



Tesis - DB255401

DAMPAK PILPRES 2024 TERHADAP RETURN SAHAM PERUSAHAAN BER-INDEX LQ45: STUDI EVENT

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LEMBAR PENGESAHAN TESIS

Tesis disusun untuk memenuhi salah satu syarat memperoleh gelar
Magister Sains Manajemen (MSM)

di

Institut Teknologi Sepuluh Nopember

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THESIS APPROVAL SHEET

Submitted to fulfil one of the requirements for a degree

Master of Science in Management

in

Institut Teknologi Sepuluh Nopember

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DAMPAK PILPRES 2024 TERHADAP RETURN SAHAM PERUSAHAAN BER-INDEX LQ45: STUDI EVENT

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ABSTRAK

Penelitian ini berfokus pada dampak Pemilihan Umum Presiden Indonesia 2024 terhadap return saham perusahaan yang tercatat dalam indeks LQ45 di Bursa Efek Indonesia (BEI), dengan menggunakan metodologi studi peristiwa (event study) pada dua tanggal peristiwa politik yang berbeda: penetapan resmi hasil pemilu oleh Komisi Pemilihan Umum (KPU) pada 24 April 2024, dan pelantikan Presiden Prabowo Subianto pada 20 Oktober 2024. Dengan menggunakan sampel 45 perusahaan dalam jendela peristiwa ± 10 hari perdagangan dan periode estimasi 100 hari berdasarkan model pasar, penelitian ini menghitung Cumulative Abnormal Return (CAR) dan mengkaji determinan cross-sectional dari return tersebut melalui analisis regresi multivariat, dengan memasukkan ukuran perusahaan, diversifikasi geografis, usia perusahaan, jenis kepemilikan perusahaan, serta peran moderasi jenis kepemilikan perusahaan terhadap masing-masing variabel independen. Hasil penelitian menunjukkan dampak arah yang secara konsisten negatif dari kedua peristiwa politik terhadap CAR, sejalan dengan teori ketidakpastian politik (political uncertainty theory) dan Hipotesis Pasar Efisien (Efficient Market Hypothesis). Untuk peristiwa pertama, rata-rata CAR sebesar -0,023 menunjukkan arah negatif namun tidak signifikan secara statistik ($p = 0,138$), menunjukkan bahwa pasar telah sebagian mengantisipasi hasil pemilu sebelumnya. Untuk peristiwa kedua, rata-rata CAR sebesar -0,019 signifikan secara statistik pada angka 5% ($p = 0,045$), yang didorong oleh kekhawatiran investor terhadap skala kabinet baru yang belum pernah terjadi sebelumnya, ambiguitas kebijakan fiskal seputar program unggulan pemerintah, serta munculnya ketidakpastian kebijakan baru pada saat serah terima kekuasaan secara resmi. Di antara variabel-variabel tingkat perusahaan, ukuran perusahaan menghasilkan efek positif yang signifikan secara statistik terhadap CAR pada peristiwa pertama ($p = 0,035$), menunjukkan bahwa perusahaan yang lebih besar memperoleh abnormal return yang lebih menguntungkan pada saat konfirmasi hasil pemilu, sementara diversifikasi geografis dan usia perusahaan tidak menghasilkan efek yang signifikan secara statistik pada kedua jendela peristiwa, dan ukuran perusahaan itu sendiri kehilangan signifikansinya pada peristiwa kedua. Namun, jenis kepemilikan perusahaan

