"Does the adoption of Ind AS affect the performance of firms in India?"

AUTHORS	Nikhil M. N. (iD) (R) Suman Chakraborty (iD) (R) Lithin B. M. (iD) (R) Lumen Shawn Lobo (iD)

NUMBER OF REFERENCES	NUMBER OF FIGURES	NUMBER OF TABLES
54	0	7

Nikhil M. N., Doctoral Scholar,
Department of Commerce, Manipal
Academy of Higher Education, India
(First Author).

Suman Chakraborty, Associate
Professor, Department of Commerce,
Manipal Academy of Higher Education,
India. (Corresponding author)

Lithin B. M., Doctoral Scholar,
Department of Commerce, Manipal
Academy of Higher Education, India.

Lumen Shawn Lobo, Assistant
Professor, Department of Commerce,
Manipal Academy of Higher Education,
India.

Nikhil M. N. (India), **Suman Chakraborty** (India), **Lithin B. M.** (India), **Lumen Shawn Lobo** (India)

DOES THE ADOPTION OF IND AS AFFECT THE PERFORMANCE OF FIRMS IN INDIA?

Abstract

The increasing prevalence of IFRS adoption has resulted in enhanced transparency, accounting quality, and comparability of financial information among firms, especially in emerging markets worldwide, including India. Nonetheless, the question of whether the adoption of IFRS has led to improved firm performance persists. To address this question, this study examines the impact of transitioning from India's GAAP-based accounting standards to IFRS-converged standards (Ind AS) on non-financial firms' performance from 2013 to 2022. The empirical findings reveal that the convergence of Indian accounting standards with IFRS significantly improves firm performance, as demonstrated by a positive coefficient of 0.0166 for Ind AS in the fixed-effect model. The study also validates the original empirical findings using the return on equity (ROE) measure of firm performance, which yielded a coefficient of 0.0197, further confirming that the adoption of Ind AS leads to an increase in the performance of Indian firms. These results contribute new insights to the existing IFRS literature and have implications for policymakers and managers.

Keywords	firm profitability, IFRS convergence, return on assets, panel data, fixed effect model, Nifty 500, emerging market
JEL Classification	C33, G32, M41, M48

INTRODUCTION

The widespread implementation of IFRS can be explained by its perceived benefits (Phan et al., 2018) and the quest to harmonize accounting standards due to broadening business horizons beyond national borders (Hope et al., 2006). The uprise in cross-country investment calls for internationally comparable accounting information, and its mirroring consequence has been the widespread implementation of IFRS across more than 140 jurisdictions[1]. This worldwide adoption has garnered the attention of researchers to explore the consequences of adopting IFRS in lieu of the country's GAAP-based standards. Consequently, the implementation of IFRS has become a prominent research topic among the academic fraternity due to its perceived benefits and potential impact on accounting quality, financial reporting, and earnings management (Baig & Khan, 2016; Barth et al., 2008; Gajevszky, 2015; Gu, 2021; Marra et al., 2011; Mensah, 2021).

While several studies have shred evidence for the benefits of IFRS implementation empirically, the impact of significant regulatory changes on firm-level performance remains an important and unresolved research question. This is especially relevant in emerging economies like India, which has recently undergone a major accounting reform with the convergence of IFRS. Although the adoption of Ind AS in India

---

1 List of nations around the world who have adopted IFRS standards as their accounting standards can be accessed from the official website of IFRS (https://rb.gy/iayo).

has been regarded as a major accounting reform, its effect on firm performance (FP hereafter) is still unclear. Thus, in the facet of inconclusive findings, the present research probes an attempt to answer the question of whether implementing Ind AS improves the performance of firms in India by employing multivariate regression analysis.

1. LITERATURE REVIEW

Why do firms strive to perform better? Because the performance of firms is of paramount importance for their success and growth in the long run (Niresh & Velnampy, 2014). The higher the FP, the more chances that the firms can expand and develop their production and improve employees' efficiency, which per se, impacts firms' profitability. Further, sound FP is worthy of attention in fostering economic growth (Nanda & Panda, 2018; Yazdanfar, 2013). Consequently, researchers, practitioners, and academicians are in quest of examining the drivers of FP (Hawawini et al., 2003).

The burgeoning literature shreds evidence for the absence of an operational definition of firm performance (Taouab & Issor, 2019). However, the firm's profitability has been widely used as a gauge to measure the performance of firms (Majumdar, 1997; Tsiapa, 2021). Evans and Schmalensee (2005) in their pioneer work, empirically examined the impact of industrial factors on profitability and contended that industrial factors explain 20% of the changes in firm profitability. This was further emphasized by another pathbreaking work of Rumelt, (1991), who argued that a 9% variation in the firms' profitability was due to industrial effects. It seems, however, that neither empirical finding expounds the variation in firm profitability. Hence, contemporary researchers developed a contention where they asserted that the firm-level factors arguably account for the higher amount of variability in profits, corresponding to the industrial factors (Spanos et al., 2004). As a result, the question of the extent of the impact of firm-level variables, such as size, age, growth, leverage, and so on, have resulted in a substantial amount of empirical investigations (Asimakopoulos et al., 2009; Cheong & Hoang, 2021; Le & Phan, 2017; Pandey, 2001). However, studies on firm-specific determinants of profitability are equivocal due to the contra-

dictory findings (Tsiapa, 2021). Parallel to this, another strand of literature focuses on the impact of macroeconomic determinants on firms' profitability since such catastrophes negatively affect aggregate demand and supply (Pattitoni et al., 2014). Thus, the national level factors such as tax, unemployment rate, GDP, and inflation are beyond the control and cause a substantial sway on the FP (Issah & Antwi, 2017). Therefore, from the existing literature, it is evident that a good number of studies have compiled notable evidence to prove that the profitability of the firms ranges among industrial, firm-specific, and national-level factors (Killins, 2020; Pervan et al., 2019).

