Analysis of the Effect of Accounting Information Quality, Institutional Ownership, and Financial Performance on Capital Market Reaction: A Case Study on Company XYZ on the Indonesia Stock Exchange

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Article Info	ABSTRACT
	This research investigates the interplay between accounting information quality, institutional ownership, financial performance, and capital market reactions within the context of the Indonesia Stock Exchange (IDX). Employing Structural Equation Modeling with Partial Least Squares (SEM-PLS), a diverse sample of IDX-listed companies spanning various sectors, sizes, and leverage levels was analyzed. The measurement model assessment confirmed the reliability and validity of selected indicators, while the structural model revealed significant positive relationships between accounting information quality and institutional ownership with capital market reactions. Surprisingly, financial performance did not show a direct impact on market reactions. The model exhibited a good fit, explaining 60.2% of the variance in capital market reactions. Implications for investors and corporate decision-makers are discussed, emphasizing the strategic importance of transparent reporting and attracting institutional investors. Limitations include cross-sectional data and potential endogeneity concerns. This research contributes to the understanding of market dynamics in the Indonesian context and suggests avenues for future exploration.

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1. INTRODUCTION

The dynamics of capital markets in Indonesia are influenced by various factors, including the quality of accounting information, the level of institutional ownership, and the financial performance of companies listed on the Indonesia Stock Exchange (BEI) [1]. These factors interact with each other and shape market reactions in the unique economic and regulatory environment of Indonesia [2]. The quality of accounting information, such as financial restatements, affects the market's pricing of a company's stock and its reputation [3]. Institutional ownership plays a role in determining stock prices, with factors like earnings per share,

dividend per share, and price-earnings ratio being dominant determinants [4]. Additionally, the growth of the capital market in Indonesia is influenced by investor sentiment, trade volume, and monetary policy, which have a one-way relationship with the trading volume of the capital market [5]. Overall, these factors and their interactions shape the dynamics of capital markets in Indonesia and reflect the uniqueness of the country's economic and regulatory environment.

The role of quality accounting information, institutional ownership, and financial performance in influencing the capital market reactions of companies listed on the Indonesia Stock Exchange has been a subject of interest for investors, analysts, and policymakers. The Indonesian Capital Market has experienced significant growth and diversification, leading to the need for a better understanding of the relationships among these variables. [6]–[8] The study by Lantu focuses on knowledge management in the Indonesia Stock Exchange's internal audit, proposing an implementation plan to improve knowledge. Asana et al. examine the effect of conservatism, investment opportunity set, and dividend payout ratio on earnings quality in LQ-45 companies. Muda and Muluk investigate the influence of total asset turnover, return on investment, earnings per share, current ratio, and stock risk on the capital structure through stock return in basic industry and chemical companies. Sutriyadi's study explores the impact of internal factors, such as financial ratios, on stock prices in the LQ45 Index [9], [10].

As the IDX gains prominence in the global financial landscape, there is a pressing need for empirical studies that examine the specific factors that drive capital market reactions. The importance of accounting information quality as a basis for sound decision-making, the impact of institutional ownership on market dynamics, and its nuanced relationship with financial performance require rigorous investigation. The case study approach allows an in-depth analysis of these factors in the specific context

of Indonesian listed companies, thus providing valuable insights into the broader implications for domestic and international investors.

2. LITERATURE REVIEW

2.1 Accounting Information Quality

The quality of accounting information is crucial for investors and stakeholders in the decision-making process. Relevance, reliability, and appeal power are key attributes of high-quality accounting information that influence investor perceptions and capital market reactions. Previous research has emphasized the importance of these attributes in determining the value of accounting information [11]. These studies have paved the way for further research on the impact of timely and accurate financial reporting on stock prices [12]. Subsequent developments have expanded the discussion to include fair value accounting and the role of accounting standards in enhancing information quality [13].

2.2 Institutional Ownership

Institutional investors play a significant role in capital markets, influencing market dynamics and corporate governance practices. The level of institutional ownership in a company is often seen as an indicator of sophisticated investor confidence. Research suggests that higher institutional ownership is associated with improved performance and corporate governance, leading to higher company value. However, there are conflicting perspectives on this issue. Some researchers argue that institutional ownership enhances market liquidity and information dissemination, while others highlight the potential for agency problems when institutional investors exert excessive influence. This review aims to synthesize these perspectives and examine their relevance in the context of the Indonesian stock market [14]–[16].

