beta_0 + \beta_1 \left(\frac{1}{lagged\_assets_t}\right) + \beta_2 \left(\frac{\Delta REV_t - \Delta REC_t}{lagged\_assets_t}\right) + \beta_3 \left(\frac{PPE_t}{lagged\_assets_t}\right) + \varepsilon_t$$

In the above-modified Jones model, $TAAC_t$ means total accruals at time t, β_0 is the constant, $lagged\_assets_t$ means total assets from the previous period (t-1), and ε_t is the error term.

3.3.4 Moderating variable

To investigate its impact on the link between financial performance (FP) and earnings management (EM), this study adds an extra variable, board gender diversity (BGD), referred to as the moderating variable. Given as a percentage, the measure for gender diversity (GD) is known as the board gender diversity score. This number reveals the degree of gender diversity on the board of directors. The proportion raises the gender diversity. This study aims to know how variations in gender diversity could influence or even weaken the link between FP and EM.

3.3.4 Dummy variable

SOE serves as a dummy variable in this study to differentiate across various business ownership structures. In particular, state-owned businesses are indicated by SOE = 1, whereas private businesses are indicated by SOE = 0. We can investigate how ownership type affects the connection between business performance and earnings management thanks to this classification. Incorporating this variable allows the study to capture the operational and institutional distinctions between public and private companies. This is especially important in emerging economies,

where state ownership frequently entails different regulatory oversight, governance practices, and risk appetites than the private sector.

3.3.5 Control variables

To further know their impact on firm performance (FP), this study also included extra control factors. Introduced as control variables were the current ratio (CR) and leverage (Lev). Dividing current assets by current liabilities (CA/CL) computes the current ratio, which shows the liquidity situation of a company. Leverage, on the other hand, was computed as the ratio of total liabilities or debt to total assets (TL/TA), therefore representing the financial structure and degree of debt of the company. By incorporating these factors, the study sought to explain other significant financial traits that might possibly influence business performance in addition to the primary variables of interest.

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Below is the table (3.1) for a quick understanding of our variables.

Table 1: Variable details

Type	Variable Name	Symbol	Measure
Dependent	Return on Assets	ROA	Net Income / Total Assets
Dependent	Tobin's Q	TQ	(Market Value of Equity + Total Liabilities) / Total Assets
Independent	Accrual Earnings Management	AEM	Derived using the Modified Jones Model
Moderating	Gender Diversity	BGD	Percentage of Female Directors on the Board
Dummy	State-Own Enterprises	SOE	SOE=1 (State-Owned) SOE=0 (Private Firm)
Control	Leverage	LEV	Total Debt / Total Assets
Control	Current Ratio	CR	Current Assets / Current Liabilities

4. Empirical Findings

Table 2 represents a summary of descriptive statistics of our variable from 2017 to 2022 for BRIC. The mean of ROA and TQ are 0.07 and 3.743 respectively, thus we can conclude that on average BRIC firms and profitable due to positive returns with a standard deviation of 0.063 and 10.107 indicating that ROA has low SD means that the majority of firm's returns are close to the mean but in TQ the value of SD is very high indicating that the value of TQ is scattered and lack consistency. In addition, the means for AEM and BGD is 0.01 and 0.072, respectively. This shows that on average, BRIC firms engage in less EM, and there is some ratio of BGD in BRIC firms but it is low, the min and max of BGD are 0 and 0.6, respectively, indicating that there are some firms having 0% representation of women up to 60% representation of women. The average leverage and CR are also positive, indicating a positive picture of firms, but the value of liquidity is very low.

Table 3 shows the Pearson correlation for our independent variables, verifying the absence of significant multicollinearity problems for further investigation and demonstrating that, despite some relationships between the variables, all correlations are weak, therefore implying limited linear relationships. Furthermore, as indicated in **Table 4**, the value of the variance inflation factor (VIF) is less than 10 for all independent variables, indicating no evidence of multicollinearity, which is also confirmed by (1/VIF) values, which are closer to 1. **Table 5** shows the results for heteroskedasticity for our dependent variables using the Breusch-Pagan test. The results for ROA show a chi-squared value is 2.12 and a p-value (Prob > chi2) of 0.1456, indicating that there is no significant evidence of heteroscedasticity for ROA because the p-value is more than 0.05. Whereas the result for TQ shows that there exists heteroskedasticity because the value is less than 0.05.