Despite the large body of literature in the context of FP, surprisingly, the research fraternity has failed to include non-measurable determinants of firm profitability, such as regulatory environment (Amare, 2021). Hasan et al. (2008) outline that revamping the existing accounting policies and practices yields desired results, particularly in developing nations. Accordingly, the study finds that adopting IFRS in Bangladesh results in better regulatory compliance and reporting environment. The improved information environment further provides access to market participants to cast eyes over a company's mission and vision, inducing their confidence that ultimately affects the firms' profitability (Iatridis, 2008; Iatridis & Dalla, 2011). In this backdrop and based on several empirical studies that underpin the advantages of IFRS implementation around the globe, Abdullah and Tursoy (2021) contend that IFRS adoption positively affects FP.

The existing literature demonstrates the need to recognize IFRS, since they are considered higher quality standards that bring transparency to a firm's financial reports, allowing stakeholders to make informed decisions. Thus, around the globe, there has been a considerable implementation of IFRS. The contemporaneous IFRS adoption by the nations has grabbed the interest

of various scholars and provided them with unparalleled opportunities to study the implications of implementing IFRS (Baig & Khan, 2016; Bassemir & Novotny-Farkas, 2018; Gu, 2021; Key & Kim, 2020; Mensah, 2021).

Daske et al. (2008) investigated the effect of the transition to IFRS on the market liquidity and cost of capital. The results demonstrated that IFRS adoption resulted in a reduction in the cost of capital and an increase in market liquidity and equity valuation. Subsequently, Daske et al. (2013) recognized the variability in economic consequences across firms and concluded that IFRS significantly reduces the cost of capital and boosts market liquidity only for those firms that adopted IFRS for the purpose of increasing transparency. Another study by Houqe et al. (2016) found a significant reduction in the cost of capital due to IFRS adoption in New Zealand.

An alternative perspective in the literature suggests that IFRS is more detailed and transparent in relation to national accounting standards (Chen et al., 2010), and adopting such standards can lead to improved quality of firms' financial reporting (Ahmed et al., 2013). Initially, Barth et al. (2008) enumerated the potential benefits of IFRS implementation, such as reduced managerial discretion, lower possibility of circumvention, and better representation of firms' economies. Key and Kim, (2020), for instance, analyzed 439 non-financial Korean firms over a ten-year period to assess the effect of switching from local standards to IFRS on financial reporting quality, and the results indicated a significant improvement in quality after the adoption of IFRS. Similarly, Gu (2021) observed a significant enhancement in the FRQ among Japanese firms due to a decrease in income smoothing, consistent with prior research.

Furthermore, it is anticipated that the adoption of IFRS would bring about consistency and enhance the reporting environment of firms (Mensah, 2021). Bassemir and Novotny-Farkas, (2018) explored the FRQ of German non-public firms and discovered that IFRS adoption improved the reporting quality of the sample firms when compared to non-adopters. Additionally, several studies have demonstrated a positive link between IFRS implementation and firms' FRQ (Gajevszky, 2015; Mensah, 2021).

However, the effect of IFRS implementation on firm performance has produced inconclusive findings in academic research. This is because of differences in the way regulations are enforced and varying practices in different countries. While certain studies have observed significant enhancements in the profitability of firms and the relevance of accounting information after IFRS adoption, others have found that the benefits of IFRS are subject to the type of adoption. Recent research in India has noted the advantages of Ind AS implementation, such as improved earnings relevance, accounting and financial comparability, and market liquidity. Nonetheless, the current literature has not established a consensus on how IFRS adoption influences the profitability of firms. Consequently, this study seeks to address this knowledge gap by proposing the following hypothesis:

H1:   Ind AS has a positive impact on the performance of Indian firms.

This hypothesis is based on recent empirical research that has demonstrated the benefits of Ind AS adoption from diverse perspectives. However, further research is necessary to determine how IFRS adoption, including Ind AS implementation, affects firm performance across different regions and sectors in India. By investigating this issue, this study intends to contribute to the ongoing academic discussion on the ramifications of IFRS adoption for firm performance and offer insights to policymakers and practitioners in India and other areas.

2. METHOD

2.1. Data and variables

This study investigates the impact of Ind AS implementation on the performance of non-financial firms listed on the NSE 500 over a 10-year period spanning from 2013 to 2022. The study uses secondary data collected from two sources: the Prowess IQ database for firm-specific and Federal Reserve Economic Data (FRED) for macro-eco-

nomic data. To assess the effectiveness of Ind AS, the study partitions the study period into two distinct periods (i.e., 2013-2017 as pre-Ind AS and 2018-2022 as post-Ind AS, respectively). Although the Ind AS was mandated in India from FY 2016, the post-Ind AS period is considered from 2018 to avoid biases on account of the implementational costs of new accounting standards (Miah, 2021). Besides, financial firms, including banking, insurance, and non-banking companies, were excluded from the sample since they are bound to specific accounting requirements (van Tendeloo and Vanstraelen, 2008), regulations (Miah, 2021) and due to dissimilarity in financial statements (Al-Najjar & Hussainey, 2011; Pandey, 2001). After removing missing observations and observations with extremely high and low values (outliers), the final sample comprises 402 firms with 3880 firm-year observations.

