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Structural Accounting Quality and Macro-Financial Stability: A Composite Index across Advanced and Emerging Markets

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Abstract

Purpose

This study develops a composite Structural Accounting Quality Index (SAQI) to examine whether the structural quality of accounting systems is associated with macro-financial stability. It reconceptualizes accounting as a system-level informational infrastructure that may influence stability through the production of reliable signals, the visibility of underlying risks, and the speed with which economic information is incorporated into market decisions.

Design/methodology/approach

The SAQI integrates five interrelated dimensions: the reliability of accounting signals, the timeliness of loss recognition, disclosure and risk visibility, audit strength, and reporting responsiveness. Using a multi-country panel covering listed firms in advanced and emerging markets from 2010 to 2024, firm-level accounting measures are constructed and aggregated to capture differences in structural accounting quality across countries and over time. The empirical analysis employs panel fixed-effects models, lagged specifications, nonlinear tests, cross-market comparisons, and alternative index constructions to assess the association between accounting quality and macro-financial stability.

Findings

Higher levels of structural accounting quality are significantly associated with greater macro-financial stability. Stronger accounting structures are related to lower market volatility, reduced systemic risk, and more stable macroeconomic conditions. The evidence also indicates diminishing marginal stability benefits at higher levels of accounting quality, while the stabilizing association is stronger in emerging markets than in advanced markets.

Originality/value

The study extends accounting research beyond conventional firm-level outcomes by introducing a multidimensional index that connects corporate accounting attributes with country-level macro-financial stability. It therefore provides a new framework for integrating accounting research with the macro-finance literature.

Implications

The findings suggest that improvements in reporting reliability, risk disclosure, audit credibility, loss-recognition timeliness, and reporting responsiveness may complement conventional financial-stability policies. The study offers relevant insights for accounting standard setters, securities regulators, central banks, auditors, and policymakers seeking to strengthen economic resilience through higher-quality informational infrastructures.

Key Words: Structural Accounting Quality; Macro-Financial Stability; Composite Index; Financial Reporting Quality; Risk Disclosure; Audit Strength; Systemic Risk; Advanced and Emerging Markets.

Introduction

Background and Research Context

Global economic systems have experienced volatility, systemic risk, and macroeconomic uncertainty. The COVID-19 pandemic, geopolitical tensions, inflationary pressures, and financial repricing have exposed vulnerabilities in advanced and emerging markets. Monetary, fiscal, and prudential interventions remain essential, yet they do not fully address the informational conditions where risks are measured, transmitted, and interpreted.

Research suggests instability may reflect weaknesses in the informational architecture supporting market decisions and policy responses [1, 2]. Accounting systems are central to this architecture because they determine how performance is measured, how losses and risks become visible, how information is verified, and when developments enter financial reports. Accounting is therefore not merely a neutral reporting technology; its quality may influence uncertainty, expectations, and market adjustment.

Accounting research has produced extensive evidence on earnings quality, audit credibility, valuation relevance, and contracting efficiency [3, 4]. However, most evidence remains firm-level and examines accounting attributes separately. It provides limited insight into whether shared firm reporting characteristics create a country-level information environment associated with macro-financial stability.

Macro-financial research emphasizes that credible, timely information can reduce uncertainty and support orderly resource allocation [5, 6]. Nevertheless, accounting has not been fully incorporated into these frameworks as a measurable information infrastructure [7].

This omission matters in emerging markets, where information asymmetry, uneven enforcement, limited disclosure, and weaker institutional capacity may magnify the value of credible accounting signals [8, 9]. The study therefore treats structural accounting quality as an informational characteristic embedded in wider institutional, regulatory, and economic conditions.

Problem Statement

The literature lacks an integrated framework linking accounting structures to macro-financial stability. Existing studies use isolated proxies for earnings quality, disclosure, auditing, or timeliness and therefore do not capture their complementarity or combined system-level relevance [10, 11].

Conventional stability frameworks focus mainly on macroeconomic indicators, financial regulation, and institutional resilience, with less attention to the accounting information on which monitoring, pricing, and policy intervention depend [12, 13]. During stress, delayed loss recognition, weak risk visibility, unreliable measurement, and inadequate verification may allow vulnerabilities to accumulate.

The unresolved problem is whether firm-level accounting properties can be integrated into a transparent country-year measure and whether this measure provides incremental explanatory power for stability after macroeconomic and institutional conditions are considered.

Research Objectives and Questions

The study develops and evaluates the Structural Accounting Quality Index (SAQI), a multidimensional measure of the accounting information environment.

The first objective is to develop a structural perspective in which accounting influences risk assessment, expectation formation, and market adjustment. The second is to construct SAQI from five complementary dimensions: reliability of accounting signals, timeliness of loss recognition, disclosure and risk visibility, audit strength and verification, and reporting responsiveness. The third is to aggregate firm-year accounting properties to the country-year level and examine their association with subsequent macro-financial stability across advanced and emerging markets. The fourth is to test whether this association is nonlinear and varies with institutional quality and market type.

The Study Addresses Four Questions

1. Is higher country-level SAQI associated with greater subsequent macro-financial stability?
2. Are information precision, risk transparency, and adjustment dynamics consistent with the proposed transmission mechanisms?
3. Does the SAQI–stability association vary with institutional quality and between advanced and emerging markets?
4. Does SAQI provide explanatory value beyond traditional macroeconomic and institutional variables?

Significance and Contributions of the Study

The study offers four contributions. Theoretically, it positions structural accounting quality within the informational infrastructure of macro-financial systems, connecting firm-level reporting research with theories of information and market stability [14, 15].

Empirically, it introduces SAQI as a composite measure integrating five accounting dimensions. Unlike single-proxy designs, the index captures complementarities among reliability, loss recognition, disclosure, auditing, and responsiveness. Equal weighting provides the baseline, while alternatives assess robustness [16, 17].

Methodologically, the research distinguishes the firm-year level, where SAQI is constructed, from the country-year level, where its relationship with stability is tested. This micro-to-macro design supports nonlinear, institutional, and cross-market analyses without treating firm observations as independent country-level outcomes.

From a policy perspective, the findings may help regulators, standard setters, central banks, and supervisors identify weaknesses in the information environment. Accounting reform should not substitute for prudential regulation, legal enforce-

ment, or macroeconomic policy, but may complement them by improving the credibility, visibility, and timing of information used in monitoring and intervention [18, 19].

Societally, stronger information systems may support transparency, trust, and resilient markets. These conditions support sustainable investment and development, although their realization depends on institutional capacity and effective enforcement [20, 21].

Structure of the Study

Chapter 2 reviews the literature and develops the theoretical foundations linking accounting information structures to macro-financial stability. Chapter 3 constructs SAQI, explains its transmission mechanisms, presents the conceptual framework, and develops the hypotheses. Chapter 4 describes the two-level research design, sample, variables, aggregation procedures, econometric models, and identification strategy. Chapter 5 reports the empirical findings, channel-consistent evidence, nonlinear estimates, market comparisons, robustness tests, and identification results. Chapter 6 interprets the findings in relation to prior literature and develops theoretical and policy implications. Chapter 7 summarizes the conclusions, contributions, limitations, and future research directions.

Literature Review and Theoretical Framework

Financial and Economic Stability: Concepts and Evolution

Financial and economic stability have become central concerns in research and public policy following recurrent crises and macroeconomic disruptions. Financial stability is now understood not merely as the absence of bank failures, but as the capacity of financial systems to absorb shocks, preserve essential functions, allocate capital, and continue supporting the real economy [22]. Interconnected institutions, common exposures, liquidity pressures, and information weaknesses can transmit disturbances across the system [23, 24].

Macroeconomic stability concerns the relative predictability of output, inflation, interest rates, and the policy environment. Sharp shifts in prices, financing conditions, or growth amplify uncertainty and vulnerability [25, 26.]

Information quality is relevant to both. Incomplete, delayed, or unreliable signals can widen disagreement and produce abrupt market responses [27]. Standardized and verifiable accounting information may therefore constitute part of the informational environment supporting stability, although this system-level role remains insufficiently developed in accounting research.

Accounting as an Informational Infrastructure

Traditional accounting research primarily treats accounting as a mechanism for reporting firm performance, supporting contracts, reducing agency costs, and facilitating valuation, with emphasis on earnings quality, value relevance, auditing, and financial-statement usefulness [28, 29].

A broader perspective treats accounting as informational infrastructure. Accounting signals influence investment, credit allocation, risk assessment, and expectations about future cash flows. Timely and transparent reporting can improve price discovery and risk interpretation, while disclosure quality is associated with lower financing costs and uncertainty; auditing strengthens confidence through independent verification [30, 33].