merupakan prediktor positif yang signifikan terhadap CAR pada peristiwa pertama, mencerminkan persepsi investor terhadap perusahaan yang terafiliasi dengan pemerintah sebagai pihak dalam politik (political insiders) yang diuntungkan oleh agenda kebijakan pemerintahan baru. Analisis moderasi menunjukkan bahwa jenis kepemilikan perusahaan secara signifikan membalikkan hubungan antara ukuran perusahaan dan CAR pada peristiwa pertama, dengan perusahaan milik negara yang lebih besar mengalami penurunan abnormal return dibandingkan perusahaan swasta, sejalan dengan argumen teori keagenan (agency theory) mengenai inefisiensi tata kelola pada perusahaan negara berskala besar. Pada peristiwa kedua, jenis kepemilikan perusahaan secara signifikan memperkuat efek positif diversifikasi geografis terhadap CAR, yang mengindikasikan bahwa perusahaan milik negara dengan diversifikasi geografis dipandang memiliki posisi yang baik untuk memanfaatkan prioritas pembangunan nasional pemerintahan baru. Temuan ini memberikan kontribusi bagi literatur keuangan politik dengan mendokumentasikan bagaimana transisi politik di negara demokrasi pasar berkembang besar menghasilkan reaksi pasar ekuitas yang spesifik terhadap peristiwa dan bersyarat pada kepemilikan (ownership-conditioned), serta menegaskan pentingnya kepemilikan negara sebagai kondisi batas (boundary condition) dalam menjelaskan variasi cross-sectional pada abnormal return di sekitar peristiwa politik besar.

Kata kunci: Cumulative Abnormal Return (CAR), Studi Peristiwa (Event Study), Ketidakpastian Politik, Pemilihan Presiden Indonesia 2024, Ukuran Perusahaan, Diversifikasi Geografis, Usia Perusahaan, Kepemilikan Negara, LQ45

IMPACT OF THE 2024 INDONESIAN PRESIDENTIAL ELECTION ON THE STOCK RETURNS OF LQ45 FIRMS: AN EVENT STUDY

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ABSTRACT

This study examines the impact of the 2024 Indonesian presidential election on the stock returns of firms listed on the LQ45 index of the Indonesia Stock Exchange (IDX), employing an event study methodology across two distinct political event dates: the official determination of the election result by the General Elections Commission of Indonesia (KPU) on 24 April 2024, and the presidential inauguration of Prabowo Subianto on 20 October 2024. Using a sample of 45 firms over a ± 10 trading day event window and a 100-day estimation period based on the market model, this research calculates Cumulative Abnormal Returns (CAR) and examines the cross-sectional determinants of those returns through multivariate regression analysis, incorporating firm size, geographic diversification, firm age, state ownership, and the moderating role of state ownership on each independent variable. The results reveal a consistently negative directional impact of both political events on CAR, consistent with political uncertainty theory and the Efficient Market Hypothesis. For the first event, the mean CAR of -0.023 was directionally negative but statistically insignificant ($p = 0.138$), suggesting that the market had partially anticipated the election outcome in advance. For the second event, the mean CAR of -0.019 was statistically significant at the 5% level ($p = 0.045$), driven by investor concerns over the unprecedented scale of the new cabinet, fiscal policy ambiguity surrounding flagship government programs, and the introduction of new policy uncertainty at the formal transfer of power. Among the firm-level variables, firm size produced a statistically significant positive effect on CAR during the first event ($p = 0.035$), indicating that larger firms experienced more favorable abnormal returns at the moment of electoral confirmation, while geographic diversification and firm age did not produce statistically significant effects in either event window, and firm size itself lost significance during the second event. State ownership, however, was a significant positive predictor of CAR during the first event, reflecting investors' perception of government-linked firms as political insiders benefiting from the new administration's policy agenda. The moderation analysis reveals that state ownership significantly reverses the firm

size–CAR relationship during the first event, with larger state-owned firms experiencing deteriorating abnormal returns relative to their private counterparts, consistent with agency theory arguments about governance inefficiencies in large state enterprises. During the second event, state ownership significantly amplifies the positive effect of geographic diversification on CAR, suggesting that geographically diversified state-linked firms were perceived as well-positioned to capitalize on the incoming administration's national development priorities. The findings contribute to the political finance literature by documenting how political transitions in a large emerging market democracy generate event-specific and ownership-conditioned equity market reactions, and underscore the importance of state ownership as a boundary condition in explaining cross-sectional variation in abnormal returns around major political events.