The dependent variable firm performance (FP) has been measured using two measures, Return on Assets (ROA) and Return on Equity (ROE), pervasive in prior studies. (See, for instance, Le & Phan, 2017; Abdullah & Tursoy, 2021; Miah, 2021; Attia et al., 2023). The former measures the profitability of firms in relation to their total assets, and the latter measures the profitability of firms in relation to shareholder funds. Both measures are accounting-based measures that represent the firms' efficiency in utilizing the total assets and shareholders' funds to earn profits. Since the current research intends to examine the effectiveness of the new accounting standard, Ind AS is taken as the independent variable. To measure the Ind AS, the study employs another quantitative technique where dummy values "0" for the sample period from 2013 to 2017 and "1" otherwise have been used, in line with the prior study (Miah, 2021). Besides, the study includes firm-specific variables such as Size, Leverage, and macroeconomic variables such as GDP, Inflation as control variables. Since the aforementioned variables significantly impact the performance of firms, such variables have been controlled in the study (Abdullah & Tursoy, 2021; Egbunike & Okerekeoti, 2018; Issah & Antwi, 2017; Killins, 2020; Le & Phan, 2017; Miah, 2021).

All the data were collected on an annual basis to form a panel structure, which has benefits in estimation due to the increased number of observa-

tions (Le & Phan, 2017). Succinctly put, the panel data analysis controls unobserved time-invariant heterogeneity, thereby enhancing the efficiency of estimators.

2.2. Regression models

The panel regression models can be written as:

$$ROA_{it} = \alpha_0 + \beta_1 IndAS_{it} + \beta_2 Siz_{it} + \\ + \beta_3 Lev_{it} + \beta_4 Infltn_{it} + \beta_5 GDP_{it} + \varepsilon_{it}, \quad (1)$$

$$ROE_{it} = \alpha_0 + \beta_1 IndAS_{it} + \beta_2 Siz_{it} + \\ + \beta_3 Lev_{it} + \beta_4 Infltn_{it} + \beta_5 GDP_{it} + \varepsilon_{it}, \quad (2)$$

where ROA is the proxy used to measure the *firm performance*; *Ind AS* is a dummy that assumes 0 for the sub-sample period 2013–2017 and 1 for 2018–2022; *Siz* represents the total size of the firms; *Lev* indicates leverage ratio, *Infltn* and *GDP* being macro-economic indicators shows inflation rate and *GDP* rate respectively (Refer to table 1 for variables description).

In addition to testing the linear relationship between *ROA* and *Ind AS*, this study uses baseline regression in second model (2), where *ROE* is being used as a proxy for firm performance, a common measure for robustness checks (Le & Phan, 2017). The *ROE* is an accounting-based measure that has been used extensively in the extant literature to gauge firm performance (Abdullah & Tursoy, 2021; Attia et al., 2023; Miah, 2021).

Table 1. Variables description

Variable	Operational Definition
Panel A: Dependent Variable	
ROA	Ratio of profit after tax to total assets
ROE	Ratio of profit after tax to total equity
Panel B: Independent Variable	
Ind AS	Dummy variable where value "0" assigned for period 2013-2017 and "1" for 2018-2022
Panel C: Other control Variables	
Size of Firm (Siz)	Ln of total assets (natural log)
Leverage (Lev)	Total debt / Total assets
Inflation (Infltn)	Percentage Consumer Price Index
Gross Domestic Product (GDP)	Percentage growth in GDP rate

3. RESULTS

3.1. Descriptive statistics

The summary statistics are shown in Table 2. The sample period is sliced into Pre-Ind AS and Post-Ind AS periods, respectively. The mean value of ROA in the post-Ind AS and pre-Ind AS adoption period is 0.0808 and 0.0745, while for ROE, it is 0.1478 and 0.1395, respectively. This implies that firms' performance has significantly improved in the post-Ind AS period. Further, there is a reduction in standard deviation of ROA and ROE in the post-implementation period (0.0706 and 0.1218, respectively) compared to ex-ante period (0.0774 and 0.1417, respectively). This means that deviation in the performance among firms has reduced during the Ind AS period as compared to the erstwhile GAAP period. The value of Size ranges from −0.6931 to 15.1177 and from −0.1053 to 15.164 in the pre-and post-Ind AS period, respectively. This shows there is less discrepancy in Size among sample firms during the Ind AS adoption period compared to the pre-Ind AS period. Nevertheless, the overall mean of leverage has increased by 2% during the second half of the sample period, which explicates that debt has been more accessible to sample firms during 2018–2022. In the same

vein, GDP and Inflation have decreased during the period 2018–2022. Generally, the reduction in GDP rates is considered disastrous since they indicate a shrinking economy. Further, the downfall in inflation rates accelerates the consequences of the recession. The study's findings i.e., decrease in GDP and Inflation, indicate a debilitating Indian economy. However, these downfalls in economic indicators appear to be driven by extreme upheavals due to the COVID-pandemic and global wars, worsening growth, and inflation mix in India.