This role becomes especially important during stress. Delayed recognition or weak verification may intensify uncertainty [34]. Yet firm-level evidence alone does not establish macro-financial relevance. A system-level assessment requires examining how reporting characteristics aggregate across economically significant firms and whether the resulting information environment is associated with stability.

Accounting, Uncertainty, and Systemic Risk

Uncertainty increases when agents cannot confidently assess current conditions, future outcomes, or potential losses. It can delay investment and generate sharp reactions when new information arrives. Accounting quality may influence this process through signal precision, credibility, and timing. Reliable and timely information can improve belief updating, whereas weak reporting may obscure underlying conditions and delay adjustment.

Systemic risk arises when disruption spreads across institutions and markets. Information failures matter because poorly disclosed or unrecognized exposures can accumulate across interconnected entities.

Timely loss recognition can reveal deterioration earlier, while reporting delays may allow vulnerabilities to remain concealed until they generate concentrated corrections [35, 36]. Accounting is therefore theoretically relevant to uncertainty and systemic risk, but not as an independent cause of instability; its role operates alongside institutions, regulation, market structure, and macroeconomic conditions [37, 38].

2.4 From Firm-Level Reporting to Country-Level Stability

Accounting research predominantly examines firm-level consequences such as investment efficiency, financing, risk assessment, and resource allocation. The key extension is whether these reporting properties become economically relevant beyond the individual entity when they are shared by firms with substantial market importance.

The micro-macro link begins at firm-year level. When major firms provide reliable, timely, transparent, and credibly verified information, investors and creditors obtain a clearer basis for valuation, credit allocation, and assessment of common exposures. Aggregation should recognize differences in firms' economic significance. Widespread reporting quality may support price discovery and reduce synchronized mispricing, whereas common deficiencies may delay recognition of shared vulnerabilities [39, 40].

Macro-financial research similarly shows that information quality and dissemination shape expectation formation and re-

sponses to shocks [41]. Accounting signals contribute because market participants use them to revise expectations about cash flows, financial conditions, and risk [42]. The association may be stronger in emerging markets, where information asymmetry, analytical capacity, and enforcement differ from advanced markets. This study therefore examines whether market-capitalization-weighted firm-level accounting quality forms a country-year informational characteristic associated with subsequent macro-financial stability.

Theoretical Foundations

The proposed relationship draws on four complementary perspectives explaining accounting information's production, communication, credibility, and system-level relevance.

Information Asymmetry Theory

Information asymmetry arises when economic agents possess unequal knowledge about firm conditions, risks, or prospects. Such differences can generate adverse selection, moral hazard, mispricing, and inefficient capital allocation. Credible and comparable accounting information may reduce these frictions by making performance and risk more observable. At the system level, better reporting may reduce informational frictions, although it cannot eliminate private information.

Signaling Theory

Signaling theory explains how firms communicate otherwise unobservable characteristics. Signals are informative when credible and difficult for lower-quality firms to imitate. Financial reporting, risk disclosure, and external auditing can therefore signal performance, resilience, and reporting integrity. At the aggregate level, stronger signaling may support differentiation and capital allocation, conditional on credibility and verification.

Institutional Theory

Institutional theory emphasizes that accounting practices are embedded in legal, regulatory, professional, and governance systems. Standards alone do not ensure high-quality reporting; outcomes depend on enforcement, incentives, oversight, and accepted norms. Structural accounting and institutional quality are related but distinct; accounting may retain incremental relevance for monitoring and risk visibility [43].

Macro-Financial Stability Frameworks

Macro-financial frameworks emphasize interconnectedness, shock transmission, feedback effects, and the ability of markets and institutions to adjust without widespread disruption. Information shapes these processes through the timing of loss recognition, risk assessment, and behavioral response [44]. Accounting may therefore influence when deterioration becomes visible and how expectations adjust, alongside broader institutional and macroeconomic forces.

Research Gap and Conceptual Direction

Four connected gaps emerge. First, accounting studies generally examine individual attributes such as earnings quality, disclosure, or audit strength without evaluating their joint structural operation. Second, most evidence remains firm-level and does not test whether accounting properties aggregate into a country-level information environment. Third, macro-financial research recognizes information frictions but rarely identifies accounting systems as a measurable component of that infrastructure. Fourth, the literature lacks a transparent multidimensional measure constructed from firm-year data and linked to country-level stability.

This study addresses these gaps through a structural accounting quality framework integrating reliability, timely loss recognition, disclosure and risk visibility, audit strength, and reporting responsiveness. The framework is designed to preserve the distinct informational role of each dimension while capturing their combined system-level significance. These dimensions are complementary rather than interchangeable and provide the conceptual basis for constructing SAQI and testing its linear, nonlinear, institutional, and cross-market associations.

Toward a Structural Accounting Quality Perspective

The literature supports moving from isolated accounting attributes toward structural accounting quality as an integrated information system. This shift is important because a weakness in one informational function may limit the usefulness of otherwise strong reporting attributes. Its economic relevance depends not on one characteristic operating independently, but on whether measurement, recognition, disclosure, verification, and responsiveness function together.

This interdependence reflects structural complementarity. Reliable measurement has limited value when material losses are recognized late; timely recognition may not improve risk assessment when disclosure is weak; and extensive disclosure may not strengthen confidence when auditing and enforcement cannot establish credibility [45]. Prior evidence similarly indicates that disclosure, audit effectiveness, and enforcement jointly shape how markets interpret financial information, while timely recognition becomes more useful when deterioration is revealed before risks become concentrated [46-48].

The perspective is also consistent with macroeconomic theories in which widely available credible information supports expectation formation and coordination. Structural accounting quality is therefore conceptualized as a multidimensional informational characteristic whose relevance to stability depends on the joint operation of its components and the institutional setting.

2.8 Justification of the Proposed Dimensions

The five dimensions represent distinct but interconnected informational functions.

2.8.1 Reliability of Accounting Signals

Reliability concerns whether accounting information reflects underlying economic conditions rather than measurement error, manipulation, or temporary distortion. Reliable reporting reduces informational noise and supports valuation, monitoring, and capital allocation [49]. It is the measurement foundation of

structural accounting quality, but does not by itself ensure timely risk recognition [50].

2.8.2 Timeliness of Loss Recognition

Timeliness captures how quickly adverse developments enter financial reports. Delayed recognition can conceal deterioration and cause users to underestimate exposures until losses become unavoidable. Earlier recognition may improve visibility of emerging vulnerabilities and support more gradual adjustment.

2.8.3 Disclosure and Risk Visibility

Disclosure and risk visibility concern the availability, clarity, and completeness of information about material exposures and uncertainties. Transparent disclosure can reduce information asymmetry and improve evaluation of risks before abrupt market responses occur [51-53].

2.8.4 Audit Strength and Verification

Audit strength represents independent verification within the accounting information structure. Auditing can increase confidence that reported information is materially reliable and prepared under applicable requirements. Its importance arises because disclosure has limited value when users doubt the credibility of underlying measurements.

2.8.5 Reporting Responsiveness

Reporting responsiveness captures the speed with which accounting systems incorporate and communicate new information. Long delays leave users dependent on outdated signals, whereas responsive reporting may facilitate smoother revisions to expectations following shocks.

2.9 Integrating Accounting into Stability Frameworks

Macro-financial stability frameworks emphasize monetary policy, prudential regulation, market structure, supervision, and institutional resilience. Their effectiveness depends partly on information available to policymakers and market participants. Research increasingly recognizes information quality in expectation formation and adjustment. Accounting contributes standardized firm-level signals, risk disclosure, and verification, providing a measurable informational layer that can be incorporated into broader stability analysis.

2.10 Synthesis and Research Positioning

The literature indicates that macro-financial stability depends partly on credible and timely information, while accounting research provides substantial evidence on reporting quality, disclosure, auditing, and timeliness but generally studies them separately and at the firm level. The resulting research opportunity is therefore not to replace established stability determinants, but to test whether accounting adds measurable information to them. The missing link is an integrated measure connecting firm-level accounting properties to the country-level information environment.

This study addresses that gap through SAQI, combining reliability, timely loss recognition, risk visibility, audit strength, and reporting responsiveness and aggregating them from the firm-year to the country-year level. It then tests whether structural accounting quality is associated with macro-financial stability and whether the association varies across quality levels, institutional settings, and advanced versus emerging markets. The study therefore positions accounting as an incremental informational component within a broader economic and institutional system. Chapter 3 translates this position into the SAQI architecture, transmission channels, conceptual model, and testable hypotheses.