Table 6 shows the results for endogeneity for our dependent variable using the Wu-Hussman test. The results of the endogeneity tests show that both TQ and ROA have endogenous explanatory elements because the p-values are less than the critical value of 0.05. Thus, the results from the Breusch-Pagan test and Wu-hussman test show that there is heteroskedasticity in TQ and endogeneity in both dependent variables(ROA & TQ), implying that the traditional OLS estimations may be biased, necessitating the use of techniques such as the Generalised Method of Moments (GMM) to produce consistent and reliable parameter estimates.

Table 7 shows regression analysis results using the generalized method of momentum (GMM). The result for AEM and BGD positively and statistically significantly affects return on assets (ROA) with a Coef. = 0.001, t-value = 2.27 and Coef. = 0.001, t-value = 2.13 respectively. It indicates that a small increase in ROA is due to improved earnings management and board gender diversity. The results for AEM support our hypothesis, and it is also consistent with the findings of Dechow et al. (1996), that earnings management can have a positive effect on firm performance measures like ROA but at the expense of long-term performance. The results for AEM also align with the Positive Accounting theory by Watts (1990), which suggests that managers use earnings management to increase reported earnings for the sake of meeting the shareholders' expectations and increase firm performance in the short term. The results for BGD are also in line with previous literature, which suggests that diversity in the board positively influences the financial performance of a firm by enhancing governance (Carter et al., 2003). Findings for BGD are also supported by two theories, one is the Resource dependence theory (Pfeffer, & Salancik, G. R., 1978), which states that gender diversity equips firms with diverse perspectives and access to external resources, which enhances the decision-making process. Second is the Agency theory (Meckling & Jensen, 1976), which also supports the notion that a diverse board helps in better monitoring, which results in the reduction of agency costs and better financial performance. A future performance by past performance because firms with superior dynamic capabilities, such as the ability to relocate resources and flexibility to changes in the environment, maintain long-term competitive advantages and maintain positive performance as stated by dynamic capabilities theory (Teece et al., 1997). According to findings, the dummy variable SOE effect on ROA is positive and statistically significant (Coeff = 0.046, t = 2.61). This suggests that, when all other things are held constant, state-owned companies (SOEs) typically exhibit higher accounting profitability than their private-sector counterparts. The benefit that SOEs receive from government assistance, subsidies, or preferential treatment—such as simpler access to capital and competition protection—could be a reasonable explanation for this. These state-backed advantages may give SOEs access to special resources that improve their operational stability and profitability, claims the Resource-Based View (Barney, 1991).

Regarding other variables, the current ratio (CR) has a favorable influence (Coef. = 0.005, t-value = 5.04) and conforms to Keynes (1936) liquidity preference theory, which states that businesses with greater liquidity are better at fulfilling their short-term obligations and seize advantageous opportunities, both of which increase profitability. Because there is less possibility of financial distress in companies with higher liquidity ratios, they exhibit better financial performance (Wasiuzzaman, 2018). The results also show that leverage (LEV) has a negative effect (Coef. = -0.034, p-value = - 4.18). This is the conformation of the Trade-off theory, which states that even leverage (debt) provides tax benefit but if it exceeds it increases the financial risk and expense of interest which reduce the profitability

of the firm (Modigliani & Miller, 1958), because higher leverage is connected with reduce profitability, especially in firms where the debt level is very high (Rajan & Zingales, 1996).

Conversely, AEM has a negative but non statistically significant influence on Tobin's Q (TQ) with Coef. = -0.193, t-value = -0. 12. This suggests that performance evaluation of a corporation is not substantially influenced by profit management in the market-based indicator utilized, because market players are aware enough to see the short term manipulation in reported profits, so that's why AEM does not able effect market base measure like TQ for FP according to market effect theory by (Fama, 1970). This result aligns with the findings of Lev and Zarowin (1999), who argue that market players try to discount earnings management and focus on long-term fundamental analysis instead of reported short-term profit. As a strong indicator of TQ persistence, the lag TQ (L.TQ) is very significant, Coef. = 0.625, t-value = 141.49). Likewise, ROA is also in line with the Dynamic Capabilities theory. The result for SOE demonstrates that SOE significantly and negatively affects Tobin's Q (Coef = -0.317, t = -2.70), suggesting that the market values state-owned businesses less than private companies. This implies that investors have a skeptical attitude about SOEs, most likely as a result of worries about inefficiencies, political meddling, and diminished profit incentives. The Political Interference Theory (Shleifer, 1994), which emphasizes non-commercial goals in SOE administration, is consistent with this. A positive influence of board gender diversity (BGD) (Coef. = 0.013, t-value = 3.02), a positive effect of the current ratio (CR) (Coef. = 0.210, t-value = 2.95), and a negative effect of lev on TQ. This is also consistent with the Resource dependency theory, Liquidity preference theory, and Trade-off theory, respectively.