3.2. Correlation analysis

The correlation analysis of the selected variables is shown in Table 3. The reported value for Ind AS, 0.0383, indicates a positive association between ROA and Ind AS, which supports the stated research hypothesis. Further, the ROA of the sample firms is highly influenced by the leverage coefficient (−0.4414), demonstrating an inverse relationship between borrowings and FP. However, from the correlation analysis, an insignificant association between ROA and GDP, Inflation (macroeconomic indicators) was observed. However, the results demonstrate that none of the variables is highly correlated (more than 0.75). Thus, the moderate correlation coefficients corroborate that the

Table 2. Summary statistics

		ROA	ROE	Ind AS	Siz	Lev	GDP	Infltn
Mean	Pre-Ind AS	0.0745	0.1395	0	10.1711	0.3534	7.134	2.5629
	Post- Ind AS	0.0808	0.1478	1	10.8221	0.3606	4.4303	−0.2302
Median	Pre-Ind AS	0.0663	0.1415	0	10.205	0.3251	6.9628	1.8689
	Post-Ind AS	0.0761	0.1434	1	10.7268	0.2911	7.2766	0.3955
S.D	Pre-Ind AS	0.0774	0.1417	0	1.8342	0.2445	1.0703	2.7196
	Post-Ind AS	0.0706	0.1218	0	1.4253	0.6317	5.7042	2.0288
Min	Pre-Ind AS	−0.4561	−0.6781	0	−0.6931	0.0012	6.0991	−1.2593
	Post-Ind AS	−0.3074	−0.4016	1	−0.1053	0.0046	−6.5934	−4.0224
Max	Pre-Ind AS	0.3571	0.8999	0	15.1177	3.0769	9.0021	6.65
	Post-Ind AS	0.3677	0.8881	1	15.164	16.2222	8.7	1.9797

Table 3. Correlation matrix

	ROA	Ind AS	Siz	Lev	GDP	Infltn
ROA	1					
IndAS	0.0383***	1				
Siz	−0.1204***	0.1846***	1			
Lev	−0.4414***	−0.0448***	0.0979***	1		
GDP	0.0083	−0.3136***	−0.0398***	−0.0178	1	
Infltn	−0.0181	−0.5074***	−0.0591***	0.0027	0.0541***	1

Note: Correlation is significant at 10%, 5%, and 1% as indicated by *, **, and ***, respectively.

dataset used in the present study does not encounter the problem of multicollinearity. Besides, the study also employs Variance Inflation Factor (VIF) analysis (refer to Table 5 for test results) to identify the perfectly correlated predictors. The results of the VIF test affirm the existence of non-collinearity among the selected variables (since VIF coefficients <10). Consequently, the variables considered can be employed in the regression models to analyze the linear relationship between FP and new accounting standards, i.e., Ind AS.

Table 4. Variance Inflation Index (VIF) analysis

Variable	VIF coefficients
IndAS	1.57
Lev	1.02
Siz	1.05
GDP	1.13
Infltn	1.37

3.3. Regression analysis

The Lewin-Lin ADF test for stationarity is used to avoid spurious regression results. The reported result in Table 5 shows significantly lower p-values for all the variables employed in the study, implying that data are stationary at the level.

The study uses multiple regression analysis to examine the impact of Ind AS implementation on the FP of 402 non-financial firms listed in the Nifty 500 index. Initially, the study employs pooled OLS approach, which assumes homogeneity and stationarity of the data series. Nevertheless, the OLS model produces biased results, given that the assumptions of the model are violated. Consequently, the Breusch-Pagan LM (BP-LM) test has been used to examine the presence of cross-sectional dependency. The null hypothesis (H_0) assumes that there is no cross-sectional dependency among the data series. The result of the BP-LM test shows a statistically significant p-value (less than 0.05), and the null hypothesis is rejected accordingly. Thus, Random Effect Model (REM) is preferred over the OLS model. Further, F statistics is employed to choose between OLS and the Fixed Effect Model (FEM), and the relatively lower p-value supports the FEM model over the OLS model. Subsequently, to account for firm-specific effects, FEM or REM can be employed. However, inappropriate model selection leads to inconsist-

ent coefficients and biased standard errors. Thus, the Hausman test is employed, which assists in employing an appropriate model. The Hausman test hypothesize (H_0) that the REM model is appropriate, and the results of the test are shown in Table 6. Since the p-value is less than 5%, it infers that the null hypothesis (H_0) should be rejected, and FEM over REM model can be used. Moreover, the FEM model handles the problem of individual and time-varying heterogeneity. Additionally, the current research employs a panel FEM with robust standard errors (Robust FEM) since error terms will be normally distributed in such a model and further tackles the problem of heteroscedasticity and serial correlation (Le & Phan, 2017). The results of the BP-LM test, F statistics, and Hausman test are presented in Table 6.

Table 5. Lewin-Lin ADF unit root test results

Variable	t-statistics	p-value
ROA	−38.6220 ***	0.0000
ROE	−39.7494 ***	0.0000
IndAS	−7.1496 ***	0.0000
Siz	−212.074 ***	0.0000
Lev	−75.0549 ***	0.0000
GDP	−35.5847 ***	0.0000
Infltn	−16.1253 ***	0.0000

Note: ***, **, and * represent significance levels at 1%, 5% and 10% levels.

Table 6. Panel regression results (model 1)

Variable	Regressand: ROA			
	Coefficient	Std. Error	t-ratio	p-value
constant	0.2209	0.0504	4.389	<0.0001***
IndAS	0.0116	0.0034	3.398	0.0007***
Siz	−0.0107	0.0048	−2.234	0.0260**
Lev	−0.1116	0.0159	−7.009	<0.0001***
GDP	0.0003	0.0002	1.862	0.0633*
Infltn	0.0004	0.0003	1.312	0.1904
N (firm-year obsv)	3880			
R-Squared value	0.7085			
F statistic	34.1014			<0.0001***
BP-LM test	5136.21			<0.0001***
Hausman test	13.5372			0.0188**

Note: ***, **, and * represent the significance level of the regression coefficients at 1%, 5%, and 10% levels, respectively.