3. Structural Accounting Quality Index and Hypothesis Development

3.1 Reframing Accounting as a Structural Information System

This study develops a structural perspective that positions accounting as a measurable component of the broader information environment rather than solely as a firm-level reporting mechanism. Although prior research establishes the importance of earnings quality, disclosure, and auditing, examining these attributes separately may obscure their interdependence and collective informational significance.

The study therefore proposes the Structural Accounting Quality Index (SAQI), integrating five connected dimensions: reliability of accounting signals, timely loss recognition, disclosure and risk visibility, audit strength and verification, and reporting responsiveness. These dimensions capture how accounting systems measure economic conditions, reveal risks, verify reported signals, and incorporate new information into reports—functions relevant to the informational conditions surrounding macro-financial stability.

The framework operates at two analytical levels. Firm-year accounting proxies construct the five SAQI dimensions, which are subsequently aggregated to the country-year level for analysis against macro-financial stability. This micro-to-macro structure provides observable foundations for a national accounting-information characteristic. SAQI is therefore treated not as an independent determinant of stability, but as an informational component that may shape expectations, risk assessment, and market decisions within broader institutional and economic conditions.

3.2 Design Principles of the SAQI

3.2.1 Multidimensional Integration

Accounting quality cannot be represented adequately by a single reporting attribute because the informational contribution of one dimension may depend on the performance of others. SAQI therefore combines complementary accounting functions within a unified structure while preserving their distinct roles.

3.2.2 Systemic Relevance

Each dimension is selected for its potential relevance beyond an individual firm. Reporting weaknesses can become system-relevant when they recur across economically significant firms, allowing common vulnerabilities to remain hidden or be recognized late.

3.2.3 Empirical Validity and Robustness

The baseline SAQI uses equal dimensional weights to preserve transparency and interpretability, while Principal Component Analysis provides an alternative data-driven construction. Reliability, factor-analytic, and sensitivity procedures assess construct coherence and whether findings depend materially on a particular weighting rule.

3.3 Dimensions and Operational Architecture of the SAQI

SAQI contains five distinct but complementary dimensions. Reliability of accounting signals captures whether reported information reflects underlying economic conditions rather than noise or distortion. Timeliness of loss recognition reflects how quickly adverse developments enter accounting reports and therefore become visible to users [54].

Disclosure and risk visibility capture the clarity and completeness with which material financial and non-financial risks are communicated. Audit strength and verification represent the credibility added by external assurance to reported information. Reporting responsiveness captures the speed with which accounting systems incorporate and communicate new information, with reporting delays and restatements indicating weaker responsiveness [55-58].

Table 3.1 summarizes the conceptual role, proxies, directional treatment, and expected stability association of each dimension. Together, the five dimensions define the firm-level SAQI architecture that is subsequently aggregated to the country-year level.

Table 3.1. Structural Accounting Quality Index Architecture

Dimension	Conceptual role	Firm-level proxies	Directional treatment	Expected association with stability
Reliability of accounting signals	Faithful representation and reduction of informational noise	Accrual quality; earnings persistence; discretionary accruals	Discretionary accruals reverse-coded	Positive
Timeliness of loss recognition	Early incorporation of adverse economic information	Conditional conservatism; asymmetric timeliness; loss-recognition measures	Higher timeliness coded positively	Positive
Disclosure and risk visibility	Visibility and interpretability of material risks	Disclosure indices; risk reporting; narrative clarity	Higher disclosure coded positively	Positive
Audit strength and verification	Credibility and independent verification of reported information	Auditor type; audit opinion; going-concern indicators	Stronger verification coded positively	Positive
Reporting responsiveness	Speed and adaptability of financial reporting	Reporting lag; restatements; value relevance	Lag and restatements reverse-coded	Positive

3.4 Construction, Validation, and Country-Level Aggregation

SAQI is constructed first at the firm-year level. Because the underlying proxies are expressed in different units, each variable is standardized using a z-score:

[
Z_{i,t}=\frac{X_{i,t}-\mu_X}{\sigma_X}
]

Variables for which higher values indicate weaker accounting quality—including discretionary accruals, reporting lag, and restatement frequency—are sign-reversed so that higher standardized values consistently represent stronger accounting quality.

The standardized proxies are then combined within each dimension:

[
D_{k,i,t}=\frac{1}{n_k}\sum_{j=1}^{n_k}Z_{j,i,t}
]

where (D_{k,i,t}) represents dimension (k) for firm (i) in year (t), and (n_k) is the number of available proxies in that dimension. Dimension scores are calculated only when minimum data requirements are satisfied.

The baseline firm-level SAQI is the equally weighted mean of the five dimensions. Equal weighting preserves transparency and prevents sample-specific variance from determining the conceptual importance of individual dimensions. Principal Component Analysis provides an alternative data-driven construction:

[
SAQI^{PCA}{i,t}=\sum{k=1}^{5}\lambda_kD_{k,i,t}
]

where (\lambda_k) represents the PCA weight assigned to dimension (k). This alternative specification tests whether the index remains stable when weights are empirically derived rather than imposed equally.

Construct validity is assessed through internal-consistency, factor-analytic, and sensitivity procedures, including tests of whether results are dominated by any single accounting dimension. Detailed validation procedures are reported in the methodology section.

Firm-level SAQI scores are finally aggregated to the country-year level using market-capitalization weights:

[
SAQI_{c,t}=\sum_{i=1}^{N_{c,t}}w_{i,c,t}SAQI_{i,c,t}
]

where (w_{i,c,t}) is firm (i)'s share of sampled market capitalization in country (c) and year (t). This weighting gives greater influence to economically significant firms while retaining information from the broader listed-firm sample. The resulting country-year SAQI represents the structural quality of the national accounting information environment examined in the macro-financial models.

3.5 Structural Accounting Quality and Macro-Financial Stability

Higher SAQI is expected to be associated with stronger subsequent macro-financial stability because it captures a reporting environment characterized by more reliable signals, earlier loss recognition, greater risk visibility, stronger verification, and greater reporting responsiveness.

These informational properties may reduce uncertainty and limit the accumulation of unrecognized vulnerabilities, thereby supporting more orderly valuation, risk assessment, and market adjustment. The relationship is evaluated using a composite macro-financial stability measure and separate indicators of market volatility, systemic risk, and macroeconomic variability.

Accordingly, higher SAQI is expected to be positively associated with composite stability and negatively associated with volatility and systemic risk. This framework does not treat accounting quality as an independent cause of stability; rather, SAQI operates alongside macroeconomic conditions, institutional quality, regulation, and financial-market development.

3.6 Transmission Mechanisms and Conceptual Framework

The SAQI–stability association is expected to operate through three interconnected informational mechanisms.

Information Precision: Reflects the ability of reliable accounting signals to reduce measurement noise and improve expectation formation, thereby limiting disagreement and uncertainty.

Risk Transparency: Captures the visibility of losses, exposures, and emerging vulnerabilities. Timely recognition and clearer disclosure may reduce hidden-risk accumulation and facilitate earlier responses by investors and regulators.

Adjustment Dynamics: Concern the speed with which new information reaches users and is incorporated into decisions. More responsive reporting may support smoother adjustment and reduce delayed, concentrated corrections.

A broader coordination effect may arise when credible accounting signals provide market participants with a common informational basis. This is treated as a theoretical consequence of the three measured channels rather than as a separately tested mechanism.

Figure 3.1 summarizes the study's micro-to-macro logic: five firm-level accounting dimensions form SAQI, which is aggregated to the country-year level and associated with macro-financial stability through information precision, risk transparency, and adjustment dynamics. The strength of these associations may vary across institutional and market settings and may diminish at higher SAQI levels.

