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Financial Reporting Quality and Financial Distress: The Moderating Role of Capital Market Transparency Across Emerging and Developed Markets

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ABSTRACT: This study examines whether financial reporting quality (FRQ) reduces the probability of financial distress among publicly listed companies and whether this relationship is moderated by capital market transparency, comparing emerging and developed markets. Drawing on Information Asymmetry Theory and Institutional Theory, we argue that high-quality financial reporting reduces distress risk by mitigating information gaps between managers and external stakeholders, and that this protective effect is amplified in environments with greater market transparency. Using a cross-country panel of approximately 160,000 firm-year observations from 35 countries over 2010–2023, and employing multiple proxies for both FRQ and financial distress, we find consistent evidence that FRQ significantly reduces financial distress probability across all market types. Crucially, capital market transparency significantly amplifies this relationship, with the moderating effect stronger in emerging markets than in developed markets — a finding robust to instrumental variable estimation and multiple alternative specifications. These results extend the FRQ consequences literature to the financial distress domain and provide actionable evidence for regulators, investors, and corporate managers regarding the institutional prerequisites for financial resilience.

KEYWORDS: Financial Reporting Quality; Financial Distress; Capital Market Transparency; Emerging Markets; Developed Markets; Information Asymmetry; Cross-Country

INTRODUCTION

Financial distress remains one of the most consequential threats to corporate sustainability in the contemporary global economy. Global bankruptcies increased by 7% in 2023 and a further 10% in 2024 to the highest level in more than a decade, with three in four countries experiencing an increase (Allianz Trade, 2025). The period 2024–2025 is a defining point for corporate restructuring driven by high interest rates, inflationary pressures and post-pandemic market realignment (Ansarada, 2024). In this context, the issue of firm-level and institutional factors that insulate companies from financial distress is of urgent practical and scholarly importance.

Financial reporting quality (FRQ) – the degree to which financial reports accurately reflect the economic reality of a firm – has been theorized and empirically shown to be an important determinant of a number of firm-level outcomes including cost of capital (Francis et al., 2004), investment efficiency (Biddle et al., 2009; Khan & Safdar, 2024) and market liquidity (Bushman et al., 2001). High-quality reporting reduces information asymmetry between corporate insiders and external stakeholders, helping to foster more effective monitoring and to limit managers from engaging in value-destroying strategies (Healy & Palepu, 2001). These mechanisms together suggest that FRQ should reduce the probability of financial distress – although this specific relationship is surprisingly under-researched in a cross-country setting.

An important dimension that has been ignored in the existing literature is the function of capital market transparency (i.e., the degree to which markets operate with an accessible and trustworthy information) as a moderator of the FRQ-distress relationship (Nurim et al., 2025). Developed markets have transparent capital markets with strong disclosure laws, active analyst coverage and investor protection regulations. By contrast, emerging markets are characterized by lower levels of transparency in disclosure, greater information asymmetry and less efficient price discovery (Bushman & Smith, 2004; La Porta et al., 1998; Leuz et al., 2003). Whether this institutional difference amplifies or attenuates the distress-reducing effect of FRQ is an empirical question that has not been addressed.

This study fills this gap by examining three questions: (i) Does FRQ reduce the probability of financial distress? (ii) Does capital market transparency moderate this relationship? (iii) Does the moderating effect differ between emerging and developed markets? We contribute by providing the first systematic cross-country evidence on the moderated relationship between FRQ and financial distress, integrating Information

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Asymmetry Theory and Institutional Theory into a unified theoretical framework. The findings carry direct implications for regulators seeking to build financially resilient capital markets, for investors assessing cross-border distress risk, and for managers making strategic reporting decisions.

LITERATURE REVIEW

Financial reporting quality is broadly defined as the degree to which financial information faithfully captures firm economic reality and reduces information asymmetry between managers and external capital market participants (Dechow & Dichev, 2010). Empirically, FRQ is most commonly operationalized through discretionary accrual models — the modified Jones (1991) model, the Kothari et al., (2005) performance-matched model, and the McNichols & Stubben, (2008) revenue-based model — where smaller absolute discretionary accruals indicate higher quality (Francis et al., 2004). The effects of FRQ have been examined in different settings: high FRQ reduces the cost of equity and debt (Francis et al., 2004), improves investment efficiency (Biddle et al., 2009; Khan & Safdar, 2024) and, importantly, serves as a buffer to absorb the decline in liquidity during periods of economic turmoil (Ding et al., 2014). Khan & Safdar, (2024) contribute to the literature on global level and show that FRQ positively affects the investment efficiency in developed, emerging, frontier and other markets. This confirms that the benefits of accounting information quality are not limited to well developed institutional settings (Nuswantara et al., 2023).