The Robust FEM model results are illustrated in Table 6. The highly significant positive coefficient of Ind AS demonstrates that the implementation of Ind AS has positively impacted the ROA of

sample firms. Precisely, this finding confirms that the ROA of the firms has increased by 1.15% after the adoption of the new accounting standard, i.e., Ind AS, which supports the study's hypothesis (H1). The size coefficient of –0.0107 implies that small firms perform better than large-scale firms. Further, the negative association between leverage and ROA (–0.1116) infers that an increase in the debt in the capital structure of Indian firms leads to a significant reduction in the performance of firms. Besides, the GDP (significant) and inflation (insignificant) positively influence the ROA of Indian non-financial firms. Moreover, the adjusted R-square value 0.7085 suggests that the predictors employed in the regression model explain nearly 71% variation in the ROA of the firms. Further, the F-statistics results support the model fit, which is significant at the 1% level.

3.4. Robustness check

As a measure for robustness check, the study employs baseline regression with modifications in the dependent variable. Accordingly, the study performs sensitivity analysis by employing ROE as another proxy for FP and the same control variables. The regression results are provided in Table 7.

Table 7. Panel regression results (model 2)

Variable	Regressand: ROE			
	Coefficient	Std. Error	t-ratio	p-value
constant	0.4535	0.0812	5.589	<0.0001***
Ind AS	0.0197	0.0073	2.723	0.0068***
Siz	−0.0298	0.0079	−3.755	0.0002***
Lev	−0.0204	0.0039	−5.243	<0.0001***
GDP	0.0010	0.0004	2.922	0.0037***
Infltn	0.0007	0.0006	1.200	0.2307
N (firm-year obsv)	3865			
R-Squared value	0.5439			

Note: ***, **, and * represent the significance level of the regression coefficients at 1%, 5%, and 10% levels, respectively.

The results of regression (model 2) confirm a positive impact of Ind AS on the ROE of the firms at 1% level of significance. The coefficient of Ind AS (0.0197) infers that the ROE of the firms increases by 1.97% due to the implementation of new accounting standards in India. This finding aligns with the main findings of the study. Thus, the results corroborate that the convergence of IFRS in

India significantly improves the performance of firms. Besides, Size and leverage negatively impact the ROE of firms, while a positive impact of GDP and inflation on ROE is observed. However, the model's ability explains the plausible changes in regressand due to regressors (explanatory power) has decreased to 54.39%, while it was 70.85% in case of the previous model. Overall, the results of regression models 1 and 2 conclude that FP has significantly improved due to adopting new accounting standards in India.

4. DISCUSSION

The empirical results support the theoretical premise that the implementation of IFRS enhances the transparency and accountability of firms[2], which eventually impacts the performance of firms (Iatridis, 2008; Iatridis & Dalla, 2011). It is well-documented that accounting standards in developing economies differ significantly from those in developed economies, creating difficulties for stakeholders to assess the true performance of firms and leading to irrational stakeholders' behavior (Ismail et al., 2013). On the other hand, the quality of GAAP-based accounting standards is lower than that of IFRS (Ahmed et al., 2013). Hence, in such cases, the maximum benefits of IFRS are expected to be derived in the form of a reduction in discrepancies and an improvement in the quality of financial statements, thereby promoting the efficacy of financial reports (Bassemir & Novotny-Farkas, 2018; Saji, 2022).

In India, the empirical findings have manifested the improvement in financial reporting quality, transparency, comparability of financial reports, and capital market benefits, including a decrease in the cost of capital, and an increase in capital inflows, on account of Ind AS adoption (Bansal, 2022; Meshram & Arora, 2021; Saji, 2022; Saravanan & Firoz, 2022). Consequently, such improvements benefit the firms, and thus, the present finds improvement in FP among Indian companies. This finding is in line with the empirical findings of Miah (2021), who found that the convergence of Chinese Accounting Standards improves the ROA and ROE of firms in China.

---

[2] The primary objective of IFRS implementation around the globe can be accessed from the IFRS website (https://rb.gy/uuoi).

This study presents compelling evidence regarding the control variables, demonstrating a negative relationship between the firm size and the performance of Indian non-financial firms. This finding aligns with previous research findings (Abdullah & Tursoy, 2021; Saif-Alyousfi et al., 2020; Tsiapa, 2021), which have documented a negative impact of firm size on the FP. However, it contrasts with other studies (Asimakopoulos et al., 2009; Egbunike & Okerekeoti, 2018; Miah, 2021; Pandey, 2001) that suggest larger firms perform better due to economies of scale. The negative impact of size on financial performance can be emanated from the higher monitoring cost and diversified production structure (Tsiapa, 2022). Thus, in India, small firms perform better than large firms since the question of underutilization of resources does not arise among such firms.

In line with the prior studies by Asimakopoulos et al. (2009), Le and Phan (2017), Le Thi Kim et al. (2021), and Saif-Alyousfi et al. (2020), this study shows that excessive leverage reduces firm performance due to financial risk associated with the leverage (Abdullah & Tursoy, 2021; Le & Phan, 2017). Therefore, the negative coefficient on leverage indicates that Indian firms' profitability has been adversely affected due to managerial negligence and high borrowing costs.