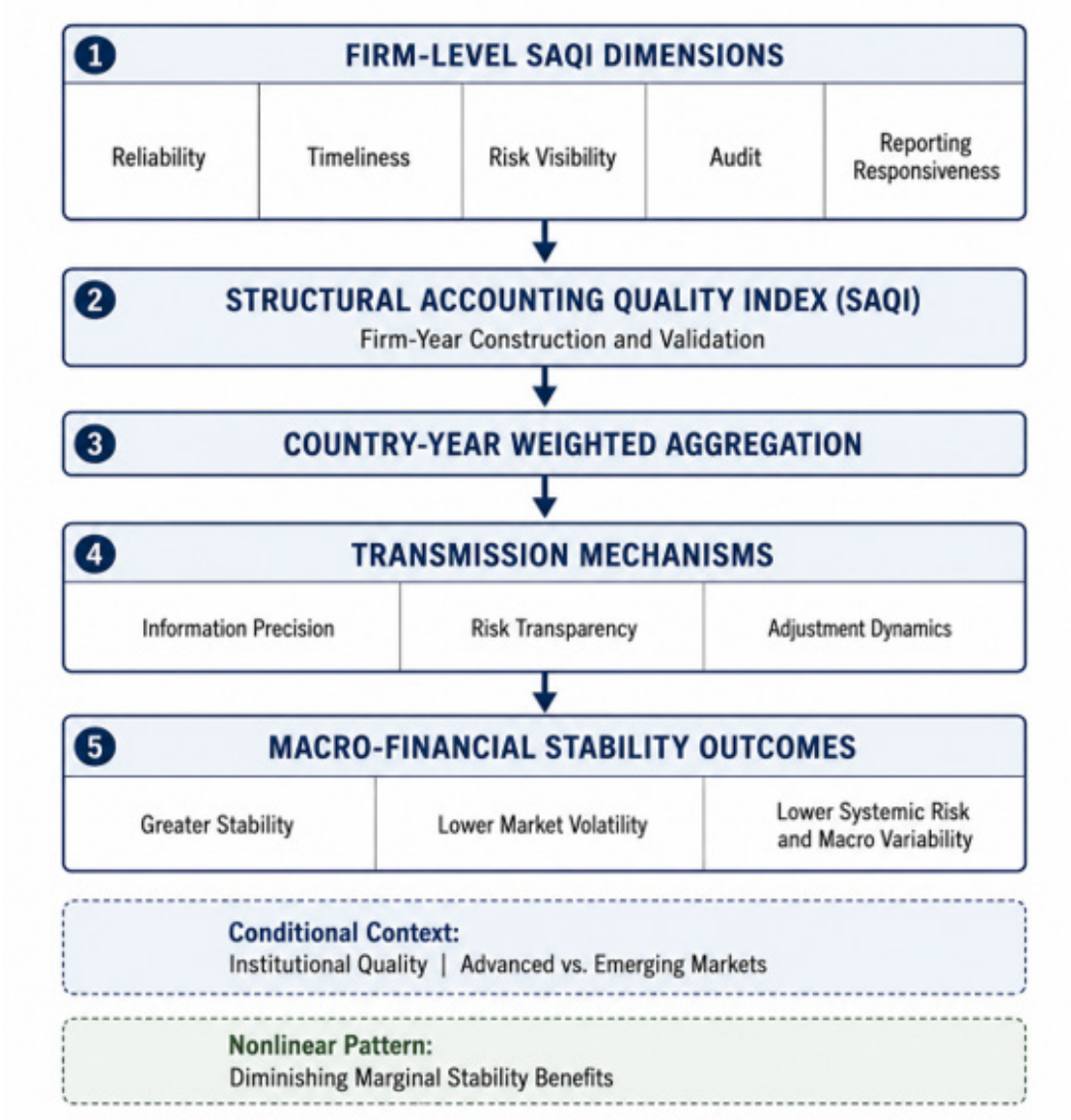

Figure 3.1. Structural Accounting Quality–Macro-Financial Stability Framework

3.7 Hypothesis Development

3.7.1 Baseline Association

The framework predicts that stronger country-level structural accounting quality is associated with more stable subsequent macro-financial outcomes. Reliable, timely, transparent, verified, and responsive information may reduce uncertainty and improve risk assessment and expectation formation.

H1: Higher country-level SAQI is associated with greater subsequent macro-financial stability, lower market volatility, and lower systemic risk.

3.7.2 Dimensional Associations

The composite SAQI relationship is expected to reflect the contribution of its five dimensions. Reliability reduces informational noise, timely loss recognition improves early visibility of deterioration, disclosure enhances risk transparency, audit strength reinforces credibility, and reporting responsiveness supports more orderly adjustment to new information.

H1a: Reliability of accounting signals is positively associated with subsequent macro-financial stability.
H1b: Timeliness of loss recognition is positively associated with subsequent macro-financial stability.
H1c: Disclosure and risk visibility are positively associated with subsequent macro-financial stability.
H1d: Audit strength and verification are positively associated with subsequent macro-financial stability.
H1e: Reporting responsiveness is positively associated with subsequent macro-financial stability.

The dimensions are tested separately and jointly because they may contain overlapping informational content.

3.7.3 Nonlinear Association

The informational benefits of accounting-quality improvements

may be larger when structural quality is initially weak and smaller once high quality has already been achieved.

H2: The positive SAQI-stability association exhibits diminishing marginal benefits at higher SAQI levels.
Support requires a positive linear term, a negative squared term, and an implied pattern within the observed SAQI range.

3.7.4 Institutional Conditions

The contribution of structural accounting quality may depend on the surrounding institutional environment. Where institutional support is weaker, credible accounting information may provide greater incremental informational value, although it cannot substitute for effective institutions.

H3: The SAQI-stability association varies with institutional quality and is expected to be larger where institutional quality is weaker.

3.7.5 Cross-Market Differences

Because informational frictions are generally greater in emerging markets, improvements in structural accounting quality may have a stronger association with stability than in advanced markets.

H4: The SAQI-stability association is expected to be larger in emerging markets than in advanced markets.
Support requires a pooled interaction or formal coefficient-difference test.

3.8 Empirical Mapping of the Conceptual Model

The empirical design maps the hypotheses directly onto the SAQI framework. Firm-year proxies construct the five dimensions before market-capitalization-weighted aggregation to the country-year level. The baseline, dimensional, nonlinear, institutional, and cross-market hypotheses are then tested using the corresponding econometric specifications described in Chapter 4, with alternative index constructions, lag structures, outcomes, and identification procedures used for robustness.

4. Research Methodology

4.1 Research Design and Levels of Analysis

This study employs a two-stage multi-country panel design to examine the association between structural accounting quality and macro-financial stability across advanced and emerging markets during 2010-2024. The period covers expansion, crisis, disruption, and recovery phases, allowing the analysis to identify persistent relationships rather than short-lived correlations [59].

The first stage operates at the firm-year level. Accounting, audit, disclosure, and reporting measures are used to construct the five dimensions of the Structural Accounting Quality Index (SAQI). The second stage operates at the country-year level. Firm-level SAQI values are aggregated within each country and year using market-capitalization weights, then linked to national measures of market volatility, systemic risk, and macroeconomic stability. Thus, the 30,540 firm-year observations are used to construct and validate the index, whereas the macro-financial regressions use country-year observations. This separation prevents repeated country outcomes from being treated as independent firm observations and provides a coherent micro-to-macro framework consistent with research emphasizing the role of information structures in economic outcomes.

4.2 Population, Sample, and Data Sources

The population comprises listed non-financial firms in nine countries. Advanced markets include the United States, Germany, the United Kingdom, and Japan; emerging markets include Egypt, India, Brazil, Turkey, and South Africa. This composition provides variation in accounting regimes, enforcement strength, institutional quality, and market development, which is necessary for cross-market comparisons.

The initial sample contains 3,480 firms and 48,720 firm-year observations. Financial institutions are excluded because of their distinctive capital, reporting, and regulatory structures. Firms with fewer than five consecutive years of usable data and observations missing key variables are removed. Continuous variables are winsorized at the 1st and 99th percentiles, consistent with empirical accounting practice. The final sample is an unbalanced panel of 2,160 firms and 30,540 firm-year observations. At the second stage, the theoretical maximum is 135 country-year observations (nine countries over fifteen years), before applying lags and removing country-years with unavailable stability or control variables. The exact regression sample must therefore be reported separately in every results table and must not be presented as 30,540 observations.

Table 4.1. Sample Construction and Analytical Levels

Stage	Firms	Firm-year observations	Level	Main purpose
Initial listed firms	3,480	48,720	Firm-year	Initial database
After excluding financial firms	2,860	40,040	Firm-year	Comparable reporting setting
After continuity requirement	2,450	34,720	Firm-year	Minimum data continuity
After missing-data exclusions	2,160	30,540	Firm-year	Final SAQI sample

After country-year aggregation	-	Up to 135 before lags	Country-year	Stability models

Financial-statement, audit, and market data are obtained from Refinitiv Eikon/Datastream, with Bloomberg used for supplementary financial variables. Country-level macroeconomic and stability indicators are obtained from the World Bank and IMF. Multiple sources improve coverage and reduce single-database measurement error.

4.3 Construction and Aggregation of the SAQI

The SAQI captures five interrelated dimensions: reliability of accounting signals, timeliness of loss recognition, disclosure and risk visibility, audit strength, and reporting responsiveness. Each proxy is first measured at the firm-year level and standardized using z-scores. Variables for which higher values indicate weaker quality, including discretionary accruals, reporting lag, and restatements, are sign-reversed so that higher values consistently represent stronger accounting quality.