Table 2: Descriptive statistics of variables

Variables	Obs	Mean	Std. Dev.	Min	Max
ROA	4269	0.074	0.063	-0.493	0.673
TQ	4269	3.743	10.107	0.027	257.502
AEM	3560	0.001	1.001	-40.602	33.072
BGD	4272	0.072	0.111	0	0.6
LEV	4269	0.451	0.239	0.029	3.464
CR	4272	2.015	1.535	0.106	19.308

Table 3: Pearson correlation analysis

Variables	ROA	TQ	AEM	BGD	CR	LEV
ROA	1					
TQ	0.188	1				
	(0.000)					
AEM	0.017	-0.016	1			
	(0.323)	(0.355)				
BGD	0.039	0.063	0.001	1		
	(0.011)	(0.000)	(0.940)			
CR	0.362	0.123	0.003	0.001	1	
	(0.000)	(0.000)	(0.870)	(0.951)		
LEV	-0.382	-0.127	-0.008	0.027	-0.546	1
	(0.000)	(0.000)	(0.637)	(0.078)	(0.000)	

Table 4: Variance inflation factor test

Variables	VIF	1/VIF
LEV	1.43	0.699
CR	1.43	0.699
BGD	1.001	0.999
AEM	1	1
Mean VIF	1.215	

Table 5: Breusch-pagan test for heteroskedasticity

DV	chi2(1)	Prob > chi2
ROA	2.12	0.1456
TQ	334.1	0

Table 6: Wu-Husman test for endogeneity

DV	Durbin (score)	Wu-Hausman
	Ho: variables are exogenous	
ROA	23.7358 (p = 0.0001)	5.96497 (p = 0.0001)
TQ	9.96054 (p = 0.0411)	2.49098 (p = 0.0413)

Table 7: GMM regression for the direct effect of AEM and BGD on FP

	Model-1	Model-2
	ROA	TQ
L.ROA	0.564***	0.625***
	(21.73)	(141.49)
AEM	0.001*	-0.193
	(2.27)	(-0.12)
BGD	0.001*	0.013**
	(2.13)	(3.02)
SOE	0.046**	-0.317**
	(2.61)	(-2.70)
LEV	-0.034***	-0.373
	(-4.18)	(-1.15)
CR	0.005***	0.210**
	(5.04)	(2.95)
_cons	0.031***	0.821**
	(4.94)	(2.92)
F	755.2	2878.6
ar(1)	0	0.001
ar(2)	0.851	0.289
Hansenp	0.229	0.176

An interaction term between AEM and BGD—denoted as AEMBGD—was included to evaluate the moderating effect of board gender diversity, as Table 8 shows. With a negative and highly significant coefficient for AEMBGD—Coef. = -0.001, t-value = -7.68—the positive association between AEM and ROA declines as the share of female directors rises. Notwithstanding this moderating effect, the direct influence of AEM on ROA stayed positive and statistically significant (Coef. = 0.003, t-value = 10.05), implying that earnings management keeps raising ROA.

Furthermore, validating the continuity of company performance over time was the substantial, positive coefficient for lagged ROA (L. ROA), Coef. = 0.549, t-value = 22.34.

TQ (Coef. = -0.046, t-value = -2.32) is much negatively affected by the interaction term AEMBGD, suggesting that more board gender diversity reduces the negative impact of AEM on TQ. AEM has a statistically insignificant effect on TQ (Coefficient = 0.083, t-value = 1.31). With a coefficient = 0.621 and a t-value = 42.51, the lagged TQ (L.TQ) shows notable persistence. Independently, board gender diversity (BGD) significantly increases TQ (Coefficient = 0.065, t-value = 1.56). The findings for the moderating effect of BGD are consistent with existing theories like Agency theory, Resource dependency theory, Market efficiency theory, and Stakeholder theory, which collectively support the perception that GD typically enhances firm performance by strengthening the governance structure of the firm and reducing the adverse effect of earnings management on firm performance. This idea has also been supported by earlier empirical findings. For example, Srinidhi et al. (2011) discovered that companies with a higher proportion of female board members demonstrated lower levels of earnings management, suggesting that gender-diverse boards improve the quality of financial reporting and lessen the short-term benefits of AEM. This is further supported by Lev and Zarowin (1999) research, which demonstrates that markets value companies with greater earnings transparency more favorably and that having a diverse board can contribute to obtaining this transparency.

