



Market-Based and Accounting-Based Financial Reporting Quality and Investor Decision-Making: Evidence from Indonesian Manufacturing Firms

Abdul Nasser Hasibuan¹; Nik Mohd Azim Nik Ab Malik²;
 Ahmad Afandi³; Windari Windari⁴

^{1,3,4}Syekh Ali Hasan Ahmad Addary State Islamic University, Padangsidempuan, Indonesia

²Universiti Kebangsaan Malaysia, Malaysia

¹Correspondence Email: hasibuanabdulnasser@uinsyahada.ac.id

Article Info

Received: February 15, 2025

Accepted: May 25, 2026

Published: May 30, 2026

Online First: May 30, 2026

Keywords

Financial Reporting Quality;
 Market-Based Information;
 Accounting-Based Information;
 Investor Decision-Making;
 Emerging Markets.

Abstract

The rapid growth of investors in emerging capital markets is not always accompanied by improvements in financial reporting quality, raising concerns about the role of financial information in investor decision-making. This study examined the influence of market-based and accounting-based financial reporting quality on investor decision-making in manufacturing firms listed on the Indonesia Stock Exchange. Using a quantitative explanatory design, the study analyzed panel data from 132 firms during 2018–2023, resulting in 792 firm-year observations. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings revealed that the quality of both market-based and accounting-based financial reporting positively and significantly influence investor decision-making. However, market-based quality exerted a greater impact, suggesting that investors relied more on information conveyed by market mechanisms than on internal accounting characteristics. The study contributes to the literature by demonstrating that financial reporting quality operates as a multidimensional construct with complementary, yet asymmetrical effects on investor behavior. The findings emphasize the importance of improving not only accounting quality but also the timeliness and market relevance of financial information in emerging capital markets.

A. Introduction

Financial reporting quality has become a pressing issue in global capital markets as the rapid expansion of investment activities continues to outpace improvements in corporate transparency and disclosure practices (Amaroh et al., 2024; Thompson, 2024). This challenge is particularly evident in emerging markets, where high information asymmetry and institutional constraints often limit the effectiveness of financial information in supporting investment decisions (Hasibuan, 2022; Sarioglu et al., 2025). In such environments, financial statements are expected to reduce uncertainty, enhance transparency, and facilitate efficient capital allocation (Amaroh et al., 2024; Eliza et al., 2025). Consequently, financial reporting quality has been widely recognized as a critical factor influencing investor confidence and market efficiency (Eliza et al., 2025; Hasibuan, 2022). Nevertheless, empirical evidence remains inconclusive. While studies in developed economies generally show that higher financial reporting quality improves information usefulness and investment efficiency (Khan et al., 2024; Hafiz et al., 2025), findings from developing countries remain mixed, suggesting that the relationship may vary across different institutional and market contexts (Sarioglu et al., 2025; Basir et al., 2024).

This issue becomes particularly relevant in the Indonesian capital market, where empirical evidence reveals a paradoxical pattern. Financial reporting quality remains a persistent concern, as indicated by the relatively high proportion of companies receiving audit opinions other than unqualified opinions (WTP), yet investor participation continues to grow substantially. From 2019 to 2023, the percentage of firms receiving non-WTP opinions remained between 17.2% and 20.5%, while the number of investors increased from 251.3 to 463.0. This pattern suggests that investor participation may continue to expand despite the absence of clear improvements in financial reporting quality, raising important questions regarding the actual role of financial reporting quality in shaping investment behavior in emerging markets. The phenomenon is presented in Table 1.

Table 1. Quality of financial reporting and number of investors in Indonesia

Year	Opinions Other than WTP (%)	Number of Investors
2019	18.7%	251.3
2020	17.2%	313.2
2021	19.0%	365.4
2022	20.0%	420.0
2023	20.5%	463.0

Source: Indonesian Central Securities Depository (KSEI) www.ksei.co.id, Indonesia Stock Exchange (IDX) www.idx.co.id.