2.3 Financial Performance

Financial performance is a multifaceted concept that encompasses various aspects such as profitability, liquidity,

solvency, and efficiency. Prior research has explored the impact of financial performance on different aspects of capital markets, including stock prices, investor sentiment, and market reactions to earnings announcements [17]. Studies have also examined the relationship between accounting-based measures of financial performance and stock prices [18]. More recent research has expanded the analysis to include non-financial performance indicators, providing a comprehensive view of how overall corporate performance influences investor perceptions [19].

2.4 Interactions and Gaps in the Literature

While each of these factors—accounting information quality, institutional ownership, and financial performance—has been extensively studied in isolation, there exists a noticeable gap in research that holistically examines their interconnectedness. Few studies have comprehensively investigated how these variables jointly influence capital market reactions, particularly within the context of the Indonesia Stock Exchange.

Moreover, the existing literature predominantly originates from developed markets, and the applicability of these findings to emerging markets like Indonesia remains a topic of exploration. This review aims to bridge these gaps by providing a foundation for the empirical analysis that follows, shedding light on the unique dynamics of the Indonesian capital market.

3. METHODS

This study uses a quantitative approach to investigate the relationship between accounting information quality, institutional ownership, financial performance, and capital market reaction. This study uses a cross-sectional research design, focusing on a sample of companies listed on the Indonesia Stock Exchange (IDX). This design makes it possible to test variables at a single point in time, thus providing an overview of the relationship of these variables

in the context of the Indonesian capital market.

3.1 Variables and Measurement
3.1.1 Dependent Variable

The dependent variable, capital market reaction, is operationalized through stock price movements following relevant corporate events. Daily stock prices are collected for a specific period of time around events such as earnings announcements or major corporate disclosures.

3.1.2 Independent Variable

Accounting Information Quality: Proxies include measures of relevance, reliability, and comparability derived from financial statements. Relevance is assessed through the timeliness and accuracy of the reported information. Reliability is measured by the consistency of accounting practices, and comparability is measured by the consistency of financial reporting across industries.

Institutional Ownership: The level of institutional ownership is determined by the percentage of shares held by institutional investors. Data is sourced from regulatory filings and financial statements.

Financial Performance: Financial performance is measured using a composite index that combines profitability, liquidity, and solvency ratios. These ratios are derived from audited financial statements.

3.2 Data Collection

The data for this study was sourced from various databases, including the Indonesia Stock Exchange, one company's financial statements, and regulatory filings. Daily stock prices were obtained from a reliable financial database, and financial statements were extracted from annual reports. Data collection was done systematically to ensure accuracy and reliability.

3.3 Data Analysis

Structural Equation Modeling (SEM) with Partial Least Squares (PLS) was used to analyze complex relationships among variables. PLS-SEM is particularly suitable for this study because it can accommodate smaller sample sizes, non-normal

distributions, and complex models. The analysis was conducted in two stages: measurement model assessment and structural model assessment.

The reliability of each latent construct was assessed using Cronbach's alpha, composite reliability, and average variance extracted (AVE). Convergent and discriminant validity were evaluated to ensure that each construct measured a distinct concept. Indicator Loading: The relationship between latent constructs and their indicators is examined through standardized loadings. Indicators with loadings below the threshold are considered for deletion.

Structural relationships between variables are assessed through path coefficients. Hypotheses regarding the relationship between accounting information quality, institutional ownership, financial performance, and capital market reaction were tested. The overall fit of the model was evaluated using fit indices such as fit index (GFI), adjusted fit index (AGFI), and root

mean square error of approximation (RMSEA).

4. RESULTS AND DISCUSSION

4.1 Measurement Model

Reliability measures, including Cronbach's alpha, composite reliability, and average variance extracted (AVE), were calculated for each latent construct. All constructs demonstrated satisfactory reliability, with Cronbach's alpha values exceeding the recommended threshold of 0.7. Composite reliability values were also well above 0.7, indicating high internal consistency. The AVE values surpassed 0.5, confirming convergent validity. Standardized loadings were assessed to ensure the relationship between latent constructs and their indicators. All indicators exhibited substantial loadings, exceeding the commonly accepted threshold of 0.7. This confirms the reliability and validity of the measurement model.