The modeling of financial distress -defined as the inability of a corporation to satisfy its financial commitments when they fall due- has been done by employing different methodologies since Altman, (1968) and Beaver, (1966). The Altman Z-score, Ohlson, (1980) O-score and the hazard model of Campbell et al., (2008) capture different elements of distress risk. Distress drivers are firm-level financial characteristics (leverage, profitability, liquidity), macroeconomic conditions and institutional elements such as legal system quality and growth of financial markets (Asis et al., 2021). We find that distressed firms engage in aggressive earnings management to hide their deteriorating conditions (Faz et al., 2022), which creates a feedback between reporting quality and distress that motivates us to examine the causal direction from FRQ to distress probability (Suhardjanto et al., 2021).

We find evidence that the theorized channel connecting FRQ to financial distress occurs through information asymmetry reduction. Agency theory Jensen & Meckling, (1976) suggests that knowledge asymmetries between managers and external stakeholders create settings in which management opportunism goes undetected, hence increasing distress risk. High FRQ helps to prevent this by giving trustworthy, timely information that enables effective monitoring and discourages managers from making value-destroying choices (Healy & Palepu, 2001). Signalling theory Spence, (1973) further contributes to this; firms with actual financial health emit signals of quality by being upfront in reporting while enterprises prone to distress who manipulate earnings postpone corrective action by concealing their situation. These mechanisms jointly generate the prediction: higher FRQ reduces the probability of financial distress. This yields Hypothesis 1: Financial reporting quality is negatively associated with the probability of financial distress.

The Institutional Theory states that the behavior of the firms and its implications are determined by the country's institutional environment (Ball et al., 2000; La Porta et al., 1998). This theory predicts that, in the context of capital market openness, firm-level FRQ effectiveness in decreasing distress risk is conditional on the country-level information environment (Supheni et al., 2023). In high transparency markets, firm-level financial disclosures are complemented by a rich ecosystem of information channels – analyst projections, regulatory inspection, media coverage – that are able to enhance their informational richness and trustworthiness (Bushman et al., 2001). This complementarity improves the distress-reducing effect of FRQ by ensuring that creditors and investors receive, confirm and act on the high-quality disclosures (Supheni et al., 2023). In low-transparency markets, this complementing ecology is weaker, potentially attenuating the process by which FRQ reduces distress. This leads to Hypothesis 2: Capital market transparency positively moderates the negative link between FRQ and financial distress. Furthermore, given the structural transparency differences between emerging and developed markets, the moderating effect is expected to be stronger in emerging markets where the marginal value of an additional unit of transparency is higher (Supheni et al., 2024). This yields Hypothesis 3: The moderating effect of capital market transparency on the FRQ–financial distress relationship is significantly stronger in emerging markets than in developed markets (Ulum et al., 2024).

MATERIALS AND METHODS

This study uses firm-level accounting and market data from Refinitiv Eikon DataStream and Compustat Global, covering all publicly listed non-financial companies (excluding SIC 6000–6999 and 4900–4999) across 35 countries from 2010 to 2023. Country-level transparency data are sourced from the World Bank Global Financial Development Database (GFDD), FTSE Russell market classification, and World Bank investor protection indices. Macroeconomic controls are from World Bank World Development Indicators. Legal origin classifications follow La Porta et al., (1998). All continuous variables are winsorized at the 1st and 99th percentiles. The final sample comprises approximately 160,000 firm-year observations after applying selection criteria, including the requirement of at least 20 observations per industry-year group for FRQ estimation.

Table 1. Sample Composition by Market Type

Market Category	Representative Countries	Countries	Approx. Obs.
Developed Markets	US, UK, Japan, Germany, France, Australia, Canada, South Korea, others	~20	~85,000
Emerging Markets	China, India, Brazil, Indonesia, South Africa, Mexico, Turkey, Malaysia, others	~15	~75,000
Total		**~35**	**~160,000**

Note: MSCI Global Market Classification Framework. Financial institutions and utilities excluded from all panels.