The data indicate a paradoxical pattern in the Indonesian capital market. The percentage of companies receiving audit opinions other than unqualified opinions increased from 18.7% in 2019 to 20.5% in 2023, suggesting that financial reporting quality has not consistently improved. During the same period, however, the number of investors increased substantially from 251.3 million to 463.0 million. This pattern appears inconsistent with the conventional view that lower-quality financial reporting increases information risk, weakens information credibility, and reduces investor confidence (Biddle et al., 2009; Bushman & Smith, 2001). The evidence suggests that investors may not respond uniformly to all dimensions of financial reporting quality and that certain forms of accounting information may be perceived as more relevant in shaping investment decisions.

Previous studies generally argue that high-quality financial reporting improves information usefulness, reduces information asymmetry, and enhances investment efficiency (Khan et al., 2024; Biddle et al., 2009). Nevertheless, empirical findings remain inconclusive. Research conducted in developed markets largely reports a positive association between financial reporting quality and investment-related outcomes (Khan et al., 2024), whereas evidence from developing countries remains fragmented and often contradictory (Sarioglu et al., 2025; Pascaru & Hațegan, 2024). These divergent findings suggest that the relationship between financial reporting quality and investor behavior may vary across institutional environments and may depend on the specific dimensions of reporting quality being examined.

Theoretically, this issue can be viewed through the lenses of agency theory, signaling theory, and decision usefulness theory. Agency theory emphasizes that information asymmetry between managers and investors creates uncertainty regarding firm performance and future prospects (Jensen & Meckling, 1976; Dang et al., 2023; Lukis Alam et al., 2025). Signaling theory explains that financial reports serve as important signals through which firms communicate their quality and prospects to external stakeholders (Connelly et al., 2010). Decision usefulness theory further argues that accounting information should possess relevance and reliability to support effective economic decision-making (Scott, 2015; Ayagi & Salisu, 2023; Flambonita et al., 2023). Although these theoretical perspectives consistently highlight the importance of financial reporting quality, they provide limited insight into which dimensions of reporting quality are most influential in shaping investor behavior.

In the literature, financial reporting quality is generally classified into two major perspectives: market-based quality and accounting-based quality. The market-based

perspective focuses on how accounting information is reflected in market responses, including value relevance, timeliness, and conservatism (Dechow et al., 2010; Mi et al., 2024). The accounting-based perspective emphasizes the intrinsic characteristics of accounting information, including earnings persistence, predictability, and earnings smoothing practices (Francis et al., 2004; Iqbal & Sarkar, 2025; Pirgaip & Rizvi, 2023). Although both perspectives have received considerable scholarly attention, most previous studies investigate them separately and independently (Pascaru & Hațegan, 2024; Egan, 2025). The literature therefore offers only limited understanding of how market-based and accounting-based financial reporting quality jointly influence investor behavior, particularly in emerging capital markets such as Indonesia (Rachmawati et al., 2025; Flambonita et al., 2023; Tatiana & Stejerean, 2022).

Despite extensive research on financial reporting quality, limited attention has been given to understanding how market-based and accounting-based dimensions jointly influence investor behavior. Existing studies predominantly examine these dimensions in isolation, providing only a partial explanation of how investors evaluate financial information in capital markets (Pascaru & Hațegan, 2024; Egan, 2025). This limitation is particularly relevant in emerging markets, where information asymmetry and varying levels of information accessibility may alter the relative importance of different dimensions of financial reporting quality. A more integrated perspective is therefore needed to explain whether market-based and accounting-based financial reporting quality operate as complementary, substitutive, or asymmetrical determinants of investor decision-making.

This study contributes to the literature by developing an integrated analytical framework that incorporates both market-based and accounting-based financial reporting quality within a single empirical model. Such an approach provides a more comprehensive understanding of how investors respond to different dimensions of accounting information and extends existing discussions on information usefulness, market efficiency, and investor behavior in emerging capital markets.