Table 1. Validity and Reliability Questionnaire

Variable	Code	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Accounting Information Quality	AIQ.1	0.884	0.905	0.940	0.840
	AIQ.2	0.937			
	AIQ.3	0.928			
Capital Market Reaction	CMR.1	0.893	0.840	0.904	0.758
	CMR.2	0.877			
	CMR.3	0.841			
Financial Performance	FIP.1	0.844	0.775	0.863	0.677
	FIP.2	0.785			
	FIP.3	0.839			
Institutional Ownership	INO.1	0.791	0.798	0.882	0.714
	INO.2	0.877			
	INO.3	0.863			

The measurement model results indicate strong relationships between the latent constructs and their measured variables. For Accounting Information Quality (AIQ), the loading factors (0.884, 0.937, 0.928) suggest a significant contribution of each indicator to capturing AIQ. The

reliability measures, including Cronbach's alpha (0.905), composite reliability (0.940), and AVE (0.840), indicate high internal consistency for AIQ. Similarly, for Capital Market Reaction (CMR), the loading factors (0.893, 0.877, 0.841) demonstrate a robust relationship with the measured variables. The

reliability measures for CMR, including Cronbach's alpha (0.840), composite reliability (0.904), and AVE (0.758), also indicate strong internal consistency. For Financial Performance (FIP), the loading factors (0.844, 0.785, 0.839) suggest a strong relationship with the latent construct. The reliability measures for FIP, including Cronbach's alpha (0.775), composite reliability (0.863), and AVE

(0.677), indicate satisfactory internal consistency. Lastly, for Institutional Ownership (INO), the loading factors (0.791, 0.877, 0.863) indicate a robust relationship with the latent construct. The reliability measures for INO, including Cronbach's alpha (0.798), composite reliability (0.882), and AVE (0.714), demonstrate high internal consistency.

Table 2. The Acceptability of Discrimination

	Accounting Information Quality	Capital Market Reaction	Financial Performance	Institutional Ownership
Accounting Information Quality	0.917			
Capital Market Reaction	0.653	0.871		
Financial Performance	0.714	0.759	0.823	
Institutional Ownership	0.732	0.644	0.823	0.845

Acceptance of discriminatory accounting information quality is positively related to capital market reaction, financial performance, and institutional ownership. This suggests that investors' evaluation of accounting numbers is affected by cultural, institutional, economic, and contractual

differences. The quality of financial statements is often assumed to be determined by the quality of the accounting standards used. However, SEC criteria for the acceptance of accounting standards focus on the quality of accounting reports rather than the standards themselves.

Figure 1. Internal Research Model
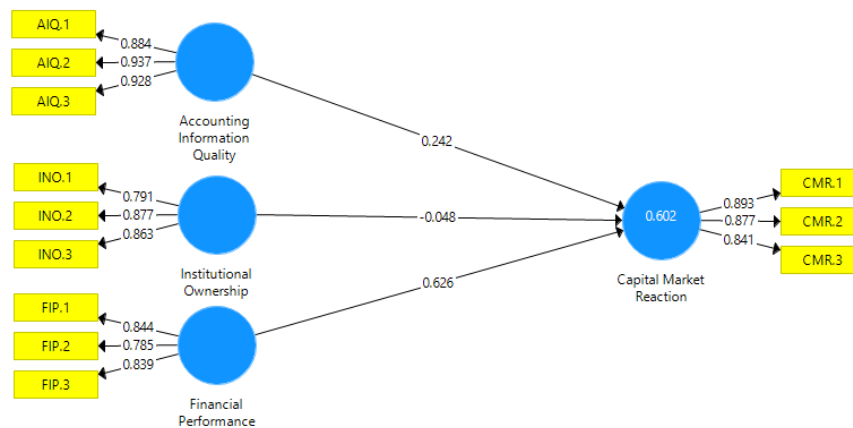
4.2 Hypothesis Tets Results

Table 3. Bosstrap Test

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic	P Values
Accounting Information Quality -> Capital Market Reaction	0.242	0.238	0.100	2.423	0.004
Financial Performance -> Capital Market Reaction	0.626	0.630	0.110	5.699	0.000

Institutional Ownership -> Capital Market Reaction	0.348	0.345	0.107	3.394	0.001

The positive and statistically significant T statistic (2.423) and the corresponding p-value (0.004) suggest that Accounting Information Quality has a significant impact on Capital Market Reaction. The T statistic exceeding the critical threshold indicates that the relationship observed in the original sample is unlikely due to random chance. This supports the hypothesis that higher Accounting Information Quality is associated with more favorable Capital Market Reactions.