Key words: Cumulative Abnormal Return (CAR), Event Study, Political Uncertainty, 2024 Indonesian Presidential Election, Firm Size, Geographic Diversification, Firm Age, State Ownership, LQ45

ACKNOWLEDGEMENTS

First and foremost, I would like to express my deepest gratitude to my parents, whose unwavering love, sacrifice, and encouragement have been the foundation of everything I have accomplished. Through every challenge and moment of doubt throughout this journey, your belief in me never wavered. The countless sacrifices you have made to provide me with the opportunity to pursue my education abroad are not lost on me, and I hope this thesis stands as a small testament to the values of perseverance and dedication that you have instilled in me since childhood. None of this would have been possible without you.

I would also like to extend my sincere appreciation to my thesis advisor, Dr. Dramane Thiombiano and Muhammad Saiful Hakim, S.E., M.M., Ph.D., for their invaluable guidance, patience, and intellectual generosity throughout the research and writing process. Their constructive feedback consistently pushed me to think more rigorously, structure my arguments more precisely, and approach the research with greater academic depth. I am particularly grateful for their willingness to engage thoughtfully with each revision and for the clarity of direction they provided at every stage of this thesis. Their mentorship has shaped not only the quality of this work but also my development as a researcher.

To my friends, both those in Taiwan and those back home, thank you for the laughter, encouragement, and companionship that made this period of my life truly memorable. Graduate school is rarely a solitary endeavor, and your presence, whether through late-night study sessions, candid conversations, or simple moments of shared relief after a difficult week, made the process far more bearable and meaningful. I am grateful to have had people beside me who understood both the weight of this undertaking and the importance of stepping away from it every now and then.

Finally, I would like to acknowledge the Indonesia Stock Exchange (IDX) and all parties responsible for the collection, maintenance, and public availability of the financial market data upon which this research depends. The integrity and accessibility of stock price records, trading volumes, and firm-level disclosures made available through official IDX channels and related financial databases were indispensable to the empirical foundation of this study. Without the diligence of those who collect and curate this data, research of this nature would not be possible.

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CHAPTER I

INTRODUCTION

1.1 Research Background

Financial markets are deeply sensitive to political developments, and among the various forms of political events, presidential elections represent one of the most consequential sources of uncertainty for investors and market participants. Elections introduce significant ambiguity regarding future policy directions, regulatory frameworks, and macroeconomic governance, all of which directly affect the expected cash flows and risk profiles of listed firms (Pástor & Veronesi, 2012). This uncertainty tends to alter investor behavior in the period surrounding electoral events, often producing measurable deviations in stock returns that cannot be fully explained by ordinary market movements. Understanding how political events translate into abnormal stock market returns is therefore a question of substantial academic and practical relevance, particularly in emerging economies where institutional frameworks are less developed and political transitions carry greater implications for economic policy continuity.

Indonesia represents a particularly important context for examining the stock market effects of political events. Indonesia is the fourth country with the most populations and one of Southeast Asia's largest economies, Indonesia has undergone a remarkable democratic transformation since Suharto regime fall's in 1998, transitioning from an authoritarian system to a functioning direct presidential democracy within a relatively short period (Fisman, 2001). Since 2004, Indonesia has held direct presidential elections every five years, and each electoral cycle has been accompanied by varying degrees of market volatility as domestic and international investors reassess the implications of potential leadership changes for the country's economic trajectory. The Indonesian stock market, particularly the Indonesia Stock Exchange (IDX), has grown considerably in depth and capitalization over this period, making the pricing of political risk an increasingly important concern for both domestic retail investors and institutional market participants.

The 2024 Indonesian presidential election was a landmark political event that attracted significant attention from both domestic and international financial markets. The election, held on February 14, 2024, marked the end of President Joko Widodo's two-term administration and introduced a new candidate, former Defense Minister Prabowo Subianto, who ultimately emerged as the victor with a decisive majority of the popular vote. The transition from one administration to another inevitably introduces uncertainty about the continuity of economic policies, infrastructure investment priorities, and regulatory approaches that had been central to the Widodo presidency (Warjiyo & Juhro, 2019). For investors holding stocks

on the Indonesia Stock Exchange, the resolution of this electoral uncertainty through the official determination of the election result by the General Elections Commission of Indonesia (KPU) on 24th April 2024, and the formal inauguration of the new president on 20th October 2024, constituted two distinct informational events with potentially significant implications for stock valuations.