The novelty of this study lies in its proposition that financial reporting quality should be viewed as a multidimensional construct whose components may exert different levels of influence on investor decision-making. Rather than assuming that investors respond uniformly to all aspects of reporting quality, this study argues that certain dimensions of financial reporting quality may be more influential than others, reflecting

the asymmetrical nature of information processing in environments characterized by relatively high information asymmetry (Chuele et al., 2023; Dechow et al., 2010).

Accordingly, this study aims to examine the influence of market-based and accounting-based financial reporting quality on investor decision-making in manufacturing firms listed on the Indonesia Stock Exchange and to evaluate the relative importance of these dimensions in shaping investor behavior. Based on the conceptual framework, the following hypotheses are proposed:

H01 : Market-based financial reporting quality does not positively influence investor decision-making in manufacturing companies listed on the Indonesia Stock Exchange.

Ha1 : Market-based financial reporting quality positively influences investor decision-making in manufacturing companies listed on the Indonesia Stock Exchange.

Ha2 : Accounting-based financial reporting quality positively influences investor decision-making in manufacturing companies listed on the Indonesia Stock Exchange.

B. Method

This study employed a quantitative explanatory design to examine the influence of financial reporting quality on investor decision-making in manufacturing firms listed on the Indonesia Stock Exchange (www.idx.co.id) during 2018–2023. Manufacturing firms were selected because the sector is characterized by relatively complex operational structures and high reliance on accounting information, making it relevant for analyzing investor responses to financial reporting quality.

The population consisted of all manufacturing companies consistently listed during the observation period. Proportional stratified random sampling was applied to ensure representation across subsectors, including basic and chemical industries, various industries, and consumer goods industries. The sample was selected based on three criteria: firms remained listed continuously during 2018–2023, published complete annual financial statements, and provided complete data for all research variables. Based on these criteria, 132 firms were selected, resulting in 792 firm-year observations.

The study utilized secondary data obtained from audited financial statements, annual reports, and stock market data published by the Indonesia Stock Exchange. Financial reporting quality was operationalized as a multidimensional construct consisting of market-based and accounting-based dimensions. The market-based dimension was

measured using value relevance, timeliness, and conservatism. Value relevance was estimated through the relationship between earnings per share and stock prices (Cheng et al., 2005). Timeliness was measured using the reporting lag between the fiscal year-end and financial statement publication date (Jensen & Meckling, 1976), while conservatism was measured using Basu's asymmetric timeliness model (Basu, 1997).

The accounting-based dimension was measured using earnings persistence, predictability, and earnings smoothing. Earnings persistence was estimated by regressing current earnings against prior earnings (Sloan, 1996). Predictability was measured using residual variance in the earnings model (Dechow & Dichev, 2002), while earnings smoothing was represented by the ratio of earnings variability to cash flow variability (Aboody et al., 2005). Investor decision-making was measured using information asymmetry and cost of capital. Information asymmetry was proxied using the bid-ask spread (Dechow & Dichev, 2002; Dechow et al., 2010), whereas the cost of capital was estimated using the implied cost of equity approach (Aboody et al., 2005).

Data analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software because the method is suitable for analyzing complex relationships among latent constructs and flexible regarding data distribution assumptions (Ahmad & Armawaddin, 2024; Ali et al., 2026). The measurement model was evaluated using convergent validity, discriminant validity, and composite reliability, while the structural model was assessed using path coefficients, R^2 values, and bootstrapping procedures. A hypothesis was considered supported when the t-statistic exceeded 1.96 and the p-value was below 0.05 (Hair et al., 2023; Harahap et al., 2023).

This study exclusively used publicly accessible secondary data and did not involve human participants. Therefore, formal ethical approval was not required. Nevertheless, the study adhered to the principles of academic integrity, transparency, and responsible data use, with all sources properly cited to ensure research credibility and replicability.