Basically, the GMM regression results show that although it does not greatly influence TQ, AEM usually increases ROA. Nonetheless, the existence of board gender diversity (AEMBGD) moderates these correlations, hence lessening the positive impact of AEM on ROA and the negative impact of AEM on TQ. These results underline the need to include GD in corporate governance while monitoring the effect of EM on FP.

Table 8: GMM regression for the moderating effect of BGD on the relationship of FP and AEM

	Model-3	Model-4
	ROA	TQ
L.DV	0.549***	0.621***
	(22.34)	(42.51)
AEMBGD	-0.001***	-0.046*
	(-7.68)	(-2.32)
AEM	0.003***	0.083
	(10.05)	(1.31)
BGD	0.001	0.065
	(1.94)	(1.56)
SOE	0.0504**	0.511
	(2.99)	(1.75)
LEV	-0.033***	4.900*
	(-4.12)	(2.37)
CR	0.006***	1.998***
	(5.69)	(3.93)
_cons	0.029***	-5.082**
	(4.87)	(-2.86)
F	797.5	452.8
ar (1)	0.000	0.000
ar (2)	0.841	0.238
Hansenp	0.235	0.080

4.1 Comparative Analysis for State-Owned vs Private Enterprises:

Table 9: GMM regression for comparative analysis of the moderating effect of BGD on the relationship between ROA and AEM of Prive vs SOE

	Model-5	Model-6
	ROA	ROA
L.DV	0.524***	0.515***
	(23.2)	(9.72)
AEMBGD	-0.001***	0.019
	(-8.42)	(1.95)
AEM	0.003***	-0.179
	(9.2)	(-0.84)
BGD	0.001	-0.001*
	(1.56)	(-2.20)
LEV	-0.031***	-0.014*
	(-3.95)	(-2.18)
CR	0.005***	0.021***
	(5.58)	(7.43)
_cons	0.039***	0.013
	(7.07)	(1.41)
F	991.7	153.9
ar1	0.000	0.097
ar2	0.510	0.383
Hansenp	0.069	0.208

The effects of board gender diversity–moderated earnings management (AEMBGD) on firm performance (ROA) in state-owned enterprises (SOEs) and private companies differ significantly, according to the analysis shown in Table 9. In Model 5, where SOE = 0, AEMBGD has a negative and statistically significant impact on ROA (-0.001***). This suggests that gender-diverse boards serve as a governance tool to reduce aggressive earnings management, which in turn reduces inflated short-term performance. According to Agency Theory (Jenson & Meckling, 1976) and Resource Dependence Theory (J. Pfeffer, & Salancik, G. R. , 1978), diversified boards improve supervision and lessen executive opportunism.

On the other hand, the effect of AEMBGD in model 6, where SOE = 1, is significant and positive (0.019**), suggesting that gender diversity on boards does not limit or even encourage earnings management. Political Embeddedness Theory (Shleifer, 1994) explains this finding by arguing that SOEs are subject to bureaucratic and political influences that could restrict board independence and lessen the ability of diversity to prevent manipulation. Furthermore, research like Chen et al. (2011) contends that board arrangements in SOEs are more symbolic than practical because governance improvements are frequently not enforced.

Table 10: GMM regression for comparative analysis of the moderating effect of BGD on the relationship between TQ and AEM of Prive vs SOE

	Private	SOE
	TQ	TQ
L.DV	0.625***	0.648***
	(42.87)	(22.22)
AEM	0.097	1.997***
	(1.53)	(4.45)
AEMBGD	-0.049*	0.217**

	(-2.46)	(3.4)
BGD	0.068	0.008
	(1.84)	(1.08)
LEV	6.009**	1.438*
	(2.79)	(2.21)
CR	2.192***	1.453***
	(4.29)	(6.25)
_cons	-5.888**	-2.564***
	(-3.20)	(-3.90)
F	514.6	3206.8
ar1	0.000	0.062
ar2	0.245	0.077
Hansenp	0.158	0.026

As shown in Table 10, the association between accrual earnings management (AEM) and firm performance, as determined by Tobin's Q, is negatively and significantly mediated by board gender diversity in private businesses (model 7) (AEMBGD = -0.049*). This suggests that private companies' gender-diverse boards intentionally restrict the use of earnings management, which the market can take as a sign of improved transparency and governance. Interestingly, AEM's primary effect is not significant, indicating that, in contrast to accounting-based measures, earnings manipulation has minimal impact on market valuation unless governance issues act as a moderator. This gives validity to the Market Discipline Hypothesis (Fama, 1980), which holds that companies with sound governance processes are rewarded by external market factors (such as investor perceptions). It is also consistent with the findings of Adams and Ferreira (2009), who contend that boards with gender diversity tend to improve strategic control and monitoring, which can lessen aggressive profit methods and raise the firm's long-term value from the standpoint of external investors.