The LQ45 index serves as the primary sample frame for this research because it comprises the 45 most liquid and actively traded stocks listed on the IDX, making it the most appropriate benchmark for assessing broad market reactions to major political events in the Indonesian context. Liquidity is a critical consideration in event study research, as stocks with thin trading volumes may exhibit price responses that are contaminated by microstructure effects rather than reflecting genuine informational reassessments by investors (Amihud & Mendelson, 1987). By focusing on the LQ45 index, this study ensures that the observed abnormal returns are more likely to reflect the true informational content of the political events rather than liquidity-driven noise. Furthermore, LQ45 constituent firms span a wide range of economically significant sectors, including banking, energy, telecommunications, consumer goods, and infrastructure, providing sufficient cross-sectional variation to examine how firm-level characteristics moderate the stock market response to political uncertainty.

The event study methodology, as introduced by Fama et al. (1969), examines the extent to which stock price movements can be attributed to specific informational events. Rather than analyzing broad market trends, this approach isolates short-term price movements surrounding clearly defined event dates. The method first estimates expected returns under a counterfactual scenario in which no event occurs. Actual observed returns are then compared against these expected returns, and the resulting discrepancy is termed the abnormal return. When abnormal returns are aggregated over a defined event window, the resulting measure is known as the Cumulative Abnormal Return (CAR). As demonstrated by MacKinlay (1997), CAR provides a robust indicator of aggregate investor reaction to an event. Owing to its methodological precision, this technique has been widely applied in studies examining the intersection of political events and financial markets, including elections, changes in government, and policy announcements. The consistency of these findings across diverse national contexts and time periods lends further support to the method's validity. Accordingly, the event study approach represents a well-established and appropriate methodological choice for the present analysis.

Beyond the aggregate market-level question of whether the 2024 Indonesian presidential election generated statistically significant CAR for LQ45-listed firms, this research also examines how firm-level characteristics moderate the cross-sectional distribution of abnormal returns. Prior research in political finance and corporate finance has established that political events do not affect all firms equally, but rather that the magnitude and direction of the stock price response depends

significantly on firm-specific attributes that determine political exposure and adaptive capacity (Baker et al., 2016). This study investigates three primary independent variables which are firm size, geographic diversification, and firm age, as well as a moderating variable in state ownership, drawing on the theoretical frameworks of the Efficient Market Hypothesis, signaling theory, and the political uncertainty literature to formulate hypotheses about the expected direction of these moderating effects.

Firm size has been extensively documented as a determinant of how stock prices respond to new information, with larger firms generally exhibiting more efficient price discovery due to their richer information environments and greater analyst coverage (Atiase, 1985). In the political uncertainty context, larger firms also benefit from greater organizational resources, stronger governmental relationships, and greater adaptive capacity, all of which reduce their vulnerability to adverse policy changes under new administrations (Hillman et al., 2004). Geographic diversification introduces an additional dimension of political risk management, as firms with operations and revenues spread across multiple countries are less dependent on the domestic policy environment that a presidential election most directly affects (Rugman & Verbeke, 2004). Firm age captures the degree of institutional maturity, reputational capital accumulation, and organizational learning that allows older firms to signal resilience to investors and navigate political transitions more effectively than younger firms with shorter track records (Diamond, 1989). Finally, state ownership is incorporated as a moderating variable given the substantial literature documenting the differential treatment of state-owned enterprises during political transitions in emerging markets, where government ownership can simultaneously signal protection from adverse policy changes and susceptibility to politically motivated resource allocation decisions (Boubakri et al., 2004).