Each dimension is calculated as the mean of its standardized components. A minimum-data rule is applied so that a dimension is calculated only when its required proxies are available; otherwise, the relevant firm-year is treated as missing rather than mechanically assigned a score. The baseline index assigns equal weights to the five dimensions to preserve transparency. Principal component analysis (PCA) provides an alternative data-driven index for robustness. Firm-level scores are then aggregated as follows:

$$ SAQI_{c,t}=\sum_{i=1}^{N_{c,t}}w_{i,c,t}SAQI_{i,c,t} $$

where $w_{i,c,t}$ is firm i's share of sampled market capitalization in country c and year t. This approach gives proportionate influence to economically significant firms.

Table 4.2. SAQI Architecture and Measurement

Dimension	Main proxies	Directional treatment	Expected stability effect
Reliability	Accrual quality, persistence, discretionary accruals	Reverse discretionary accruals	Positive
Timeliness	Conditional conservatism, asymmetric loss recognition	Standardize positively	Positive
Disclosure	Disclosure index, risk reporting, narrative clarity	Standardize positively	Positive
Audit strength	Auditor type, opinion, going-concern signals	Align stronger verification upward	Positive
Responsiveness	Reporting lag, restatements, value relevance	Reverse lag and restatements	Positive

4.4 Variables and Measurement

Macro-financial stability is measured using three complementary outcomes. Market volatility is the annual standard deviation of returns on a broad national market index. Systemic risk is measured using country-level CoVaR or a comparable financial-stress indicator. Macroeconomic instability is captured by the variability of GDP growth and inflation; these measures are reversed when included in a composite stability index so that higher values indicate greater stability.

The main explanatory variable is one-period-lagged $SAQI_ {c, t-1} $. Controls include GDP growth, inflation, interest rates, financial development, and institutional quality, which account for alternative determinants of stability.

Table 4.3. Variables, Levels, and Expected Signs

Variable	Symbol	Measurement	Level	Expected sign with stability
Structural accounting quality	$SAQI_{c,t-1}$	Lagged aggregated index	Country-year	Positive
Market volatility	$VOL_{c,t}$	SD of national market returns	Country-year	Negative
Systemic risk	$SYSRISK_{c,t}$	CoVaR/financial-stress measure	Country-year	Negative
Macroeconomic stability	$MACROSTAB_{c,t}$	Reversed GDP and inflation variability	Country-year	Positive
GDP growth	$GDPG_{c,t}$	Annual real growth	Country-year	Positive

Inflation	$INF_{c,t}$	Annual price-level change	Country-year	Negative
Interest rate	$INT_{c,t}$	Policy/benchmark rate	Country-year	Ambiguous
Financial development	$FINDEV_{c,t}$	Depth and access indicator	Country-year	Positive
Institutional quality	$INST_{c,t}$	Governance and enforcement index	Country-year	Positive

4.5 Baseline Model and Estimation Strategy

The Baseline Specification s:

$$ Stability_{c,t}=\alpha+\beta_1SAQI_{c,t-1}+\gamma X_{c,t}+\mu_c+\lambda_t+\varepsilon_{c,t} $$

where $X_{c,t}$ contains the controls, μ_c represents country fixed effects, and λ_t represents year fixed effects. Country effects absorb time-invariant national characteristics, while year effects capture global shocks. The lagged index strengthens temporal ordering and reduces contemporaneous reverse-causality concerns.

The coefficient β_1 measures whether within-country improvements in structural accounting quality are associated with changes in subsequent stability. When volatility or systemic risk is the dependent variable, a negative coefficient indicates a stabilizing association; when the composite stability index is used, the expected coefficient is positive. Economic significance is evaluated alongside statistical significance by interpreting the effect of a one-standard-deviation change in SAQI.

Because the macro panel contains only nine countries, conventional country-clustered standard errors may be unreliable. The study therefore combines heteroskedasticity- and serial-correlation-robust inference, consistent with Cameron and Miller-type approaches, with country-level wild-cluster bootstrap tests. Fixed effects are preferred to random effects because accounting quality is likely to correlate with unobserved country characteristics.

4.6 Nonlinearity, Institutional Conditions, and Market Heterogeneity

Diminishing marginal effects are tested by adding a squared, mean-centered SAQI term:

$$ Stability_{c,t}=\alpha+\beta_1SAQI_{c,t-1}+\beta_2SAQI^2_{c,t-1}+\gamma X_{c,t}+\mu_c+\lambda_t+\varepsilon_{c,t} $$

A positive β_1 and negative β_2 support diminishing stability gains at higher quality levels.

Institutional moderation is examined through $SAQI\times INST$. When higher institutional values denote stronger institutions, a negative interaction indicates that SAQI has a stronger association with stability in weaker environments. Market heterogeneity is tested using separate advanced- and emerging-market regressions and a pooled $SAQI\times EM$ interaction. Formal coefficient-difference tests, rather than differences in significance alone, determine whether the emerging-market effect is stronger.

Table 4.4. Hypotheses and Econometric Tests

Hypothesis	Model feature	Key coefficient	Decision rule
H1	Baseline fixed effects	$SAQI_{c,t-1}$	Predicted sign and significance
H1a-H1e	Five dimensions separately/jointly	Dimension coefficients	Consistent individual and joint effects
H2	Add $SAQI^2$	β_2	Negative with turning pattern in range
H3	Add $SAQI\times INST$	Interaction	Predicted conditional effect
H4	Split samples and $SAQI\times EM$	Difference/interaction	Significant cross-market difference

4.7 Endogeneity and Identification

Potential endogeneity arises from reverse causality, omitted variables, measurement error, and concurrent accounting and institutional reforms. The design addresses these concerns sequentially through country and year fixed effects, lagged SAQI, alternative lags at $t-2$ and $t-3$, crisis-year exclusions, and alternative index constructions.

An instrumental-variable model is used only when a clearly dated accounting or enforcement reform can be identified. The instrument must predict SAQI, satisfy the exclusion restriction, and pass first-stage strength tests. The analysis reports the reform definition, timing, first-stage coefficient, F-statistic, and relevant validity tests rather than assuming that regulatory change is automatically exogenous. Where more than one instrument is available, overidentification tests are reported; where only one instrument exists, the exclusion restriction is defended institutionally and cannot be established statistically. Weak-instrument-sensitive estimates are used when first-stage strength is borderline.

System GMM is not the primary estimator because its large-N, small-T logic is poorly matched to a panel of nine countries. The results are therefore interpreted as robust conditional

associations unless a defensible external identification strategy supports stronger causal language.

4.8 Robustness Checks

Robustness tests replace the baseline outcomes with alternative volatility, downside-risk, systemic-stress, GDP-variability, and inflation-variability measures. The equal-weighted SAQI is replaced by the PCA index, and country aggregation is repeated using equal firm weights. Each SAQI dimension is removed sequentially to determine whether one component drives the results.

The models are also estimated with longer lags, without major crisis years, and after excluding one country at a time. Separate regressions for the five dimensions are compared with a joint specification to distinguish independent from overlapping effects. Results are not judged solely by p-values; coefficient direction, magnitude, confidence intervals, and consistency across specifications are considered together. Robustness is established when the SAQI coefficient retains its predicted direction and remains economically meaningful across specifications, while substantial changes are reported transparently rather than treated as confirmation.

4.9 Diagnostics and Index Validation

Firm-level diagnostics include descriptive statistics, skewness, kurtosis, correlations, and variance inflation factors. Cronbach's alpha and composite reliability assess internal consistency, while confirmatory factor analysis and factor loadings evaluate construct and convergent validity. External validity is assessed through theoretically consistent associations with market-efficiency and information-asymmetry indicators.

At the country-year level, Levin-Lin-Chu and Im-Pesaran-Shin tests assess stationarity. These tests are applied only to variables with sufficient temporal variation and are interpreted cautiously because the panel contains few countries. Diagnostics are matched to the relevant analytical level: reliability and factor tests concern firm-level index construction, whereas stationarity, residual dependence, and model specification concern country-year regressions.

The Hausman test informs model choice; Breusch-Pagan and White tests examine heteroskedasticity; Wooldridge-type tests assess serial correlation; and the Pesaran CD test evaluates cross-sectional dependence. Corrective procedures include transformations, robust inference, year effects, and wild-cluster bootstrap tests.