C. Results and Discussion

This section presents an integrated analysis and discussion to provide a comprehensive understanding of the research findings. The data used is panel data from manufacturing companies listed on the Indonesia Stock Exchange for the period 2018 to 2023. The analysis used Partial Least Squares Structural Equation Modeling (PLS-SEM) to test the influence of market-based and accounting-based financial reporting on investor decision-



making. The presentation of results begins with evaluating the measurement model (outer model), then analyzing the structural model (inner model), and finally testing the hypothesis. Furthermore, implementation involves interpreting research results within the context of existing theories and prior studies, yielding a comprehensive understanding of the role of financial reporting quality in influencing investor decisions in the Indonesian capital market.

1. Results

The analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) to examine the influence of market-based and accounting-based financial reporting quality on investor decision-making in manufacturing firms listed on the Indonesia Stock Exchange during the 2018–2023 period. The results are presented sequentially, beginning with the evaluation of the measurement model, followed by the structural model assessment and hypothesis testing. The findings are reported based on the empirical data obtained from the analysis without incorporating theoretical interpretation or conceptual discussion.

The evaluation of the measurement model was performed to assess the reliability and validity of all constructs used in the study. Reliability testing employed Cronbach's alpha and Composite Reliability (CR), while validity testing included convergent validity and discriminant validity. Construct was considered reliable when Cronbach's alpha and Composite Reliability values exceeded 0.70 (Hair et al., 2023; Harahap et al., 2023). The analysis results indicate that all constructs fulfilled the required reliability criteria. Cronbach's alpha values ranged from 0.762 to 0.814, while Composite Reliability values ranged from 0.863 to 0.890. These values demonstrate that all constructs possess satisfactory internal consistency.

Convergent validity was evaluated using outer loadings and Average Variance Extracted (AVE). Indicators were considered valid when outer loading values exceeded 0.70 and AVE values were above 0.50 (Billah, 2022; Harahap et al., 2023). The findings show that all indicators met these criteria, with outer loading values ranging from 0.806 to 0.888 and AVE values ranging from 0.729 to 0.777. These results indicate that each indicator adequately represented its corresponding latent construct.

Table 2. Outer model results

Variable	Indicator	Loadings	Weights
Market-Based (Cronbach's α = 0.814 CR= 0.890 and AVE= 0.729)	Relevance	0.837	0.364
	Timeliness	0.857	0.411

Variable	Indicator	Loadings	Weights
Accounting-Based (Cronbach's α = 0.762 CR= 0.863 and AVE= 0.777)	Conservatism	0.866	0.396
	Earnings Persistence	0.813	0.394
	Predictability	0.848	0.444
Decision-Making (Cronbach's α = 0.788 CR= 0.865 and AVE= 0.762)	Earnings Smoothing	0.806	0.376
	Information Asymmetry	0.888	0.605
	Cost of Capital	0.857	0.540

Based on Table 2, the market-based financial reporting quality construct showed outer loading values of 0.837 for relevance, 0.857 for timeliness, and 0.866 for conservatism. The accounting-based construct recorded loading values of 0.813 for earnings persistence, 0.848 for predictability, and 0.806 for earnings smoothing. Meanwhile, the investor decision-making construct demonstrated loading values of 0.888 for information asymmetry and 0.857 for cost of capital. The findings also indicate that all constructs achieved acceptable reliability levels based on Cronbach’s alpha, Composite Reliability, and AVE values.

Discriminant validity was further examined using the Fornell-Larcker criterion. Under this criterion, discriminant validity is achieved when the square root of the Average Variance Extracted (AVE) for each construct exceeds its correlations with other constructs (Hair et al., 2017). The analysis results indicate that all diagonal values in the Fornell-Larcker matrix were higher than the corresponding inter-construct correlations, demonstrating satisfactory discriminant validity among the constructs.