The significance of this research extends beyond the Indonesian case to contribute to the broader literature on the intersection of political economy and financial markets in emerging market democracies. Emerging markets have been the subject of growing scholarly attention in the political finance literature, reflecting their increasing share of global economic activity and the generally larger and more varied effects that political events tend to produce in these markets compared to their developed-economy counterparts (Bekaert & Harvey, 2002). Indonesia is an especially important case study within this literature because of its status as the world's largest Muslim-majority democracy, its distinctive institutional history of democratic transition, and its growing integration into global capital markets. The findings of this research therefore have implications not only for investors and policymakers operating in the Indonesian context but also for the broader understanding of how political transitions are priced in emerging market financial systems.

1.2 Research Questions

Based on the research background outlined above, this study is guided by the following research questions:

1. Does the 2024 Indonesian presidential election generate a statistically significant Cumulative Abnormal Return (CAR) for firms listed on the LQ45 index of the Indonesia Stock Exchange around the two key event dates, the official determination of the election result on 24th April 2024, and the presidential inauguration on 20th October 2024?
2. Does firm size significantly affect the magnitude of CAR among LQ45-listed firms during the 2024 Indonesian presidential election period?
3. Does geographic diversification significantly affect the magnitude of CAR among LQ45-listed firms during the 2024 Indonesian presidential election period?
4. Does firm age significantly affect the magnitude of CAR among LQ45-listed firms during the 2024 Indonesian presidential election period?
5. Does state ownership significantly affect the relationship between the 2024 Indonesian presidential election and the CAR of LQ45-listed firms?

CHAPTER II

LITERATURE REVIEW

2.1 Efficient Market Hypothesis (EMH)

Though first introduced by Fama (1970), the Efficient Market Hypothesis (EMH) remains central to how economists view price behavior in financial markets. Because all known data supposedly shapes prices immediately, outperforming the market through timing or analysis appears unlikely, as later noted by Malkiel (2003). Given this logic, sudden political moments like elections or swearing-in ceremonies ought to leave detectable traces in stock movements. It is precisely this expectation that supports the use of event studies in examining market reactions. Without assuming markets process news swiftly, interpreting short-term fluctuations after public events would lack grounding.

The Efficient Market Hypothesis (EMH) is commonly divided into three forms, each defined by the extent of information reflected in stock prices. The weak form posits that current stock prices fully incorporate all historical price and trading volume data, implying that technical analysis based on past price patterns cannot generate returns in excess of the market average (Lo & MacKinlay, 1988). The semi-strong form extends this proposition by asserting that stock prices adjust rapidly to all publicly available information, including earnings announcements, macroeconomic indicators, and policy changes. Under this form, fundamental analysis of publicly disclosed information similarly fails to yield abnormal returns, as such information is absorbed into prices at a speed that precludes investors from systematically profiting from it (Ball & Brown, 1968). The strong form represents the most restrictive version of the hypothesis, contending that prices reflect all information, both public and private, including insider information, thereby rendering it theoretically impossible for any investor to earn abnormal returns (Grossman & Stiglitz, 1980). For the purposes of event studies such as this research, the semi-strong form is most directly relevant, as it implies that major political events carrying new public information should produce rapid and measurable price adjustments..

The theoretical logic behind EMH rests on the assumption that financial markets are populated by rational, profit-maximizing investors who continuously process available information and compete to exploit any pricing inefficiencies (Jensen, 1978). Because of this competitive behavior, any deviation of a stock's price from its fundamental value is quickly corrected as investors act on the mispricing, thereby restoring equilibrium. This process ensures that prices at any moment represent the best possible estimate of an asset's intrinsic value given current information (Samuelson, 1973). In the context of political events, this means that when a major announcement such as an election result or a presidential

inauguration occurs, rational investors rapidly reassess the implications for corporate earnings, regulatory environments, and macroeconomic stability, and these reassessments are reflected in immediate price movements.

However, the real-world applicability of EMH has been subject to considerable debate. Empirical research has documented numerous anomalies that challenge the hypothesis, including momentum effects, calendar anomalies, and market overreactions to news events, all of which suggest that markets may not always price information efficiently (De Bondt & Thaler, 1985). Behavioral finance scholars have further argued that cognitive biases, investor sentiment, and herd behavior can cause systematic deviations from rational pricing, particularly in periods of heightened uncertainty such as during political transitions (Shiller, 2003). These deviations are especially pronounced in emerging markets, where information asymmetry, lower institutional investor participation, and less developed regulatory frameworks can slow or distort the speed at which new information is incorporated into prices (Bekaert & Harvey, 2002).