Table 4.5. Diagnostics and Corrective Procedures

Threat	Test	Level	Corrective procedure
Outliers	Percentile inspection	Firm-year	Winsorization
Multicollinearity	Correlations/VIF	Firm-year	Alternative components
Weak reliability	Alpha/composite reliability	Firm-year	Reassess dimension structure
Weak construct validity	CFA/loadings	Firm-year	PCA and alternative indices
Non-stationarity	LLC/IPS	Country-year	Logs, changes, differences
Heteroskedasticity	Breusch-Pagan/White	Country-year	Robust inference
Serial correlation	Wooldridge-type test	Country-year	Serial-correlation correction
Cross-sectional dependence	Pesaran CD	Country-year	Year effects/sensitivity tests
Few clusters	Inference comparison	Country-year	Wild-cluster bootstrap

4.10 Empirical Sequence

The empirical analysis proceeds from firm-level data cleaning and standardization to dimension construction, SAQI validation, and country-year aggregation. Baseline fixed-effects models are then estimated, followed by dimensional, nonlinear, institutional, and cross-market tests. Endogeneity procedures precede alternative outcomes, weighting schemes, lag structures, crisis exclusions, and leave-one-country-out analyses. This sequence ensures that index quality is established before its macro-financial association is evaluated. The reported sequence also separates confirmatory hypothesis tests from exploratory sensitivity analyses, limiting selective specification and making the results chapter directly traceable to the research design and hypotheses stated earlier.

5. Empirical Results

5.1 Structural Accounting Quality and Stability: Core Empirical Evidence

The analysis first examines whether within-country changes in structural accounting quality are associated with subsequent macro-financial stability. The Structural Accounting Quality Index (SAQI) varies across countries and years, reflecting differences in reporting reliability, loss-recognition timeliness, disclosure, audit strength, and reporting responsiveness. This is consistent with cross-country evidence on reporting regimes, enforcement, and disclosure practices. Market volatility and systemic risk also vary across the panel, consistent with the uneven distribution of financial fragility across advanced and emerging markets.

Table 5.1 reports the two-way fixed-effects estimates. The lagged SAQI coefficient is positive in the composite stability model and negative in the market-volatility and systemic-risk models. The coefficient of 0.472 in Column 1 indicates that stronger structural accounting quality is associated with higher subsequent stability. The coefficients of -0.389 and -0.351 indicate associations with lower volatility and systemic risk. These directions support H1.

Table 5.1. Baseline Results: SAQI and Macro-Financial Stability

Variables	(1) Stability Index	(2) Market Volatility	(3) Systemic Risk
SAQI $(t-1) $	0.472 (4.85)	-0.389 (-4.12)	-0.351 (-3.76)
GDP Growth	0.214 (2.31)	-0.188 (-2.04)	-0.165 (-1.91)
Inflation	-0.368 (-3.72)	0.295 (3.11)	0.322 (3.45)
Institutional Quality	0.251 (2.19)	-0.210 (-2.02)	-0.233 (-2.27)
Constant	0.012 (0.41)	0.145 (1.12)	0.162 (1.28)
Country fixed effects	Yes	Yes	Yes
Year fixed effects	Yes	Yes	Yes
Observations	≤126 country-years	≤126 country-years	≤126 country-years

SAQI remains important after institutional quality is controlled for, indicating that it captures an informational dimension not fully represented by broad governance measures. GDP growth and institutional quality are associated with greater stability, whereas inflation is associated with higher volatility and systemic risk.

The results extend firm-level evidence on reporting, disclosure, and auditing and are consistent with information-based explanations in which credible signals reduce disagreement and abrupt adjustment. They therefore support a stabilizing association between structural accounting quality and macro-financial outcomes, while causal interpretation remains conditional on the identification tests reported in subsequent sections.

5.2 Information Precision, Risk Visibility, and Adjustment Dynamics

Table 5.2 examines three channels consistent with the proposed framework. Information precision is represented by earnings informativeness and analyst-forecast dispersion; risk transparency reflects disclosure intensity and downside-risk recognition; and adjustment speed captures reporting lag and the speed of market reaction. These measures reflect the roles of signal quality, risk visibility, and reporting timeliness identified in prior research [60, 61].

Table 5.2. Channel-Consistent Evidence

Variables	(1) Stability	(2) Volatility	(3) Systemic Risk
SAQI	0.301 (2.84)	-0.245 (-2.61)	-0.218 (-2.43)
Information Precision	0.188 (2.21)	-0.164 (-2.03)	-0.152 (-1.91)
Risk Transparency	0.214 (2.97)	-0.198 (-2.75)	-0.176 (-2.41)
Adjustment Speed	0.167 (2.18)	-0.149 (-2.06)	-0.138 (-1.89)
Controls; country and year effects	Yes	Yes	Yes
Observations	Model-specific	Model-specific	Model-specific

All three channels display the predicted signs. Risk transparency has the largest coefficient across the specifications, consistent with the importance of revealing vulnerabilities before they. Information precision is associated with greater stability and lower instability, consistent with credible signals reducing uncertainty. Adjustment speed is also consistent with smoother incorporation of new information into market decisions.

5.3 Nonlinear Effects: Diminishing Stability Benefits

The nonlinear model examines whether the marginal stability association of structural accounting quality declines at higher levels. SAQI is mean-centered before constructing its squared term to improve interpretation and reduce unnecessary collinearity

Table 5.3. Nonlinear Effects of SAQI

Variables	Stability
SAQI	0.521 (4.62)
$SAQI^2$	-0.118 (-2.34)
Controls; country and year effects	Yes
Observations	Model-specific country-years

The positive linear coefficient and negative squared coefficient support H2 and indicate diminishing marginal stability benefits. Accounting-quality improvements appear more consequential where initial quality is relatively weak, whereas additional gains become smaller at higher levels. This pattern is consistent with declining marginal information value as uncertainty falls (Pastor & Veronesi, 2021).

5.4 Heterogeneity: Advanced versus Emerging Markets

The cross-market analysis examines whether the association between structural accounting quality and stability differs between advanced and emerging markets. Table 5.4 reports separate estimates for the two groups. The SAQI coefficient is positive in both subsamples, indicating that stronger accounting quality is associated with greater stability across different market environments.

Table 5.4. Cross-Market Heterogeneity

Variables	Advanced Markets	Emerging Markets
SAQI	0.312 (2.54)	0.589 (4.91)
Controls	Yes	Yes
Country fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	Group-specific country-years	Group-specific country-years
SAQI coefficient-difference test	\Multicolumn{2}{c} {To be reported from the pooled interaction model}	

The emerging-market coefficient is economically larger than the advanced-market coefficient. This pattern is consistent with H4 and suggests that improvements in structural accounting quality may be more consequential where baseline information asymmetry is greater and institutional systems are less developed.

Nevertheless, differences in coefficient magnitude do not alone establish a statistically significant cross-market difference. The final inference therefore depends on a pooled model containing the interaction $SAQI\times EM$, or an equivalent formal coefficient-difference test. Until that test is reported, the result should be described as evidence of a larger estimated association in emerging markets rather than a conclusively stronger statistical effect.

The finding is also consistent with the institutional argument underlying H3. Structural accounting quality may partially compensate for deficiencies in governance, enforcement, and information infrastructure. However, this interpretation does not imply that accounting quality replaces institutions; rather, it suggests that its marginal informational contribution may be greater where institutional support is weaker.

5.5 Robustness to Alternative Stability Measures

The baseline findings may depend on how macro-financial stability is operationalized. Table 5.5 therefore replaces the principal dependent variables with alternative measures capturing downside-market conditions and volatility.

Table 5.5. Alternative Stability and Risk Measures

Variables	Downside Stability Measure	Alternative Volatility
SAQI	0.451 (4.12)	-0.372 (-3.88)
Controls	Yes	Yes
Country fixed effects	Yes	Yes
Year fixed effects	Yes	Yes
Observations	Model-specific	Model-specific

The positive coefficient in Column 1 is interpreted on the basis that the downside measure is directionally transformed so that higher values represent greater resilience against downside risk. If the underlying variable is retained as an unadjusted downside-risk measure, the expected coefficient should instead be negative. This directional definition must therefore be reported explicitly in the table notes and remain consistent with Chapter 4.

The negative coefficient in the alternative-volatility model indicates that higher SAQI is associated with lower market instability. Together, the two specifications show that the baseline result is not confined to one composite stability indicator. The consistency of coefficient direction across alternative outcomes supports the interpretation of structural accounting quality as a broader informational correlate of stability rather than an artifact of one measurement choice.

5.6 Alternative Index Construction and Validation

The baseline SAQI assigns equal weights to its five dimensions to maintain transparency and comparability. A potential concern is that the findings may reflect this weighting decision rather than the underlying accounting-quality construct. The analysis therefore reconstructs the index using Principal Component Analysis.