Table 3. Fornell-larcker criterion results

	Accounting-Based	Decision-Making	Market-Based
Accounting-Based	0,823		
Decision-Making	0,688	0,873	
Market-Based	0,616	0,569	0,854

Table 3 shows that the square root of the AVE for the accounting-based construct was 0.823, while the investor decision-making and market-based constructs recorded values of 0.873 and 0.854, respectively. These values were higher than the correlations among constructs, indicating that each construct maintained adequate discriminant validity and measured distinct conceptual dimensions. Therefore, the measurement model was considered appropriate for further structural model analysis.

Following the evaluation of the measurement model, the structural model was analyzed to examine the relationships among latent constructs and test the proposed



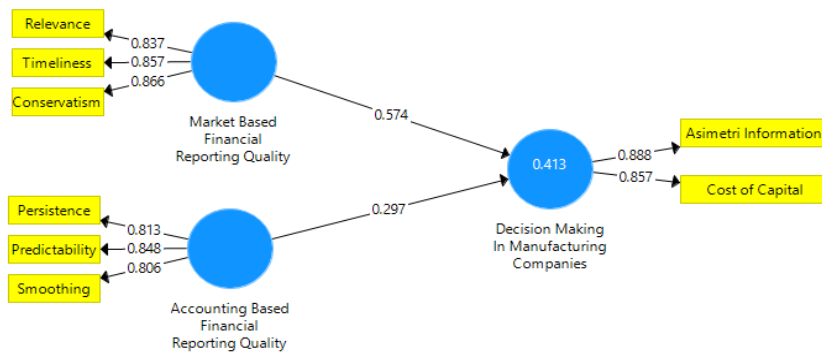


Figure 1. Path model in research

Figure 1 illustrates the structural relationships between market-based financial reporting quality, accounting-based financial reporting quality, and investor decision-making. The figure shows that all constructs were represented by indicators that fulfilled reliability and validity requirements. The relationships among variables are reflected through the path coefficients and R² values generated from the structural model analysis.

2. Discussion

In emerging capital markets, investor decision-making is increasingly shaped by the ability of financial information to reduce uncertainty and provide credible signals regarding firm performance and future prospects. However, investors do not perceive all dimensions of financial reporting quality equally. The findings of this study demonstrate that market-based financial reporting quality exerts a stronger influence on investor decision-making than accounting-based financial reporting quality. The market-based dimension recorded a higher path coefficient (0.574) compared to the accounting-based dimension (0.297), indicating that investors in Indonesian manufacturing firms rely more heavily on information reflected through market mechanisms, such as relevance, timeliness, and conservatism, than on accounting attributes such as earnings persistence, predictability, and earnings smoothing. These findings indicate that investors prioritize information rapidly incorporated into market signals because it is perceived as more useful for reducing uncertainty in investment activities (Thompson, 2024; Amaro et al., 2024).

The stronger influence of market-based financial reporting quality can be understood in relation to the characteristics of manufacturing firms and the structure of emerging capital markets. Manufacturing firms generally possess complex operational structures characterized by high fixed asset intensity, long production cycles, and more

complicated cost recognition mechanisms. Under such conditions, accounting information often requires deeper interpretation and higher analytical capability, making market-based information relatively more accessible to investors, particularly retail investors who dominate emerging markets. Consequently, investors tend to respond more strongly to information rapidly reflected in market prices because such information reduces cognitive complexity and accelerates decision-making processes. In environments characterized by higher uncertainty and limited information efficiency, investors commonly rely on signals perceived as more observable and responsive to market changes (Dash & Maitra, 2022; Gong et al., 2022; Seok et al., 2024).