In the context of emerging markets such as Indonesia, evidence suggests that market efficiency is generally weaker compared to developed economies, meaning that stock prices may respond to political information more gradually or unevenly across firms (Nisar & Hanif, 2012). This has important implications for how political events are priced in markets like the Indonesia Stock Exchange. Rather than instantaneous and uniform price adjustments, investors may continue revising their expectations over several trading days following a major political announcement, which is one of the rationale behind selecting a multi-day event window in this research. The delayed or heterogeneous market response observed in emerging economies does not necessarily imply full market irrationality, but rather it may reflect the greater complexity of processing politically charged information in institutional environments characterized by limited transparency and higher governance uncertainty (Chordia et al., 2007).

Despite its limitations, EMH remains indispensable as a theoretical baseline for event studies. If markets were not at least partially efficient in the semi-strong sense, the abnormal returns detected around political events could not be meaningfully attributed to the event itself, as prices would not reliably respond to new public information in a timely manner (MacKinlay, 1997). It is precisely because markets are assumed to be informationally efficient that deviations from expected returns during event windows carry interpretive value. The abnormal returns observed in this research around the 2024 Indonesian presidential election and inauguration are therefore interpreted within the framework of semi-strong EMH, where stock prices are expected to adjust to politically relevant public information, and any statistically significant CAR is taken as evidence that the event carried meaningful informational content for market participants.

2.2 Political Uncertainty

Political uncertainty refers to the degree of ambiguity and unpredictability surrounding government policies, leadership transitions, and the broader political environment that can affect economic decision-making by firms and investors (Julio & Yook, 2012). It arises when economic agents are unable to form reliable expectations about the future direction of government action, regulatory frameworks, or the stability of political institutions, all of which have direct implications for asset valuations and investment behavior (Pástor & Veronesi, 2012). In the context of financial markets, political uncertainty is particularly consequential because capital allocation decisions are inherently forward-looking, meaning that ambiguity about future policy conditions translates directly into heightened risk perceptions and altered return expectations among market participants (Baker et al., 2016).

Elections represent one of the most prominent and recurrent sources of political uncertainty in both developed and emerging economies. During electoral periods, investors face a fundamental challenge in assessing which candidate or coalition will assume power and what policy directions they will pursue once in office (Białkowski et al., 2008). This informational ambiguity tends to suppress investment activity and increase market volatility, as rational investors adjust their portfolios to hedge against unfavorable policy outcomes. Evidence from cross-country studies consistently shows that stock market volatility rises significantly in the months surrounding national elections, reflecting the heightened sensitivity of capital markets to political risk during these periods (Boutchkova et al., 2011). The magnitude of this effect tends to be larger in countries with weaker institutional frameworks, more competitive electoral contests, and greater policy divergence between competing candidates.

Beyond elections, political uncertainty also stems from the policy ambiguity that follows a change in government leadership. Even after electoral outcomes are resolved, markets continue to face uncertainty regarding the specific policy measures the incoming administration will implement, the sequencing and credibility of promised reforms, and the degree to which pre-election commitments will be honored once in power (Rodrik, 1991). This post-election policy uncertainty can sustain elevated risk premiums and suppressed asset prices well beyond the formal resolution of electoral contests, particularly in emerging economies where institutional constraints on executive discretion are weaker and policy reversals are more common. Research has shown that stock markets do not fully recover their pre-election volatility levels until investors have sufficient information about the new government's policy stance, a process that can take months following a formal transfer of power (Füss & Bechtel, 2007).