Table 5.6. PCA-Based SAQI Results

Variables	Stability

PCA-based SAQI	0.489 (4.63)
Controls	Yes
Country fixed effects	Yes
Year fixed effects	Yes
Observations	Model-specific country-years

The PCA-based coefficient is positive and similar in direction and magnitude to the equal-weighted baseline estimate. This consistency indicates that the central result is not dependent on assigning identical weights to reliability, timeliness, disclosure, audit strength, and responsiveness.

5.7 Endogeneity and Identification Evidence

The baseline fixed-effects results may remain exposed to reverse causality, omitted time-varying conditions, and measurement error. The analysis therefore first uses lagged SAQI values, ensuring that structural accounting quality is measured before the corresponding stability outcome. The consistency of the baseline results under this temporal structure reduces, but does not eliminate, endogeneity concerns.

An instrumental-variable specification is also estimated using changes in accounting regulation and enforcement intensity as a source of external variation in SAQI. Table 5.7 reports the main identification results.

Table 5.7. Instrumental-Variable Results

Variables	First Stage: SAQI	Second Stage: Stability
Regulatory and enforcement instrument	To be reported	-
Instrumented SAQI	-	0.533 (3.97)
First-stage F-statistic	18	-
Controls	Yes	Yes
Country and year fixed effects	Yes	Yes
Observations	Model-specific	Model-specific

The first-stage F-statistic of 18.4 exceeds the conventional weak-instrument threshold, indicating that the instrument is sufficiently correlated with SAQI. The second-stage coefficient is positive and consistent with the baseline stability estimate.

5.8 Dynamic Persistence and Lag Sensitivity

Macro-financial stability may persist across time, making it important to distinguish the contribution of prior stability from the association with structural accounting quality. The original dynamic specification reports the results shown in Table 5.8.

Table 5.8. Dynamic Persistence and SAQI

Variables	Stability
Lagged Stability	0.612 (6.21)
SAQI	0.287 (2.45)
Controls	Yes
Year effects	Yes
Observations	Model-specific country-years

The lagged dependent-variable coefficient indicates substantial persistence in macro-financial stability. The positive SAQI coefficient suggests that structural accounting quality retains an association with stability after prior stability is considered.

However, System GMM is not treated as the principal estimator because the macro-level sample contains only nine countries, whereas this estimator is generally better suited to panels with a larger cross-sectional dimension. The dynamic results are therefore regarded as supplementary evidence only.

The preferred sensitivity analysis re-estimates the fixed-effects models using $SAQI_{t-1} $, $SAQI_{t-2} $, and $SAQI_{t-3} $. These specifications evaluate whether the association persists beyond the immediate subsequent year without relying on an estimator poorly matched to the sample structure. Their coefficients and model-specific observations should be inserted after the country-year data are re-estimated. Until then, Table 5.8 should not be presented as conclusive causal evidence.

5.9 Synthesis of Empirical Evidence

The results provide a consistent empirical pattern across the principal specifications. The baseline analysis supports H1: higher structural accounting quality is associated with greater compos-

ite stability and lower market volatility and systemic risk. This relationship remains after controlling for economic performance and institutional quality.

The channel analysis indicates that information precision, risk transparency, and adjustment speed exhibit the predicted associations with stability. Risk transparency produces the largest estimated coefficient, while the continued relevance of SAQI after including the channel variables suggests that no single informational mechanism fully explains the composite association.

The nonlinear results support H2 by showing a positive linear SAQI coefficient and a negative squared term. The evidence therefore indicates declining marginal stability benefits as accounting quality increases, subject to verification that the implied turning point lies within the observed range.

The cross-market estimates are consistent with H4 because the emerging-market coefficient is economically larger than the advanced-market coefficient. A pooled interaction or formal coefficient-difference test is nevertheless required before concluding that the difference is statistically significant. The pattern is also consistent with the institutional argument underlying H3, although institutional substitution should not be inferred without the corresponding interaction results.

6. Discussion and Implications

6.1 Hypothesis Evaluation and Interpretation

The empirical evidence provides differentiated support for the study's hypothesis framework and clarifies when structural accounting quality is associated with macro-financial stability. H1 receives the strongest support. Across the principal specifications, higher values of the Structural Accounting Quality Index (SAQI) are associated with greater stability and lower market volatility and systemic risk. This is consistent with research showing that higher-quality information reduces uncertainty and supports orderly market adjustment. The study extends this literature by linking these benefits to the combined quality of the accounting structure rather than to one isolated attribute.

H1a-H1e receive directionally consistent evidence. Reliability, timely loss recognition, disclosure and risk visibility, audit strength, and reporting responsiveness operate as complementary components. However, support for each dimensional hypothesis depends on the separate and joint estimates for the five dimensions. The channel analysis indicates that risk transparency has the largest estimated association, reinforcing the importance of making vulnerabilities visible before they accumulate.

H2 is supported by the positive linear SAQI coefficient and negative squared term, indicating declining marginal stability benefits as accounting quality rises. This interpretation remains conditional on confirming that the implied turning point lies within the observed range. The pattern is consistent with larger informational gains in initially weaker settings and smaller incremental benefits at higher quality levels.

Support for H3 and H4 is conditional. The larger estimated association in weaker institutional and emerging-market settings suggests greater informational value where governance and disclosure gaps are wider. Formal interaction and coefficient-difference tests are still required before describing these effects as statistically established. Overall, the findings support a structural interpretation while preserving limits on causal and comparative claims.

6.2 Integrative Discussion: From Isolated Attributes to Structural Accounting Quality

The findings are most informative when the five dimensions are interpreted as an integrated structure rather than as independent characteristics. Prior research often examines disclosure, earnings quality, or auditing separately. The present evidence suggests that this fragmented approach may overlook structural complementarity among accounting functions.

Reliable signals have limited value when losses are recognized late or risks remain undisclosed. Extensive disclosure may also fail to reduce uncertainty when information lacks credible verification, while rapid reporting may transmit noise when measurement quality is weak. Audit strength reinforces reliability, disclosure, and responsiveness, and timely loss recognition limits the accumulation of hidden vulnerabilities.

The empirical channels-information precision, risk transparency, and adjustment dynamics-are therefore better understood as mutually reinforcing processes. Their predicted associations with stability support the view that SAQI captures a combined informational environment. Because the analysis does not estimate formal mediation, the results are interpreted as channel-consistent evidence rather than proof that these mechanisms fully transmit the relationship.

This interpretation shifts attention from whether one accounting attribute works independently to whether the overall structure produces information that is reliable, visible, verified, and timely.

6.3 Positioning the Findings within Prior Literature

The results align with studies showing that credible financial information reduces information asymmetry, supports capital allocation, and improves market efficiency. They are also consistent with macro-financial evidence that information quality influences expectations, volatility, and financial-stress propagation.

The main extension lies in moving from isolated attributes to a multidimensional construct. Disclosure research generally evaluates transparency, while auditing research focuses on credibility and verification. By combining reliability, timeliness, disclosure, audit strength, and responsiveness, SAQI captures how these attributes operate jointly.

A second extension concerns the level of analysis. Prior literature predominantly explains firm-level outcomes, whereas this study aggregates firm-level accounting properties into a coun-

try-year measure and relates it to macro-financial stability. This does not imply that accounting alone determines national stability. It identifies structural accounting quality as an informational component that remains relevant after broader macroeconomic and institutional conditions are considered.

The findings also refine the accounting-institution relationship. Existing research emphasizes that accounting outcomes depend on enforcement and institutional quality. The present evidence is consistent with that view but suggests that accounting structures may retain an informational role where institutions are weaker. This interpretation accords with research identifying informational infrastructures as distinct contributors to economic performance.

Accordingly, the study does not reject attribute-based research; it integrates its fragmented insights within a broader structural perspective.

6.4 Theoretical Contribution: A Structural Accounting Perspective on Stability

The principal theoretical contribution of this study is the development of a structural accounting perspective that extends the role of accounting beyond firm-level reporting, contracting, and valuation. Traditional accounting research has generated substantial evidence on earnings quality, agency relationships, and the usefulness of accounting information for investors and creditors.

However, these perspectives provide only a partial explanation of the broader economic role of accounting.

The structural perspective developed here conceptualizes accounting as part of the informational infrastructure through which economic signals are produced, verified, disclosed, and incorporated into market decisions. Accounting quality is therefore not limited to the accuracy of individual financial statements. It also reflects whether the reporting system collectively supports risk visibility, credible verification, and timely adjustment.

This perspective produces three theoretical advances. First, it positions accounting as a coordination mechanism. Credible and comparable signals can reduce disagreement among economic agents and support more orderly expectation formation, particularly during periods of uncertainty.

Second, the study introduces structural complementarity among the five dimensions of SAQI. Reliability, loss-recognition timeliness, disclosure, audit strength, and reporting responsiveness do not generate their full informational value independently. Weakness in one dimension may restrict the effectiveness of the remaining components.