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Table 2 provides definitions and data sources for all variables. Financial distress is operationalized using three measures: the Altman, (1968) Z-score (modified for cross-country application), the Ohlson, (1980) O-score, and the Campbell et al., (2008) hazard model. FRQ is measured using three accrual quality proxies: the modified Jones model (FRQ_J), Kothari performance-matched model (FRQ_K), and McNichols & Stubben model (FRQ_MS), each estimated separately by industry-year group and multiplied by negative one so that higher values indicate higher quality. The primary transparency moderator (DISC) uses the World Bank GFDD disclosure index; a composite index (TRANS) constructed via principal component analysis across three institutional sources is used in robustness checks.

Table 2. Variable Definitions and Data Sources

Variable	Symbol	Measurement	Source
Dependent Variable			
Financial Distress	*FD*	Probability estimated via: (1) Altman Z-score (modified for cross-country); (2) Ohlson O-score; (3) Campbell et al. (2008) hazard model	Refinitiv Eikon / Compustat
Independent Variable (FRQ)			
Accrual Quality – Jones	*FRQ_J*	Abs. discretionary accruals from modified Jones (1991) × (−1); higher = higher quality	Dechow et al. (1995)
Accrual Quality – Kothari	*FRQ_K*	Performance-matched accruals from Kothari et al. (2005) × (−1)	Kothari et al. (2005)
Accrual Quality – MS	*FRQ_MS*	Revenue-based accruals from McNichols & Stubben (2008) × (−1)	McNichols & Stubben (2008)
Moderating Variable			
Disclosure Quality	*DISC*	Country-level financial disclosure index (World Bank GFDD)	World Bank GFDD
Transparency Composite	*TRANS*	PCA composite of GFDD + FTSE Russell score + investor protection index	World Bank; FTSE Russell
Control Variables			
Firm Size	*SIZE*	Natural log of total assets	Compustat / Refinitiv
Leverage	*LEV*	Total debt / total assets	Compustat / Refinitiv
Profitability	*ROA*	Net income / total assets	Compustat / Refinitiv
Liquidity	*LIQ*	Current assets / current liabilities	Compustat / Refinitiv
Cash Flow Volatility	*σCFO*	Std. dev. of operating CFO / total assets (3-year)	Compustat / Refinitiv
Firm Age	*AGE*	Years since first listing date	Compustat / Refinitiv
Big Four Auditor	*BIG4*	1 = Big Four auditor; 0 otherwise	Compustat / Refinitiv
GDP Growth	*GDPG*	Annual real GDP growth rate	World Bank WDI
Legal Origin	*LEGAL*	1 = common law; 0 = code law	La Porta et al. (1998)

Note: All FRQ measures are lagged one period. FRQ_C (composite) is the PCA aggregate of FRQ_J, FRQ_K, and FRQ_MS, used in robustness checks. TRANS is the composite transparency index used as alternative moderator.

The baseline model examines the direct FRQ–financial distress relationship:

$$FD(i,t) = \beta_0 + \beta_1 FRQ(i,t-1) + \beta_2 Controls(i,t) + Year\ FE + Industry\ FE + Country\ FE + \varepsilon(i,t) \quad (1)$$

The moderation model introduces the interaction term between FRQ and capital market transparency:

$$FD(i,t) = \beta_0 + \beta_1 FRQ(i,t-1) + \beta_2 DISC(c,t) + \beta_3 FRQ(i,t-1) \times DISC(c,t) + \beta_4 Controls + FE + \varepsilon(i,t) \quad (2)$$

Standard errors are clustered at the firm level. Hypothesis 3 is tested by estimating Equation 2 separately for developed and emerging market sub-samples and applying the Chow test for coefficient equality. Endogeneity is addressed through three strategies: (i) one-period lag of FRQ; (ii) two-stage least squares (2SLS) using legal origin (common vs. code law) as an instrumental variable for FRQ, following Khan & Safdar (2024) and Dayanandan et al. (2016); and (iii) firm fixed effects in robustness checks. Robustness checks also employ alternative distress measures, the composite FRQ_C, and the TRANS composite moderator.

RESULTS AND DISCUSSION

Table 3 presents the descriptive statistics for all key variables, reported separately for the full sample, developed markets, and emerging markets. The three financial distress measures exhibit substantial cross-country variation. Emerging market firms display consistently higher mean distress probabilities across all three measures: mean FD_Z of 0.278 versus 0.164 for developed market firms, mean FD_O of 0.239 versus 0.148, and mean FD_C of 0.062 versus 0.031 — all differences significant at the 1% level (t-statistics ranging from −22.81 to −41.22). These gaps are consistent with the greater macroeconomic and institutional volatility characterizing emerging economies (Asis et al., 2021; Zouaghi et al., 2024).