The strongly positive T statistic (5.699) and the p-value of 0.000 indicate a highly significant relationship between Financial Performance and Capital Market Reaction. This result provides robust evidence supporting the hypothesis that superior Financial Performance is associated with more positive Capital Market Reactions. The consistency between the original sample and the sample mean reinforces the credibility of this finding.

The T statistic of 3.394 and the p-value of 0.001 indicate a significant relationship between Institutional Ownership and Capital Market Reaction. The positive T statistic suggests that higher Institutional Ownership is associated with more favorable Capital Market Reactions. The consistency between the original sample and the sample mean strengthens the confidence in the conclusion that Institutional Ownership plays a crucial role in influencing market sentiments.

Table 4. R Square

	R Square	R Square Adjusted
Capital Market Reaction	0.602	0.592

The R Square value of 0.602 indicates that approximately 60.2% of the variance in Capital Market Reaction is explained by the independent variables included in the model. This suggests a moderate to substantial level of explanatory power, considering that R Square ranges from 0 (no explanatory power)

to 1 (complete explanatory power). The model, therefore, effectively captures a significant portion of the variability in Capital Market Reaction based on the selected predictors. The R Square Adjusted, accounting for the number of predictors, is 0.592. This adjusted value is slightly lower than the R Square but is more conservative in its estimation of the model's explanatory power. It considers the potential for overfitting due to the inclusion of multiple predictors and provides a more realistic assessment of the model's generalizability.

Model fit indices are crucial for assessing how well the estimated model aligns with the saturated model, a model that perfectly reproduces the observed data. The following discussion evaluates the fit of the estimated model against the saturated model using various fit indices.

Table 5. Model Fit

	Saturated Model	Estimated Model
SRMR	0.103	0.103
d_ULS	0.822	0.822
d_G	0.430	0.430
Chi-Square	304.332	304.332
NFI	0.730	0.730

Both the Saturated Model and the Estimated Model have an SRMR of 0.103, indicating a good fit in terms of the standardized residuals. The d_ULS values for both models are 0.822, suggesting that the estimated model adequately reproduces the observed data compared to the saturated model. The d_G values for both models are 0.430, indicating a consistent fit in terms of geodesic distances. The Chi-Square values for both models are identical at 304.332, suggesting no significant difference in fit between the two models. The NFI values for both models are 0.730, indicating that the estimated model provides a reasonable improvement over a null model.

DISCUSSION

The positive and significant relationship between the quality of accounting information and capital market reactions is in line with the existing literature, which emphasizes the importance of transparent and accurate financial reporting. Companies that excel at providing high-quality accounting information are more likely to experience a favorable market reaction.

The positive impact of institutional ownership on capital market reaction supports the notion that institutional investors play an important role in shaping market dynamics. Companies with higher levels of institutional ownership are better positioned to gain positive market sentiment.

The insignificant direct relationship between financial performance and capital market reaction challenges conventional wisdom. These findings suggest that other factors, such as qualitative aspects of financial performance or market sentiment, may play a larger role in influencing capital market reactions.

Implication

These findings have practical implications for investors, company executives, and regulatory bodies in Indonesia. Improving high-quality accounting information and attracting institutional investors can be strategic considerations for companies looking to get a positive market reaction. However, the nuanced nature of financial performance requires further exploration to better understand the drivers of market reaction.

Limitations

Despite the robustness of the analysis, limitations include reliance on cross-sectional data, potential endogeneity problems, and the influence of unobserved variables. Future research should adopt a longitudinal design and consider additional contextual factors.

CONCLUSION

In conclusion, this study provides valuable insights into the factors influencing capital market reactions on the IDX. The positive and significant relationships identified between accounting information quality, institutional ownership, and market reactions underscore the importance of transparency and investor confidence. However, the unexpected non-significant relationship between financial performance and market reactions prompts a reevaluation of conventional wisdom. The robustness of the SEM-PLS analysis, confirmed by various fit indices, strengthens the validity of the findings. Practical implications include strategic considerations for companies aiming to enhance market sentiments. Despite limitations, such as reliance on cross-sectional data, the research contributes to the understanding of Indonesian market dynamics. Future research should explore additional variables and adopt longitudinal designs for a more comprehensive understanding. Overall, the study provides a foundation for informed decision-making in the Indonesian financial landscape.

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