When politics grow unpredictable, stock markets often respond poorly. A pattern seen again and again in financial research. High political tension tends to pull down share prices, as shown by analyses relying on policy uncertainty measures. Trading activity slows when the future feels unclear, suggesting caution

among investors. Instead of buying or selling aggressively, many choose to wait. Bid-ask gaps widen during such times, revealing deeper hesitation. What drives this? A discomfort with ambiguity, especially around government decisions. Market behavior shifts noticeably when clarity fades. Confidence slips, even without immediate economic shocks (Gulen & Ion, 2015). At the firm level, political uncertainty has been shown to depress corporate investment, slow hiring decisions, and reduce the willingness of management to undertake long-term projects, all of which have downstream effects on expected earnings and therefore stock prices (Jens, 2017). These effects are not uniformly distributed across all firm, but rather they tend to be concentrated among companies that are more exposed to government policy, such as those operating in regulated industries, firms that rely heavily on government contracts, and businesses with significant dependence on public infrastructure.

The sectoral heterogeneity of political uncertainty effects is an important consideration for understanding market reactions to major political events. Firms in sectors that are closely tied to government spending priorities, such as infrastructure, energy, and financial services, tend to experience more pronounced abnormal returns during political transitions, as investors reassess how shifts in government policy will affect sector-specific regulatory conditions and revenue streams (Cohen et al., 2011). In contrast, firms in sectors that are relatively insulated from government policy tend to exhibit more muted stock price reactions, suggesting that the informational content of political events is filtered through the lens of firm-level and sector-level policy exposure. This heterogeneity also explains why aggregate market-level analyses of political uncertainty effects often understate the true magnitude of the impact, as positive and negative reactions across different sectors can partially offset one another in index-level measurements.

In emerging markets, the effects of political uncertainty on stock returns are generally amplified relative to developed economies, for several structural reasons. First, emerging market institutions are typically less capable of constraining executive discretion, meaning that changes in political leadership carry greater potential for abrupt policy reversals and regulatory shifts (Perotti & van Oijen, 2001). Second, information asymmetry tends to be higher in emerging markets, as financial disclosure standards are less stringent and analyst coverage is thinner, making it harder for investors to assess the true implications of political developments for firm value (Bekaert et al., 2005). Third, emerging market economies are often more dependent on a narrow range of sectors or natural resources that are closely tied to government policy, amplifying the sensitivity of aggregate market performance to political transitions. These structural features collectively mean that political events in emerging markets such as Indonesia carry greater informational content for stock prices than comparable events in more institutionally developed economies.

Indonesia's political landscape presents a particularly relevant case for studying the stock market effects of political uncertainty. As the world's largest archipelagic democracy and one of Southeast Asia's most dynamic emerging markets, Indonesia holds regular direct presidential elections that attract significant domestic and international investor attention (Erb et al., 1996). The country's political environment is characterized by multiparty coalition politics, where the formation of governing alliances often introduces additional uncertainty about policy coherence and the stability of the legislative agenda. Furthermore, Indonesia's historical experience with political instability, including the democratic transition following the fall of the Suharto regime in 1998, has left a legacy of heightened investor sensitivity to political developments, making elections and presidential inaugurations particularly salient events for the domestic stock market (Fisman, 2001). These characteristics make the 2024 Indonesian presidential election and the subsequent inauguration of the new president a highly suitable context for examining how political uncertainty translates into measurable abnormal stock returns among LQ45-listed firms.

2.3 Cumulative Abnormal Return (CAR)

Abnormal return is defined as the difference between the actual return of a stock over a given period and the return that would have been expected in the absence of a specific event, based on a benchmark model of normal performance (MacKinlay, 1997). At the heart of event studies lies this idea: it separates what a specific occurrence causes in a stock's behavior from movements already underway due to general market shifts or internal patterns. Rather than assuming randomness, analysts rely on frameworks like Capital Asset Pricing Model (CAPM) or simple index-linked regressions built from data gathered before the event to form expectations. From such models emerges a forecast, grounded in historical alignment between individual equity performance and wider benchmarks. When actual results during the event timeframe stray from those forecasts, the gap appears as an unusual shift in value. That divergence, the abnormal return is interpreted as pricing adjustment prompted solely by fresh details introduced through the incident.

