

**Review Form 3**

Journal Name:	<a href="#">Asian Journal of Economics, Business and Accounting</a>
Manuscript Number:	Ms_AJEBA_125203
Title of the Manuscript:	<b>Financial Leverage Composition and Financial Distress: Analyzing the Effects of Accounting Conservatism on the Relationship between Debt Finance and Corporate Stability in Emerging Markets</b>
Type of the Article	<b>Original Research Article</b>

[Review Form 3](#)

**PART 1: Review Comments**

<b>Compulsory</b> REVISION comments	Reviewer's comment	Author's Feedback <i>(Please correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)</i>
<p><b>Please write a few sentences regarding the importance of this manuscript for the scientific community. Why do you like (or dislike) this manuscript? A minimum of 3-4 sentences may be required for this part.</b></p>	<p>This manuscript is significant for the scientific community as it provides valuable insights into the relationship between debt composition and corporate financial distress in emerging markets, with a specific focus on Kenya. The study's investigation into how accounting conservatism moderates this relationship adds a layer of financial prudence to the discussion, particularly in environments where short-term debt is prevalent. I appreciate the manuscript's focus on a quantitative analysis of real-world financial data, offering practical recommendations for corporate managers on debt structuring and financial risk management. However, while the research contributes to the literature, some readers may find the methodology complex, which could make the results less accessible to a broader audience.</p>	
<p><b>Is the title of the article suitable? (If not please suggest an alternative title)</b></p>	<p>The current title, "Financial Leverage Composition and Financial Distress: Analyzing the Effects of Accounting Conservatism on the Relationship between Debt Finance and Corporate Stability in Emerging Markets," is quite descriptive but a bit lengthy and complex. A more concise and focused alternative title could be: <b>"Impact of Debt Composition and Accounting Conservatism on Financial Distress in Emerging Markets"</b></p>	
<p><b>Is the abstract of the article comprehensive? Do you suggest the addition (or deletion) of some points in this section? Please write your suggestions here.</b></p>	<p>The abstract of the article is quite comprehensive, covering the aims, methodology, results, and conclusion effectively. However, there are a few areas where improvements could be made to enhance clarity and conciseness: <b>Suggestions for Improvement:</b> 1. <b>Clarify the Specific Role of Accounting Conservatism:</b> While the abstract mentions accounting conservatism, it would be helpful to briefly explain how it specifically moderates the relationship between short-term and long-term debt with financial distress. 2. <b>Simplify the Language:</b> Some terms such as "Panel logistic regression" may be too technical for a general audience. Consider simplifying or adding context for such terms. 3. <b>Emphasize Practical Implications:</b> The abstract could benefit from a clearer emphasis on the practical implications of the findings for corporate managers, specifically highlighting how firms can apply the insights on debt structuring and accounting conservatism. 4. <b>Condense the Methodology:</b> The mention of specific figures like "630 firm-year observations" might be unnecessary in the abstract. Instead, summarize the key aspect of the methodology without excessive detail. <b>Suggested Adjustments:</b> 1. <b>Before:</b> "The results reveal that while both short-term and long-term debt increases the likelihood of financial distress, accounting conservatism amplifies this risk specifically for firms with high short-term debt." 2. <b>After:</b> "The results show that both short-term and long-term debt increase the likelihood of financial distress, with accounting conservatism further intensifying the risk for firms heavily reliant on short-term debt, while mitigating it for those with long-term debt." <b>Deletion:</b> You could remove very detailed statistical findings (such as <math>\beta = 7.199</math>) unless critical for understanding. Instead, focus on the broader outcomes and implications. These changes would make the abstract more concise, clear, and accessible to a wider range of readers, without sacrificing the key information.</p>	
<p><b>Are subsections and structure of the manuscript appropriate?</b></p>	<p>The subsections and structure of the manuscript are generally appropriate, but there are a few areas where improvements could be made for better clarity and flow. Here are some specific suggestions: <b>1. Introduction:</b> ★ The introduction provides a good background on the topic, but it could be more focused.</p>	