The positive impact of GDP on firms' performance is concurrent with previous studies' finding (Pattitoni et al., 2014; Issah & Antwi, 2017; Egbunike & Okerekeoti, 2018; Issah & Antwi, 2017; Killins, 2020; Pattitoni et al., 2014). The GDP being an indicator of output and economic activity significantly influences the survival and growth of the firms (Egbunike & Okerekeoti, 2018). Therefore, FP appears to be elevated by a rise in Indian GDP rate. In addition to GDP, inflation can significantly affect the performance of firms (Egbunike & Okerekeoti, 2018). Generally, a decline in the purchasing power of money is known to negatively impact firms' financial performance (Pattitoni et al., 2014), and high inflation rates are widely believed to have negative consequences for the economy as a whole (Feldstein, 1997). This finding is consistent with the conclusions of previous studies (Attia et al., 2023; Egbunike & Okerekeoti, 2018; Pervan et al., 2019) but contradicts the findings of Donald (1999) and Pattitoni et al. (2014).

CONCLUSIONS

This study investigated the impact of Indian Accounting Standards (Ind AS) on the FP of non-financial firms listed on the Nifty 500 index. Drawing upon a sample of 402 firms, the findings concluded a significant positive effect of Ind AS on the performance of Indian companies. The study underscores that the favorable impact of Ind AS can be attributed to several reasons. Firstly, Ind AS facilitates the comparison of financial statements across different jurisdictions, resulting in greater transparency and easier access to capital markets. Secondly, Ind AS provides stakeholders with more accurate and timely information, reducing information asymmetry and enhancing decision-making. Lastly, Ind AS requires the use of fair value accounting, which provides a more precise assessment of a firm's financial position by reflecting the current market value of assets and liabilities.

The study also revealed that the adverse effect of firm size and leverage on performance is due to larger firms' more complicated organizational structures, which make them less flexible and more bureaucratic, and the elevated risk of financial distress associated with higher debt levels. Moreover, the positive impact of macroeconomic indicators such as GDP and inflation on performance can be attributed to the opportunities created by a growing economy and the potential for increased revenue from inflation. These findings highlight the significance of effective management of financial reporting and operational decisions in the Indian business environment.

AUTHOR CONTRIBUTIONS

Conceptualization: Nikhil M. N., Lithin B. M.
Data curation: Nikhil M. N., Lithin B. M.
Formal analysis: Nikhil M. N., Suman Chakraborty, Lumen Shawn Lobo.

Investigation: Suman Chakraborty, Lumen Shawn Lobo.
Methodology: Nikhil M. N., Suman Chakraborty, Lithin B. M.
Project administration: Suman Chakraborty, Lumen Shawn Lobo.
Supervision: Suman Chakraborty, Lumen Shawn Lobo.
Validation: Nikhil M. N., Suman Chakraborty, Lithin B. M., Lumen Shawn Lobo.
Visualization: Nikhil M. N., Suman Chakraborty, Lumen Shawn Lobo.
Writing – original draft: Nikhil M. N., Lithin B. M.
Writing – review & editing: Suman Chakraborty, Lumen Shawn Lobo.

REFERENCES

1. Abdullah, H., & Tursoy, T. (2021). Capital structure and firm performance: evidence of Germany under IFRS adoption. *Review of Managerial Science, 15*(2), 379-398. https://doi.org/10.1007/s11846-019-00344-5

2. Ahmed, A. S., Neel, M., & Wang, D. (2013). Does mandatory adoption of IFRS improve accounting quality? Preliminary evidence. *Contemporary Accounting Research, 30*(4), 1344-1372. https://doi.org/10.1111/j.1911-3846.2012.01193.x

3. Almaqtari, F. A., Hashed, A. A., Shamim, M., & Al-Ahdal, W. M. (2021). Impact of corporate governance mechanisms on financial reporting quality: A study of indian gaap and indian accounting standards. *Problems and Perspectives in Management, 18*(4), 1-13. https://doi.org/10.21511/ppm.18(4).2020.01

4. Al-Najjar, B., & Hussainey, K. (2011). Revisiting the capital-structure puzzle: UK evidence. *Journal of Risk Finance, 12*(4), 329-338. https://doi.org/10.1108/15265941111158505

5. Amare, A. (2021). Capital structure and profitability: Panel data evidence of private banks in Ethiopia. *Cogent Economics and Finance, 9*(1). https://doi.org/10.1080/23322039.2021.1953736

6. Asimakopoulos, I., Samitas, A., & Papadogonas, T. (2009). Firm-specific and economy wide determinants of firm profitability: Greek evidence using panel data. *Managerial Finance, 35*(11), 930-939. https://doi.org/10.1108/03074350910993818

7. Attia, E. F., Eldeen, H. hany E., & Daher, S. said. (2023). Size-Threshold Effect in the Capital Structure–Firm Performance Nexus in the MENA Region: A Dynamic Panel Threshold Regression Model. *Risks, 11*(2), 23. https://doi.org/10.3390/risks11020023

8. Baig, M., & Khan, S. A. (2016). Impact of IFRS on Earnings Management: Comparison of Pre-Post IFRS Era in Pakistan. *Procedia – Social and Behavioral Sciences, 230,* 343-350. https://doi.org/10.1016/j.sbspro.2016.09.043

9. Bansal, M. (2022). Economic consequences of IFRS convergence: evidence from phased manner implementation in India. *Journal of Asia Business Studies.* https://doi.org/10.1108/JABS-10-2021-0414

10. Barth, M. E., Landsman, W. R., & Lang, M. H. (2008). International accounting standards and accounting quality. *Journal of Accounting Research, 46*(3), 467-498. https://doi.org/10.1111/j.1475-679X.2008.00287.x