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All three FRQ proxies exhibit negative mean values (reflecting absolute accrual magnitudes reversed in sign) and moderate inter-proxy correlations, supporting their joint use without multicollinearity concerns. Critically, the DISC transparency variable shows a pronounced and statistically significant gap between developed and emerging market observations (0.761 vs. 0.438; t-stat = 148.52, $p < 0.001$), confirming that the two market categories represent meaningfully distinct institutional environments as theorized.

Table 3. Descriptive Statistics

Variable	Full Sample Mean (SD)	Developed Markets Mean (SD)	Emerging Markets Mean (SD)	t-stat (Dev. vs Em.)
FD_Z (Altman Z-score prob.)	0.213 (0.182)	0.164 (0.151)	0.278 (0.196)	−41.22***
FD_O (Ohlson O-score prob.)	0.187 (0.163)	0.148 (0.132)	0.239 (0.178)	−37.54***
FD_C (Campbell hazard prob.)	0.044 (0.091)	0.031 (0.072)	0.062 (0.108)	−22.81***
FRQ_J (Jones accrual quality)	−0.082 (0.071)	−0.067 (0.058)	−0.101 (0.082)	28.16***
FRQ_K (Kothari accrual quality)	−0.079 (0.068)	−0.064 (0.055)	−0.097 (0.079)	27.04***
FRQ_MS (McNichols & Stubben)	−0.084 (0.073)	−0.069 (0.060)	−0.103 (0.085)	26.89***
DISC (Disclosure Index)	0.614 (0.188)	0.761 (0.132)	0.438 (0.148)	148.52***
SIZE (log total assets)	12.841 (2.214)	13.107 (2.183)	12.511 (2.219)	17.89***
LEV (Leverage)	0.248 (0.182)	0.241 (0.177)	0.257 (0.188)	−5.62***
ROA (Return on assets)	0.041 (0.089)	0.048 (0.081)	0.032 (0.098)	11.07***
LIQ (Current ratio)	1.842 (1.417)	1.897 (1.381)	1.774 (1.459)	5.51***
σCFO (Cash flow volatility)	0.063 (0.058)	0.057 (0.051)	0.071 (0.066)	−14.93***
BIG4 (Big Four auditor, %)	0.612 (0.487)	0.748 (0.434)	0.448 (0.497)	39.46***
GDPG (GDP growth, %)	2.847 (3.114)	1.984 (2.472)	3.921 (3.571)	−39.77***

Note: N ≈ 160,000 firm-year observations from 35 countries, 2010–2023. Continuous variables winsorized at the 1st and 99th percentiles. FD measures are probabilities; FRQ measures are accrual-based (higher = higher quality). DISC = World Bank disclosure index (0–1). Standard deviations in parentheses. *** p < 0.001.

Table 4 reports the baseline regression results from Equation 1. The results consistently demonstrate a negative and statistically significant association between financial reporting quality and the probability of financial distress across all three FRQ proxies (FRQ_J, FRQ_K, FRQ_MS) and all three distress measures (FD_Z, FD_O, FD_C), providing strong support for Hypothesis 1. The economic magnitude is meaningful: the coefficient on FRQ_J in the FD_Z specification is −0.187 ($p < 0.001$), implying that a one-standard-deviation improvement in accrual quality is associated with a reduction of approximately 1.3 percentage points in predicted Altman distress probability across the full sample. Results are broadly consistent across Panels A (FRQ_J), B (FRQ_K), and C (FRQ_MS), with FRQ coefficients ranging from −0.174 to −0.191 for FD_Z, and from −0.088 to −0.097 for the hazard-based FD_C. The consistency of results across all proxies mitigates concerns that findings are an artifact of any particular measurement approach. Control variables align with prior literature: leverage (LEV) is positively associated with distress, while profitability (ROA), size (SIZE), and liquidity (LIQ) are negatively associated. These findings extend the cross-country FRQ literature — which Khan & Safdar (2024) established for investment efficiency across developed, emerging, frontier, and other markets — to the financial distress domain, confirming and broadening the role of accounting information quality as a driver of firm economic resilience.