**Review Form 3**

	<p>Consider streamlining some of the general information about financial distress and focus more on the gap in the literature and the significance of the study.</p> <ul style="list-style-type: none"> <li>★ Ensure that the research objectives and hypotheses are clearly stated at the end of the introduction, so the reader knows what to expect.</li> </ul> <p><b>2. Literature Review:</b></p> <ul style="list-style-type: none"> <li>★ The literature review is thorough, but some of the subsections, especially the theoretical reviews (Agency Theory, Trade-Off Theory, etc.), could benefit from being more concise.</li> <li>★ Consider consolidating similar theories into one section or summarizing them more succinctly. This will improve readability and help maintain focus on the study's key contributions.</li> </ul> <p><b>3. Methodology:</b></p> <ul style="list-style-type: none"> <li>★ The methodology section is well-structured, with clear details about data collection and the statistical techniques used. However, the inclusion of too many technical details (e.g., "630 firm-year observations") in subsections might overwhelm the reader.</li> <li>★ Consider moving detailed descriptions of the models and equations (like the full logistic regression model specifications) to an appendix. This would make the main body of the manuscript more reader-friendly.</li> </ul> <p><b>4. Results and Discussion:</b></p> <ul style="list-style-type: none"> <li>★ The results section is clear and informative, but in some cases, it could benefit from clearer subheadings that distinguish between descriptive statistics, correlation analysis, and regression results.</li> <li>★ The discussion of the results is quite detailed, but the practical implications for managers and policymakers could be emphasized more, potentially as a separate subsection at the end of the discussion.</li> </ul> <p><b>5. Conclusion:</b></p> <ul style="list-style-type: none"> <li>★ The conclusion appropriately summarizes the findings but could be slightly expanded to address limitations of the study and future research directions. This would make it more comprehensive.</li> <li>★ If space allows, consider splitting the conclusion into two parts: one for summarizing key findings and another for limitations and future research.</li> </ul> <p><b>6. Overall Structure:</b></p> <ul style="list-style-type: none"> <li>★ The overall structure is logical, but the manuscript could benefit from clearer headings/subheadings within the results and discussion sections to guide readers through the different analyses.</li> <li>★ Consider adding a "<b>Practical Implications</b>" or "<b>Managerial Implications</b>" section either at the end of the discussion or after the conclusion, which would help to translate findings into actionable recommendations.</li> </ul> <p>These structural adjustments would improve the manuscript's clarity, accessibility, and flow, making it easier for readers to follow the argument and grasp the key findings.</p>	
<p><b>Please write a few sentences regarding the scientific correctness of this manuscript. Why do you think that this manuscript is scientifically robust and technically sound? A minimum of 3-4 sentences may be required for this part.</b></p>	<p>The manuscript appears scientifically robust and technically sound due to its well-structured research design, which employs appropriate quantitative methods, including panel logistic regression, to test the hypotheses. The sample size of 45 firms over 14 years provides a solid foundation for drawing reliable conclusions, especially in the context of emerging markets. The study also incorporates relevant theoretical frameworks, such as agency theory and trade-off theory, to support its investigation into the role of accounting conservatism in mitigating financial distress. The statistical analysis is thorough, with clear interpretation of results, and the findings align with existing literature, enhancing the credibility of the study.</p>	
<p><b>Are the references sufficient and recent? If you have suggestions of additional references, please mention them in the review form.</b></p> <p>:-</p>	<p>The references in the manuscript appear sufficient, covering key theoretical frameworks and empirical studies relevant to the topic of financial distress, debt composition, and accounting conservatism. The manuscript includes a mix of classic and recent references, such as foundational theories (e.g., Agency Theory) and more current studies from 2020 and 2022, which helps maintain relevance.</p>	

**Review Form 3**

<p>Minor REVISION comments</p> <p><b>Is the language/English quality of the article suitable for scholarly communications?</b></p>	<p>Here are specific areas where the language quality can be improved for scholarly communication:</p> <p><b>1. Long Sentences and Complex Phrasing:</b> Example:  <b>Original:</b> “The results reveal that while both short-term and long-term debt increases the likelihood of financial distress, accounting conservatism amplifies this risk specifically for firms with high short-term debt.”  <b>Improved:</b> “The results show that both short-term and long-term debt increase the likelihood of financial distress. However, accounting conservatism significantly amplifies this risk for firms heavily reliant on short-term debt.”  <b>Reason for Change:</b> Breaking the sentence into two parts makes it clearer and easier to read.</p> <p><b>2. Jargon and Technical Terms:</b> Example:  <b>Original:</b> “Panel logistic regression was employed to test the hypotheses of the study.”  <b>Improved:</b> “The study used panel logistic regression, a statistical method for analyzing data with multiple observations over time, to test its hypotheses.”  <b>Reason for Change:</b> Providing a brief explanation of the technical term ensures that readers unfamiliar with the method can understand it.</p> <p><b>3. Clarity and Word Choice:</b> Example:  <b>Original:</b> “This suggests that conservative accounting practices which promote early recognition of losses may exacerbate financial distress for firms heavily reliant on short-term debt.”  <b>Improved:</b> “This finding indicates that conservative accounting practices, which encourage early recognition of losses, may worsen financial distress in firms with high short-term debt.”  <b>Reason for Change:</b> Slight rewording makes the sentence more direct and clearer without altering its meaning.</p> <p><b>4. Consistency in Tenses:</b>          Ensure that past research is consistently discussed in past tense (e.g., “This study found...”) and the current research in present tense (e.g., “This paper examines...”). In some sections, the manuscript switches between tenses.</p>	
<p>Optional/General comments</p>	<p><b>Clarify the Practical Implications:</b></p> <p>1. <b>Strategic Debt Structuring:</b> The study reveals that both short-term and long-term debt increase the likelihood of financial distress, but the risk is particularly pronounced with short-term debt. Corporate managers in emerging markets should apply this knowledge by prioritizing a balanced debt structure that mitigates the risks associated with high levels of short-term borrowing. For example, firms should limit their reliance on short-term debt unless they have robust liquidity and reliable revenue streams to meet repayment obligations, particularly during economic downturns. Managers should consider refinancing short-term debt into longer-term obligations to spread out repayments and reduce liquidity pressure.</p> <p>2. <b>Selective Adoption of Accounting Conservatism:</b> The findings show that accounting conservatism, which encourages early recognition of losses, can have a dual effect. For firms with high short-term debt, conservative accounting practices exacerbate financial distress by highlighting liquidity issues early. Managers should carefully implement accounting conservatism, particularly in firms with high short-term debt, to avoid unnecessarily amplifying perceived risks. However, for long-term debt, accounting conservatism can act as a protective measure by promoting early risk identification and more transparent financial reporting, allowing companies to take corrective action before financial distress intensifies. Firms can benefit from this by adopting conservative practices when managing long-term financial obligations.</p> <p>3. <b>Proactive Financial Management and Risk Mitigation:</b> The manuscript suggests that <b>accounting conservatism</b> can serve as an early warning system for financial distress. By adopting conservative financial reporting, corporate managers can detect potential financial issues early, enabling timely corrective actions such as debt restructuring or renegotiating terms with creditors. In emerging markets, where firms often face liquidity constraints, this approach can help prevent financial distress from escalating. Managers should integrate early loss recognition into their financial management strategies to maintain stability, even in volatile markets.</p>	