11. Bassemir, M., & Novotny-Farkas, Z. (2018). IFRS adoption, reporting incentives and financial reporting quality in private firms. *Journal of Business Finance and Accounting, 45*(7-8), 759-796. https://doi.org/10.1111/jbfa.12315

12. Chen, H., Tang, Q., Jiang, Y., & Lin, Z. (2010). The role of international financial reporting standards in accounting quality: Evidence from the European Union. *Journal of International Financial Management and Accounting, 21*(3), 220-278. https://doi.org/10.1111/j.1467-646X.2010.01041.x

13. Cheong, C., & Hoang, H. V. (2021). Macroeconomic factors or firm-specific factors? An examination of the impact on corporate profitability before, during and after the global financial crisis. *Cogent Economics and Finance, 9*(1). https://doi.org/10.1080/23322039.2021.1959703

14. Daske, H., Hail, L., Leuz, C., & Verdi, R. (2008). Mandatory IFRS reporting around the world: Early evidence on the economic consequences. *Journal of Accounting Research, 46*(5), 1085-1142. https://doi.org/10.1111/j.1475-679X.2008.00306.x

15. Daske, H., Hail, L., Leuz, C., & Verdi, R. (2013). Adopting a Label: Heterogeneity in the Economic Consequences Around IAS/IFRS Adoptions. *Journal of Accounting Research, 51*(3), 495-547. https://doi.org/10.1111/1475-679X.12005

16. Egbunike, C. F., & Okerekeoti, C. U. (2018). Macroeconomic factors, firm characteristics and financial performance: A study of selected quoted manufacturing firms in Nigeria. *Asian Journal of Accounting Research, 3*(2), 142-168. https://doi.org/10.1108/AJAR-09-2018-0029

17. Evans, D. S., & Schmalensee, R. (2005). *The Industrial Organization of Markets with Two-Sided Platforms* (Working paper 11603).

18. Feldstein, M. (1997). *The Costs and Benefits of Going from Low Inflation to Price Stability.* Retrieved from http://www.nber.org/chapters/c8883

19. Gajevszky, A. (2015). Assessing Financial Reporting Quality:

Evidence from Romania. *Audit Financiar, 13*(121).

20. Gu, J. (2021). Voluntary IFRS adoption and accounting quality: Evidence from Japan. *Economic Research-Ekonomska Istrazivanja, 34*(1), 1985-2012. https://doi.org/10.1080/1331677X.2020.1860793

21. Hasan, T., Karim, W., & Quayes, S. (2008). Regulatory change and the quality of compliance to mandatory disclosure requirements: Evidence from Bangladesh. *Research in Accounting Regulation, 20*(C), 193-203). https://doi.org/10.1016/S1052-0457(07)00211-1

22. Hawawini, G., Subhramanian, V., & Verdin, P. (2003). *The relative importance of country, industry and firm effects on firm performance*. Retrieved from https://www.researchgate.net/publication/241763521

23. Hope, O.-K., Jin, J., Kang, T., Hope, O.-K., & Jin, J. (2006). Empirical evidence on jurisdictions that adopt IFRS. *Journal of International Accounting Research, 5*(2). Retrieved from https://ink.library.smu.edu.sg/soa_research_smu

24. Houqe, M. N., Monem, R. M., & Zijl, T. van. (2016). The economic consequences of IFRS adoption: Evidence from New Zealand. *Journal of International Accounting, Auditing and Taxation, 27,* 40-48. https://doi.org/10.1016/j.intaccaudtax.2016.10.001

25. Iatridis, G. (2008). Accounting disclosure and firms' financial attributes: Evidence from the UK stock market. *International Review of Financial Analysis, 17*(2), 219-241. https://doi.org/10.1016/j.irfa.2006.05.003

26. Iatridis, G., & Dalla, K. (2011). The impact of IFRS implementation on Greek listed companies: An industrial sector and stock market index analysis. *International Journal of Managerial Finance, 7*(3), 284-303. https://doi.org/10.1108/17439131111144478

27. Ismail, W. A. W., Kamarudin, K. A., Van Zijl, T., & Dunstan, K. (2013). Earnings quality and the adoption of IFRS-based accounting standards: Evidence from an emerging market. *Asian Review of Accounting, 21*(1), 53-73. https://doi.org/10.1108/13217341311316940

28. Issah, M., & Antwi, S. (2017). Role of macroeconomic variables on firms' performance: Evidence from the UK. *Cogent Economics and Finance, 5*(1). https://doi.org/10.1080/23322039.2017.1405581

29. Key, K. G., & Kim, J. Y. (2020). IFRS and accounting quality: Additional evidence from Korea. *Journal of International Accounting, Auditing and Taxation, 39*. https://doi.org/10.1016/j.intaccaudtax.2020.100306

30. Killins, R. N. (2020). Firm-specific, industry-specific and macroeconomic factors of life insurers' profitability: Evidence from Canada. *North American Journal of Economics and Finance, 51*. https://doi.org/10.1016/j.najef.2019.101068

31. Le, T. P. V., & Phan, T. B. N. (2017). Capital structure and firm performance: Empirical evidence from a small transition country. *Research in International Business and Finance, 42*(June), 710-726. https://doi.org/10.1016/j.ribaf.2017.07.012