From a theoretical perspective, the findings reinforce decision usefulness theory, which emphasizes that investors utilize information perceived as relevant, timely, and capable of reducing uncertainty in economic decision-making (Damanuri & Futaqi, 2025; Hasibuan, 2022; Scott, 2015). The findings also strengthen signaling theory by confirming that market-related information functions as a communication mechanism through which firms transmit signals regarding performance and future prospects to investors (Connelly et al., 2010; Naisabur et al., 2024). At the same time, the results partially support the efficient market hypothesis because market-based information demonstrates a dominant role in investor decision-making. However, the findings also indicate that market efficiency in emerging markets operates asymmetrically because investors do not equally prioritize all dimensions of financial reporting quality. This asymmetry reflects the contextual nature of information processing in developing capital markets, where institutional quality, investor literacy, and market infrastructure shape how information is interpreted and utilized (Khan et al., 2024; Lestari et al., 2024; Sarioglu et al., 2025).

The study contributes to the literature by challenging the assumption that financial reporting quality operates as a homogeneous construct. Most prior studies examined market-based and accounting-based financial reporting quality separately, thereby positioning financial reporting quality as fragmented dimensions rather than an integrated construct (Pascaru & HařEgan, 2024; Egan, 2025). In contrast, this study demonstrates that the two dimensions function simultaneously but with different levels of influence. The findings therefore provide a more nuanced understanding of financial reporting quality by showing that investors distinguish between dimensions of information based on perceived usefulness and accessibility. This argument reinforces the view proposed by Chuele et al., (2023) and Tatiana and Stejerean (2022),

who emphasized that financial reporting quality should be understood as a multidimensional and context-sensitive construct.

The findings are also consistent with previous studies emphasizing the importance of market-relevant information in shaping investor responses. Barth et al., (2001), Rahman and Liu (2021), and Burlacu et al., (2024) demonstrated that accounting information possesses value relevance for stock prices, while Dash and Maitra (2022), Gong et al., (2022), and Seok et al., (2024) highlighted the importance of market-based information under conditions of uncertainty. However, this study extends these findings by demonstrating that market-based information exerts a comparatively stronger influence than accounting-based information in emerging markets characterized by high information asymmetry and retail investor dominance. The findings therefore indicate that the effectiveness of financial reporting quality is context-dependent rather than universally uniform across market structures (Bushman & Smith, 2001; Dechow et al., 2010).

Although accounting-based financial reporting quality recorded a lower coefficient, the findings still indicate that it significantly influences investor decision-making. Earnings persistence, predictability, and earnings smoothing remain important because they provide insight into the sustainability and reliability of firm performance. In manufacturing firms, where operational activities involve complex inventory management, depreciation policies, and production cost allocations, accounting information remains necessary for evaluating the underlying economic condition of firms (Francis et al., 2004; Sloan, 1996). The findings also reinforce agency theory, which positions accounting information as a monitoring mechanism used to reduce information asymmetry between managers and investors (Jensen & Meckling, 1976; Basir et al., 2024). Nevertheless, the lower coefficient compared to market-based quality indicates that accounting information functions more as a confirmatory mechanism rather than a primary source of investment decisions. Investors appear to use accounting information to validate market perceptions rather than independently determine investment choices (Ayagi & Salisu, 2023; Dang et al., 2023).

An important implication of this study concerns the multidimensional nature of financial reporting quality. The findings suggest that accounting-based and market-based quality should not be viewed as competing dimensions but rather as complementary mechanisms with asymmetrical influence. Market-based information dominates short-term investor responses because it is rapidly incorporated into market activity, while accounting-based information provides confirmation regarding the

sustainability and credibility of firm performance. Consequently, the study contributes to the literature by demonstrating that financial reporting quality functions through layered informational mechanisms rather than through a single uniform process. This argument strengthens prior discussions concerning the interaction between earnings quality, market perception, and investor response in determining capital market behavior (Aboody et al., 2005; Dechow & Dichev, 2002).