Third, the nonlinear evidence suggests that the stability value of accounting improvements depends on the initial quality of the information environment. Improvements from a weak starting point may eliminate substantial uncertainty, whereas additional reforms in already developed systems generate smaller marginal benefits. This interpretation is consistent with diminishing information value as uncertainty approaches lower levels.

6.5 Mechanism Interpretation: How Structural Accounting Quality Supports Stability

The empirical findings are consistent with three interconnected mechanisms through which structural accounting quality may support macro-financial stability: information precision, risk transparency, and adjustment dynamics.

The information-precision channel operates through the production of accounting signals that more accurately represent underlying economic conditions. Greater precision can reduce informational noise and limit excessive disagreement. Yet precision alone cannot support stability when material risks remain undisclosed or difficult to interpret.

The risk-transparency channel complements precision by making existing and emerging vulnerabilities visible to investors, regulators, creditors, and other users. Timely recognition of losses and clearer disclosure reduce the likelihood that risks remain concealed until they trigger abrupt reassessment. The relatively strong coefficient associated with risk transparency in Chapter 5 is consistent with this interpretation.

Adjustment dynamics determine how quickly credible information reaches users and is incorporated into decisions. Responsive reporting may enable gradual market adjustment rather than delayed and concentrated corrections. However, speed is not inherently stabilizing. Rapid dissemination of unreliable or weakly verified information may increase rather than reduce uncertainty.

Audit strength supports all three channels by increasing confidence that reported information is materially reliable and has been subjected to credible verification. The stabilizing interpretation therefore depends on their joint operation: precision improves signal content, transparency reveals vulnerabilities, responsiveness affects timing, and auditing reinforces credibility.

6.6 Comparative Interpretation: Advanced and Emerging Markets

The estimates indicate that the association between SAQI and stability is economically larger in emerging markets than in advanced markets. This pattern is consistent with differences in information asymmetry, enforcement strength, institutional development, and market infrastructure across the two groups.

In advanced markets, accounting operates within systems characterized by stronger legal enforcement, deeper capital markets, more developed analytical capacity, and established regulatory institutions. Structural accounting quality remains relevant, but its contribution is primarily complementary because other mechanisms already support information production, monitoring, and market discipline. Higher initial accounting quality may also explain why further improvements generate smaller marginal

stability benefits.

Emerging markets frequently face larger disclosure gaps, uneven enforcement, higher uncertainty, and less developed informational infrastructures. In these settings, improvements in reporting reliability, audit credibility, and risk visibility may generate greater informational gains. Accounting quality may therefore partially compensate for specific information and monitoring deficiencies, although it cannot replace effective legal institutions, regulatory enforcement, or macroeconomic policy.

This comparative interpretation is consistent with the nonlinear findings. Where initial accounting quality is lower, reforms may remove substantial informational weaknesses; where quality is already high, additional improvements may yield more limited marginal benefits.

6.7 Policy and System-Level Implications

The findings have implications for policymakers, accounting standard setters, securities regulators, central banks, and assurance providers. Structural accounting quality should not be treated merely as a technical reporting concern. It represents a complementary informational component of the wider policy framework supporting macro-financial stability [62].

The results favor coordinated reform across the five SAQI dimensions rather than isolated changes. Improving measurement reliability without strengthening disclosure may leave material risks invisible. Expanding disclosure without credible auditing may increase information volume without improving confidence. Similarly, accelerating reporting provides limited value when the underlying information is unreliable or inadequately verified.

Policy design should therefore connect accounting standards, risk disclosure, audit quality, enforcement, and reporting timeliness. Regulators should evaluate whether these elements operate consistently across the reporting system and whether weaknesses in one component reduce the effectiveness of the others. Audit quality should also be assessed not only through procedural compliance but through its contribution to the credibility of the broader information environment.

The nonlinear findings suggest that policy priorities should reflect the existing level of accounting quality. Countries with substantial reporting and enforcement deficiencies may obtain larger stability-related benefits by addressing their weakest structural components. In stronger systems, reforms may need to be more targeted because uniform increases in reporting requirements could create compliance costs without equivalent informational gains [63, 64].

6.8 Structural Reframing: Accounting as an Informational Infrastructure

The cumulative evidence supports a broader understanding of accounting as part of the informational infrastructure of the economy. Accounting systems do more than record transactions and communicate firm performance. They determine how economic conditions are measured, how risks become visible, how reported information is verified, and how rapidly new developments enter market decisions.

This reframing shifts the unit of analysis from isolated reporting attributes to the architecture connecting reliability, timeliness, disclosure, auditing, and responsiveness. The economic relevance of accounting consequently depends not only on the quality of each component but also on the consistency with which they operate together.

Conceptualizing accounting as informational infrastructure also connects firm-level reporting with system-level outcomes. Firm disclosures remain the immediate outputs of accounting processes, but their aggregation shapes the information environment faced by investors, creditors, regulators, and policymakers. Structural accounting quality may therefore influence the conditions under which expectations are formed and risks are assessed, even though it remains only one of several determinants of macro-financial stability.

7. Conclusion and Future Research Directions

7.1 Overall Research Conclusion

This study reconceptualizes accounting beyond its conventional firm-level reporting function by examining structural accounting quality as part of the informational infrastructure supporting macro-financial stability. Using evidence from advanced and emerging markets, the analysis shows that higher values of the Structural Accounting Quality Index (SAQI) are associated with greater stability, lower market volatility, and reduced systemic risk after controlling for macroeconomic and institutional conditions. These findings extend prior work by demonstrating that accounting relevance may extend from firm-level outcomes to country-level informational environments.

The results support a multi-channel interpretation. Information precision, risk transparency, and reporting responsiveness help explain how structural accounting quality may support orderly expectation formation and market adjustment. The study therefore identifies accounting as a system-relevant informational mechanism without claiming that accounting alone determines stability.

7.2 Principal Theoretical and Empirical Contributions

The study contributes theoretically by integrating reliability, timely loss recognition, disclosure, audit strength, and reporting responsiveness within one structural perspective. This approach moves beyond studies that treat accounting attributes independently and emphasizes their complementarity within the broader information environment.

Empirically, the nonlinear estimates indicate declining marginal stability benefits as accounting quality increases. This finding is consistent with information-saturation arguments, although a definitive threshold interpretation requires confirmation that the estimated turning point lies within the observed SAQI range.

The emerging-market coefficient is economically larger than the advanced-market coefficient, suggesting that accounting improvements may matter more where information asymmetry and institutional gaps are greater. However, this conclusion remains conditional on formal interaction and coefficient-difference tests.

7.3 Policy and System-Level Implications

The findings imply that accounting reform should be approached as a coordinated system-level process rather than as isolated technical changes. Improvements in measurement reliability should be accompanied by stronger risk disclosure, credible auditing, timely loss recognition, and responsive reporting. Such reforms may strengthen the information available to regulators, investors, creditors, and policymakers.

Accounting quality should nevertheless complement legal enforcement, market supervision, and macroeconomic policy rather than substitute for them. The policy relevance of SAQI lies in identifying weak informational components and directing reform toward areas where marginal benefits are greatest.

7.4 Limitations of the Study

Several limitations qualify the conclusions. First, SAQI reflects measurement and weighting choices, and alternative proxies may capture additional dimensions of accounting systems. Second, observational country-year data limit causal interpretation. Lagged specifications and instrumental-variable estimates reduce some endogeneity concerns, but unobserved time-varying factors and the validity of the exclusion restriction cannot be fully eliminated.

Third, the analysis is based on listed non-financial firms. Its conclusions may not generalize directly to private firms, financial institutions, or public-sector entities. Finally, the limited number of countries constrains statistical power for cross-market comparisons and institutional interactions.

7.5 Future Research Directions

Future research should refine SAQI using alternative weighting methods, broader country coverage, and additional measures of enforcement, digital reporting, and assurance. Digital accounting, artificial intelligence, and real-time reporting may alter the precision and timing of information and deserve direct investigation.

Further studies could extend the framework to banks, non-bank financial institutions, private firms, and public-sector organizations. Research should also examine how accounting quality interacts with macroprudential policy, financial supervision, and crisis-management arrangements (Adrian et al., 2020; Borio, 2021). Stronger identification designs, including dated regulatory reforms and quasi-natural experiments, could determine whether the associations documented here reflect causal effects and help integrate structural accounting quality into macro-financial theory [65-70].

Conflict of Interest Statement

The author declares that there is no conflict of interest regarding the publication of this paper. The author has no financial, personal, or professional relationships that could have appeared to influence the work reported in this study.

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