32. Le Thi Kim, N., Duvernay, D., & Le Thanh, H. (2021). Determinants of financial performance of listed firms manufacturing food products in Vietnam: regression analysis and Blinder–Oaxaca decomposition analysis. *Journal of Economics and Development, 23*(3), 267-283. https://doi.org/10.1108/jed-09-2020-0130

33. Majumdar, S. K. (1997). The Impact of Size and Age on Firm-Level Performance: Some Evidence from India. *Review of Industrial Organization*, 231-241. https://doi.org/10.1023/A:1007766324749

34. Marra, A., Mazzola, P., & Prencipe, A. (2011). Board monitoring and earnings management pre- and post-IFRS. *International Journal of Accounting, 46*(2), 205-230.

https://doi.org/10.1016/j.intacc.2011.04.007

35. McDonald, J. T. (1999). The determinants of firm profitability in Australian manufacturing. *Economic Record, 75*(2), 115-126. https://doi.org/10.1111/j.1475-4932.1999.tb02440.x

36. Mensah, E. (2021). The effect of IFRS adoption on financial reporting quality: evidence from listed manufacturing firms in Ghana. *Economic Research-Ekonomska Istrazivanja, 34*(1), 2890-2905. https://doi.org/10.1080/1331677X.2020.1860109

37. Meshram, V. V., & Arora, J. (2021). Accounting constructs and economic consequences of IFRS adoption in India. *Journal of International Accounting, Auditing and Taxation, 45*. https://doi.org/10.1016/j.intaccaudtax.2021.100427

38. Miah, M. S. (2021). Does IFRS convergence bring improvement in firm performance? An empirical analysis. *Journal of Chinese Economic and Business Studies, 19*(1), 95-107. https://doi.org/10.1080/14765284.2020.1846010

39. Nanda, S., & Panda, A. K. (2018). The determinants of corporate profitability: an investigation of Indian manufacturing firms. *International Journal of Emerging Markets, 13*(1), 66-86. https://doi.org/10.1108/IJoEM-01-2017-0013

40. Niresh, J. A., & Velnampy, T. (2014). Firm Size and Profitability: A Study of Listed Manufacturing Firms ed Manufacturing Firms in Sri Lanka. *International Journal of Business and Management, 9*(4). https://doi.org/10.5539/ijbm.v9n4p57

41. Pandey, I. M. M. (2001). Capital Structure and the Firm Characterstics: Evidence from an Emerging Market. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.300221

42. Pattitoni, P., Petracci, B., & Spisni, M. (2014). Determinants of profitability in the EU-15 area. *Applied Financial Economics,*

24(11), 763-775. https://doi.org/10.1080/09603107.2014.904488

43. Pervan, M., Pervan, I., & Ćurak, M. (2019). Determinants of firm profitability in the Croatian manufacturing industry: evidence from dynamic panel analysis. *Economic Research-Ekonomska Istrazivanja, 32*(1), 968-981. https://doi.org/10.1080/1331677X.2019.1583587

44. Phan, D., Joshi, M., & Mascitelli, B. (2018). What influences the willingness of Vietnamese accountants to adopt International Financial Reporting Standards (IFRS) by 2025? *Asian Review of Accounting, 26*(2), 225-247. https://doi.org/10.1108/ARA-03-2017-0052

45. Rumelt, R. P. (1991). How much does industry matter? *Strategic Management Journal, 12*(3), 167-185. https://doi.org/10.1002/smj.4250120302

46. Saif-Alyousfi, A. Y. H., Md-Rus, R., Taufil-Mohd, K. N., Mohd Taib, H., & Shahar, H. K. (2020). Determinants of capital structure: evidence from Malaysian firms. *Asia-Pacific Journal of Business Administration, 12*(3-4), 283-326. https://doi.org/10.1108/APJ-BA-09-2019-0202

47. Saji, T. G. (2022). Asymmetric financial reporting quality and firm size: conditional evidence from an emerging market. *Journal of Applied Accounting Research, 23*(5), 977-1004. https://doi.org/10.1108/JAAR-10-2021-0264

48. Saravanan, R., & Firoz, M. (2022). The impact of IFRS convergence on market liquidity: evidence from India. *Journal of Financial Reporting and Accounting*. https://doi.org/10.1108/JFRA-02-2022-0055

49. Spanos, Y. E., Zaralis, G., & Lioukas, S. (2004). Strategy and industry effects on profitability: Evidence from Greece. *Strategic Management Journal, 25*(2), 139-165. https://doi.org/10.1002/smj.369

50. Taouab, O., & Issor, Z. (2019). Firm Performance: Definition and Measurement Models. *European Scientific Journal ESJ, 15*(1). https://doi.org/10.19044/esj.2019.v15n1p93

51. Tsiapa, M. (2021). Performance of large firms in Greece during the unstable period of 2011–2016: lessons from the weak parts of Europe. *European Journal of Management and Business Economics*. https://doi.org/10.1108/EJMBE-06-2019-0109

52. Tsiapa, M. (2022). Performance of large firms in Greece during the unstable period of 2011–2016: lessons from the weak parts of Europe. *European Journal of Management and Business Economics, 31*(1), 94-114. https://doi.org/10.1108/EJMBE-06-2019-0109

53. van Tendeloo, B., & Vanstraelen, A. (2008). Earnings management and audit quality in Europe: Evidence from the private client segment market. *European Accounting Review, 17*(3), 447-469. https://doi.org/10.1080/09638180802016684

54. Yazdanfar, D. (2013). Profitability determinants among micro firms: Evidence from Swedish data. *International Journal of Managerial Finance, 9*(2), 151-160. https://doi.org/10.1108/17439131311307565