The findings are broadly consistent with prior studies emphasizing the role of earnings quality and accounting attributes in influencing investment behavior. Richardson et al., (2005) and Yeh and Lin (2018) found that earnings quality affects investor evaluations and expectations regarding future firm performance. Similarly, Iqbal and Sarkar (2025) as well as Pirgaip and Rizvi (2023) showed that accounting-based reporting quality influences information asymmetry and capital costs. However, the present study demonstrates that the influence of accounting-based quality becomes relatively weaker in environments characterized by high market uncertainty and stronger reliance on market signals. This suggests that the role of accounting information is shaped not only by technical quality but also by broader market structures and investor characteristics (Rachmawati et al., 2025; Mi et al., 2024).

From a practical perspective, the findings imply that firms should not focus exclusively on compliance with accounting standards but must also strengthen the market relevance and timeliness of financial reporting. Information that reaches the market quickly and is perceived as relevant appears to have a stronger impact on investor confidence and decision-making. For regulators, the findings indicate the importance of improving disclosure quality, reporting transparency, and market information accessibility to reduce information asymmetry and improve market efficiency. The findings therefore emphasize the importance of integrating technical reporting quality with broader transparency strategies capable of strengthening investor trust and market responsiveness (Fitriani, 2025; Biddle et al., 2009; Hasibuan, 2022).

The findings also carry broader global implications, particularly for emerging markets characterized by relatively high information asymmetry and retail investor dominance. The dominance of market-based information identified in this study suggests that the effectiveness of financial reporting quality is shaped by institutional and market contexts rather than by universal accounting principles alone. This pattern may also occur in other emerging economies where investor behavior is influenced by

limited financial literacy, uneven information access, and weaker institutional enforcement. Consequently, the study contributes to the international discourse on financial reporting quality by demonstrating that the usefulness of accounting information depends on how information is interpreted, transmitted, and integrated within specific market environments (Khan et al., 2024; Sarioglu et al., 2025).

Moreover, the findings extend discussions regarding market efficiency in developing economies. While classical financial theories assume that accounting information is fully reflected in market prices, the results indicate that investors selectively prioritize dimensions of information perceived as more accessible and responsive to market conditions. This implies that the process through which information influences investor decisions is shaped by contextual factors such as investor composition, market maturity, and information infrastructure. Therefore, the study contributes to a more contextualized understanding of investor behavior in emerging markets and highlights the need to reconsider the assumption that financial reporting quality exerts uniform effects across institutional settings (Md Radzi et al., 2024; Dechow et al., 2010; Bushman & Smith, 2001).

Beyond its relevance to the Indonesian context, this study also carries broader global implications for understanding investor behavior in emerging and transitional economies. The findings demonstrate that investors increasingly prioritize market-responsive information over purely accounting-based indicators when making investment decisions under conditions of uncertainty and high information asymmetry (Humaidi et al., 2024; Takamatsu & Fávero, 2019). This pattern reflects a wider transformation occurring across global capital markets, particularly in Global South economies, where digital information flows, market responsiveness, and real-time financial signals increasingly shape investment behavior (Alshehadeh et al., 2025). Consequently, the study contributes to international discussions regarding the evolving role of financial reporting quality in the digital era by suggesting that the effectiveness of financial information is no longer determined solely by compliance with accounting standards, but also by how rapidly and credibly information is transmitted to the market.

In a broader sense, these findings also align with global efforts to strengthen transparent, accountable, and sustainable economic institutions as reflected in SDG 8 concerning sustainable economic growth and SDG 16 concerning transparency and institutional accountability (A. Zaenurrosyid et al., 2024; Husain, H., S., et al., 2024; Peng et al., 2023). Therefore, the study provides important implications for regulators, firms, and

global standard-setting institutions seeking to improve market transparency, investor trust, and reporting effectiveness across increasingly interconnected financial systems.