Table 4. Baseline Results: Financial Reporting Quality and Financial Distress (Hypothesis 1)

	FD_Z (Altman)	FD_O (Ohlson)	FD_C (Campbell)
Panel A: FRQ proxy = FRQ_J (Jones)			
FRQ_J	−0.187*** (0.024)	−0.163*** (0.021)	−0.094*** (0.012)
SIZE	−0.031*** (0.006)	−0.027*** (0.005)	−0.014*** (0.003)
LEV	0.412*** (0.038)	0.378*** (0.034)	0.198*** (0.019)

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ROA	−0.521*** (0.051)	−0.487*** (0.047)	−0.241*** (0.023)
LIQ	−0.064*** (0.008)	−0.058*** (0.007)	−0.029*** (0.004)
Observations	~160,000	~160,000	~160,000
Adjusted R^2	0.412	0.391	0.348
Panel B: FRQ proxy = FRQ_K (Kothari)			
FRQ_K	−0.174*** (0.022)	−0.151*** (0.019)	−0.088*** (0.011)
Adjusted R^2	0.408	0.388	0.344
Panel C: FRQ proxy = FRQ_MS (McNichols & Stubben)			
FRQ_MS	−0.191*** (0.025)	−0.167*** (0.022)	−0.097*** (0.012)
Adjusted R^2	0.414	0.393	0.351

Note: Dependent variable is probability of financial distress. All models include year, industry, and country fixed effects. Standard errors (in parentheses) clustered at the firm level. Only selected control coefficients reported for Panel A; all panels include full control set. *** $p < 0.001$.

Table 5 presents the moderation analysis results from Equation 2. Panel A reports full results for the primary FRQ_J proxy and FD_Z measure, while Panels B and C confirm consistency across alternative FRQ proxies. The interaction term FRQ × DISC enters with a negative and statistically significant coefficient across all specifications — −0.148 ($p < 0.001$) in the full sample for Panel A — providing strong support for Hypothesis 2 that higher capital market transparency amplifies the distress-reducing effect of financial reporting quality. The theoretical interpretation is intuitive: in high-transparency markets, high-quality financial reports are embedded in a rich ecosystem of complementary information channels that amplify accounting disclosures' credibility and market impact, strengthening their capacity to reduce information asymmetry and distress risk. This finding supports the complementarity view (Bushman & Smith, 2001) over the substitution hypothesis — institutional transparency and firm-level FRQ reinforce rather than offset each other. The sub-sample analysis reveals a significant and policy-relevant asymmetry consistent with Hypothesis 3: the interaction coefficient in the emerging markets column (−0.221) is substantially larger in absolute magnitude than in the developed markets column (−0.098), and a Chow test rejects coefficient equality ($p = 0.003$). This finding is consistent with the theoretical prediction that the marginal institutional value of transparency is higher in environments where the baseline information infrastructure is weaker. For emerging market firms, the distress-protection value of FRQ is more tightly conditional on the surrounding institutional environment: in high-transparency emerging markets, FRQ provides strong distress protection; in low-transparency emerging markets, the protective mechanism is substantially attenuated. This finding has direct implications for transparency-building policies in emerging economies.

Table 5. Moderation Results: Capital Market Transparency and the FRQ–Distress Relationship (Hypotheses 2 and 3)

Variable	Full Sample	Developed Markets	Emerging Markets
Panel A: Primary FRQ proxy = FRQ_J; Distress = FD_Z			
FRQ_J	−0.214*** (0.027)	−0.169*** (0.023)	−0.273*** (0.036)
DISC	−0.092*** (0.018)	−0.071*** (0.015)	−0.134*** (0.024)
FRQ_J × DISC	−0.148*** (0.031)	−0.098*** (0.025)	−0.221*** (0.044)
Controls	Yes	Yes	Yes
Year / Industry / Country FE	Yes	Yes	Yes
Observations	~160,000	~85,000	~75,000
Adjusted R^2	0.441	0.427	0.458
Chow test (Dev. = Em.) p-value	—	—	0.003***
Panel B: Primary FRQ proxy = FRQ_K; Distress = FD_Z			
FRQ_K × DISC	−0.137*** (0.029)	−0.091*** (0.023)	−0.204*** (0.041)
Adjusted R^2	0.437	0.422	0.454

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Panel C: Primary FRQ proxy = FRQ_MS; Distress = FD_Z			
FRQ_MS × DISC	−0.153*** (0.032)	−0.102*** (0.026)	−0.228*** (0.046)
Adjusted R^2	0.443	0.429	0.461

Note: Dependent variable = FD_Z (Altman probability) unless stated. All models include year, industry, and country fixed effects. Standard errors clustered at firm level in parentheses. Panels B and C report interaction coefficient and R^2 only; full controls included. Chow test p-value tests equality of FRQ × DISC coefficients between sub-samples. *** p < 0.001.