### Review Form 3

4. **Enhanced Stakeholder Confidence:** The research highlights that conservative accounting practices may signal prudence to investors and creditors, especially when managing long-term debt. Corporate managers can leverage these practices to build stronger relationships with financial stakeholders, securing better financing terms, such as lower interest rates or more flexible repayment schedules. This will reduce financial stress, especially in environments with limited access to capital, typical of many emerging markets.

The **limitations of the study** could be expanded by addressing the following areas:

1. **Geographical Limitation:** The study is focused exclusively on firms listed on the Kenyan Securities Exchange (KSE), which limits the generalizability of the findings to other emerging markets. Kenya's financial and regulatory environment may differ from other emerging economies, making it difficult to directly apply the findings to countries with different economic structures or levels of financial development. Future research could expand the geographical scope to include other African or emerging market economies to provide a broader perspective.
2. **Industry-Specific Insights:** The study includes firms from multiple industries, which may have different capital structures and financial distress risks. However, it does not explicitly account for industry-specific factors that could influence the relationship between debt composition, accounting conservatism, and financial distress. For instance, capital-intensive industries (such as manufacturing) might face different financial challenges compared to service-oriented firms. Future research could provide a more granular analysis by focusing on specific industries to enhance the applicability of the results.
3. **Time Period Constraints:** The data covers a 14-year period (2008-2021), which includes both stable economic conditions and periods of global economic turbulence (e.g., the 2008 financial crisis, COVID-19 pandemic). While this provides a robust dataset, the study does not isolate or account for the impact of such extraordinary economic events on the findings. These events may have influenced debt levels, liquidity, and financial distress differently than in more typical years. A more detailed examination of how economic cycles impact the relationship between debt and financial distress could provide deeper insights.
4. **Lack of Qualitative Data:** The study relies solely on quantitative data and statistical models to analyze the relationship between debt composition and financial distress. While this approach provides empirical rigor, it may overlook qualitative factors that could affect the financial health of firms, such as management strategies, corporate governance, and decision-making behaviours. Future studies could incorporate qualitative data, such as interviews with corporate managers or case studies, to provide a more holistic understanding of the drivers of financial distress.
5. **Potential Measurement Biases:** The study uses accounting conservatism as a moderating variable, measured by the C-Score model. While this is a well-established method, the model's accuracy might vary across firms due to differences in accounting practices or reporting standards in emerging markets. Additionally, financial distress is measured using a modified version of Altman's Z-score, which may not fully capture distress in non-manufacturing firms or firms with unique financial structures. These measurement biases could impact the robustness of the findings.
6. **Omission of Macroeconomic Variables:** The study does not explicitly include macroeconomic variables such as interest rates, inflation, or exchange rate fluctuations, which could have a significant impact on debt levels and financial distress. Including such variables would provide a more comprehensive analysis, especially in emerging markets where these factors can be highly volatile and impactful on corporate stability.

**Review Form 3**

**PART 2:**

	<b>Reviewer's comment</b>	<b>Author's comment</b> <i>(if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)</i>
<b>Are there ethical issues in this manuscript?</b>	<i>(If yes, Kindly please write down the ethical issues here in details)</i>	

**Reviewer Details:**

Name:	<b>Sandip Sinha</b>
Department, University & Country	<b>Budge Budge College, University of Calcutta, India</b>