Despite these contributions, several limitations should be acknowledged. The study focuses exclusively on manufacturing firms listed on the Indonesia Stock Exchange, which may limit the generalizability of the findings to other sectors with different operational characteristics and market dynamics. In addition, the study examines only two dimensions of financial reporting quality, while other dimensions such as disclosure quality, governance mechanisms, and non-financial reporting were not included in the model. The use of secondary data also limits the ability to directly observe behavioral and psychological aspects of investor decision-making, including investor sentiment and financial literacy. Furthermore, because the study was conducted within an emerging market environment characterized by relatively high information asymmetry and varying levels of market efficiency, the findings may be context-specific and may differ under more developed institutional conditions.

D. Conclusion

This study demonstrates that financial reporting quality influences investor decision-making in a differentiated manner, where market-based information exerts a stronger influence than accounting-based information. The findings indicate that investors in emerging markets tend to prioritize information that is more timely, relevant, and directly reflected in market mechanisms when responding to uncertainty and evaluating investment opportunities. In this context, financial reporting quality does not operate as a uniform construct, but rather as a multidimensional mechanism with asymmetrical effects on investor behavior.

The study contributes to the literature by providing empirical evidence that market-based and accounting-based financial reporting quality function as complementary rather than substitutive dimensions, although with different levels of influence. This finding extends existing discussions on financial reporting quality by demonstrating that the usefulness of financial information depends not only on technical accounting quality but also on how information is interpreted, transmitted, and incorporated into market activity. The findings therefore reinforce the argument that the effectiveness of financial reporting is highly contextual, particularly in emerging markets characterized by relatively high information asymmetry and varying levels of market efficiency.

From a practical perspective, the findings imply that improving financial reporting quality should not be limited to compliance with accounting standards alone. Firms and regulators must also strengthen the timeliness, accessibility, and market relevance of financial information to improve transparency and support more informed investor decision-making. The findings further suggest that strengthening reporting effectiveness requires integrating accounting quality with broader market communication strategies capable of enhancing investor trust and market responsiveness. Beyond the Indonesian context, the study also contributes to broader international discussions regarding investor behavior, market transparency, and the evolving role of financial information in emerging economies, particularly within increasingly interconnected global capital markets.

Future research should expand the analysis beyond manufacturing firms to examine whether similar patterns emerge across sectors with different operational and market characteristics. Further studies are also needed to incorporate additional dimensions of financial reporting quality, including disclosure quality, governance mechanisms, and non-financial reporting, in order to provide a more comprehensive understanding of reporting effectiveness. In addition, future research should consider behavioral and psychological aspects of investor decision-making, such as investor sentiment and financial literacy, as well as comparative cross-country analysis to better capture variations across institutional and market environments.

Overall, this study highlights that the effectiveness of financial reporting is determined not only by the quality of accounting information itself, but also by how information is communicated, interpreted, and integrated into market behavior. In emerging markets, financial reporting quality therefore functions not merely as a technical reporting mechanism, but as a strategic instrument for strengthening transparency, reducing uncertainty, and supporting more efficient investment decision-making.

Acknowledgments

The authors would like to express their sincere gratitude to all parties who have contributed to the completion of this research. Special appreciation was given to the Indonesia Stock Exchange and related institutions for their access to financial and market data that is critical to this research. The authors also acknowledge the valuable support of fellow academics and reviewers whose constructive feedback has significantly improved the quality of this manuscript. Finally, the authors thank all institutions and individuals who indirectly supported this research.



Declaration of Competing Interest

The authors affirm that there are no personal, institutional, financial, or professional relationships that may be perceived as influencing the research process, analysis, interpretation of findings, or publication of this manuscript. The study was conducted with full academic independence and integrity.

Declaration of Generative AI

In preparing this manuscript, the authors utilized language-support tools based on artificial intelligence technology to assist in refining sentence structure, grammar, and linguistic readability. All generated suggestions were critically evaluated, revised, and adapted by the authors according to the academic context of the study. The authors remained fully responsible for the research design, data processing, interpretation, argument construction, and overall scholarly content presented in this article. Responsibility for the originality, validity, and scientific integrity of the manuscript rests entirely with the authors.

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