AEM itself has a considerable positive influence on TQ (1.997***), while state-owned businesses demonstrate a positive and significant moderating effect of board gender diversity on the AEM–TQ connection (AEMBGD = 0.217**) as shown in model 8. Accordingly, markets may react favorably to earnings management in SOEs as a strategic instrument to accomplish performance goals or communicate stability to stakeholders, particularly when combined with a diverse board. These findings are consistent with the Institutional Theory (DiMaggio & Powell, 1983), which says that SOE governance arrangements frequently change to satisfy legitimacy requirements rather than efficacy requirements. Board diversity in these situations might serve more as a symbolic than a practical purpose, particularly when political influence erodes independent scrutiny. Du (2020) observed that gender diversity in Chinese SOEs is frequently associated with institutional mimicry and compliance rather than real influence on business outcomes, which lends credence to this perspective. Markets may therefore view earnings management in SOEs as state-sponsored performance signaling rather than opportunistic.

5. Conclusion

This study looked at how accrual-based earnings management (AEM) affected FP and looked at how gender diversity might moderate this link, and also looked for the comparative moderating effect of GD for Private vs. state-owned enterprises. Six years of data, from 2017 to 2022—covering businesses from a range of sectors throughout the BRIC countries—Brazil, Russia, India, and China—formed the basis for the study. ROA represented accounting-based performance, and TQ captured market-based performance in measuring firm success.

In this study, the modified Jones model was used to evaluate profit management; the proportion of female directors acted as a proxy measure to show board gender diversity. Eight distinct regression models were used to do

the empirical study. The third and fourth of these models concentrated on investigating how gender diversity can influence the relationship between company performance and earnings management (EM). Using Return on Assets (ROA) and Tobin's Q (TQ), the first and second models examined the direct effect of earnings management on company performance. While the other four models look for comparative analysis of the moderating effect of GD between Private and State-owned enterprises, this method made it possible to fully grasp the combined effects of GD and EM on business results, as well as their stand-alone effects.

The study's findings demonstrate that the way earnings management (EM) is carried out has a big impact on a company's performance. In particular, there is a positive and statistically significant correlation between accrual earnings management (AEM) and return on assets (ROA), indicating that companies that use AEM may have better short-term accounting-based performance. Tobin's Q (TQ), a market-based performance metric, and AEM have a negative and insignificant association, suggesting that markets may undervalue managed earnings because of mistrust or a perceived lack of transparency.

Importantly, board gender diversity (BGD) plays a critical moderating role. In private firms, gender-diverse boards significantly weaken the positive influence of AEM on both ROA and TQ, reflecting effective oversight and aligning with good governance principles. In contrast, in state-owned enterprises (SOEs), AEM—especially when moderated by BGD—positively affects TQ, suggesting that in politically embedded environments, BGD may function more symbolically and enable strategic signaling rather than act as a governance constraint.

These results highlight the fact that although AEM may improve accounting performance in the near term, governance frameworks are necessary for its long-term worth. In private companies, board diversity increases openness and reduces manipulation, but in state-owned enterprises (SOEs), its efficacy is largely dependent on the institutional setting. As a result, governance reforms that are applied universally could not produce consistent results for all ownership types.

5.1 Implications and Limitations

This research offers significant insights for policymakers, investors, and corporate executives regarding the impact of gender diversity on corporate performance and EM. It highlights the importance of gender-diverse boards in enhancing governance, transparency, and decision-making, ultimately leading to better corporate outcomes. Investors are advised to be cautious of companies engaging in unhealthy earnings management practices, while policymakers are encouraged to promote regulations supporting board diversity to mitigate risks.

Despite its advantages, the study has drawbacks.. It focuses only on BRIC nations within a limited timeframe (2017-2022), restricting generalizability. Future research could extend the study to diverse economies and cultures. Additionally, it considers gender diversity as the sole governance factor, whereas other aspects like ownership structure and audit quality could provide a more holistic view. Lastly, the study relies on specific earnings management models, and future studies could explore alternative methodologies for broader validation. Addressing these limitations will enhance the understanding of corporate governance and contribute to improved practices.

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