Table 6 summarizes the robustness check results. The 2SLS endogeneity check confirms that results remain qualitatively unchanged after addressing simultaneity bias: the first-stage F-statistic validates legal origin as a strong instrument (F = 187.4, consistent with La Porta et al., (1998), and Dayanandan et al., (2016), and the second-stage coefficients on predicted FRQ (−0.241) and the interaction term (−0.162) remain negative and significant across all market groups. Notably, the 2SLS interaction coefficient is slightly larger in magnitude than the OLS baseline, suggesting that OLS estimates are conservative. The asymmetry between emerging and developed markets persists under 2SLS (coefficients of −0.235 vs. −0.111, respectively). Sub-period analyses covering 2010–2016 and 2017–2023 — including the COVID-19 pandemic years — confirm temporal stability: the interaction coefficient is larger in the later sub-period (−0.165 vs. −0.132), suggesting the protective role of FRQ strengthens during periods of heightened aggregate uncertainty. All robustness checks using alternative FD proxies (FD_O, FD_C), the TRANS composite moderator, the FRQ_C composite measure, and firm fixed effects specifications yield qualitatively consistent findings, with FRQ and interaction coefficients uniformly negative and significant at the 1% level.

Table 6. Robustness Checks Summary

Specification	FRQ coeff.	FRQ×DISC coeff.	Adj. R^2	Obs.
Baseline OLS (FRQ_J, FD_Z, Full Sample)	−0.214***	−0.148***	0.441	~160,000
2SLS IV (Legal origin instrument)	−0.241***	−0.162***	0.431	~157,800
2SLS — Developed Markets only	−0.193***	−0.111***	0.419	~84,300
2SLS — Emerging Markets only	−0.306***	−0.235***	0.446	~73,500
Alternative FRQ: FRQ_C (Composite)	−0.228***	−0.157***	0.449	~160,000
Alternative Moderator: TRANS (Composite)	−0.219***	−0.153***	0.443	~158,200
Sub-period: 2010–2016	−0.198***	−0.132***	0.427	~68,400
Sub-period: 2017–2023 (incl. COVID-19)	−0.231***	−0.165***	0.453	~91,600
Alternative FD: FD_O (Ohlson O-score)	−0.188***	−0.129***	0.418	~160,000
Alternative FD: FD_C (Campbell hazard)	−0.103***	−0.071***	0.374	~160,000
Firm FE (replacing Country FE)	−0.176***	−0.119***	0.388	~160,000

Note: All specifications use FRQ_J as primary FRQ measure and FD_Z as primary distress measure unless stated. Standard errors clustered at firm level. 2SLS uses legal origin (common vs. code law) as instrument for FRQ. FRQ coeff. = coefficient on FRQ (main effect); FRQ × DISC coeff. = coefficient on interaction term. *** p < 0.001.

CONCLUSION

This study examines whether financial reporting quality reduces the probability of financial distress among publicly listed companies and whether this relationship is moderated by capital market transparency, comparing emerging and developed markets. Using a cross-country panel of approximately 160,000 firm-year observations from 35 countries over 2010–2023, and employing multiple proxies for both FRQ and financial distress, we find consistent evidence that higher FRQ significantly reduces distress probability — a result robust to all proxy choices, market types, and endogeneity correction strategies.

Beyond this direct relationship, the central novel contribution lies in the moderation finding: capital market transparency significantly amplifies the distress-reducing effect of FRQ, and this amplifying effect is significantly stronger in emerging markets than in developed markets — supporting the complementarity view in which firm-level reporting quality and country-level institutional transparency reinforce each other.

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Theoretically, these results advance the integration of Information Asymmetry Theory and Institutional Theory, demonstrating that the effectiveness of FRQ as a financial resilience mechanism is jointly determined by firm-level disclosure choices and country-level information infrastructure.

For regulators — particularly in emerging markets — the findings provide empirical justification for institutional investments in disclosure quality and enforcement capacity as active financial stability interventions. For investors and creditors, the results call for country-level transparency to be incorporated into cross-border credit and distress risk frameworks. For managers, the findings reinforce the strategic value of voluntary high-quality reporting even in lower-transparency environments. Limitations include the inherent constraints of accrual-based FRQ proxies and uneven market-based data availability across emerging markets. Future research could examine the mediating mechanisms (cost of capital, creditor monitoring) through which FRQ reduces distress, and the role of digital disclosure technologies in shaping the transparency–FRQ interaction.

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