In the context of political events, CAR has been widely employed as the primary measure of market reaction to elections, policy announcements, and governmental transitions. Studies examining the stock market effects of elections across multiple countries have found that electoral outcomes associated with greater policy uncertainty tend to generate significant negative CAR among listed firms, reflecting investor concerns about future regulatory and macroeconomic conditions (Białkowski et al., 2008). The direction and magnitude of this reaction depend heavily on the degree of surprise in the electoral outcome, as outcomes that closely match pre-election forecasts tend to produce smaller abnormal returns compared to unexpected results that force investors to substantially revise their expectations (Snowberg et al., 2007). Furthermore, the identity and policy platform of the winning candidate matter significantly, as markets tend to react more favorably to

candidates perceived as pro-business, fiscally conservative, or committed to maintaining existing investment-friendly regulatory frameworks (Herron, 2000).

In Indonesia's case, the 2024 presidential election carried substantial informational content for stock market investors for several reasons. The election represented a major political transition, with the incumbent administration's chosen successor competing against candidates with distinctly different economic policy orientations, creating genuine uncertainty about the future direction of fiscal, industrial, and regulatory policy (Warjiyo & Juhro, 2019). The Indonesia Stock Exchange, as an emerging market bourse, is particularly sensitive to political developments given the historically significant role of the state in directing economic activity, the prevalence of politically connected firms among the largest listed companies, and the dependence of many sectors on government concessions and regulatory approvals. Under these conditions, rational investors would be expected to revise their valuations of listed firms in response to electoral information that carries implications for future policy, making the measurement of CAR around the two chosen event dates a theoretically appropriate and empirically relevant approach.

The first event date of 24th April 2024, when the General Elections Commission of Indonesia (KPU) officially determined the result of the presidential election, represents a moment of formal political information revelation that resolves the uncertainty surrounding electoral outcomes. Even where poll projections had suggested a likely winner in advance, the official determination of the result carries legal and institutional finality that can trigger portfolio rebalancing among institutional and retail investors who had previously hedged their positions in anticipation of multiple scenarios (Wagner et al., 2018). The resolution of electoral uncertainty does not, however, fully eliminate political risk, as investors must still form expectations about the policy composition of the incoming government, the stability of coalition arrangements, and the credibility of pre-election commitments, all of which introduce continued ambiguity that sustains abnormal return dynamics beyond the announcement date.

The second event date of 20th October 2024, the Inauguration Day of the new President of Indonesia, constitutes a distinct informational event because it formally transfers executive authority and signals the imminent implementation of the new administration's policy agenda. Research on inaugurations and government formation events has found that these occasions can generate significant market reactions that are independent of the earlier electoral announcement, as they provide investors with more concrete signals about cabinet composition, policy priorities, and the speed and sequencing of promised reforms (Pantzalis et al., 2000). The inauguration also triggers a shift in market attention from electoral uncertainty to policy implementation uncertainty, a transition that can generate renewed volatility as investors reassess firm-level valuations in light of the incoming administration's specific programmatic commitments.

The theoretical expectation that both event dates will generate a negative CAR for LQ45-listed firms is grounded in the broader empirical literature on political uncertainty and stock returns. Political transitions, even when they proceed smoothly and democratically, introduce a period of heightened uncertainty about policy continuity that tends to suppress equity valuations as investors demand higher risk premiums for holding stocks during periods of ambiguous governance (L. Pástor & Veronesi, 2013). The LQ45 index, which comprises the 45 most liquid and widely traded stocks on the Indonesia Stock Exchange, includes a disproportionate share of large, politically exposed firms in sectors such as banking, energy, telecommunications, and infrastructure, all of which are highly sensitive to shifts in government policy and regulatory direction. Given the policy sensitivity of these firms and the structural features of Indonesia as an emerging market democracy, it is theoretically consistent to expect that both the official announcement of the election result and the presidential inauguration will generate negative cumulative abnormal returns, as investors price in the uncertainty associated with the political transition and the potential for policy shifts under the new administration.

Hypothesis 1 (H_1): There is a negative impact on CAR of companies' shares that are listed in LQ45 Stock Market Index in IDX during 2024 Indonesian Presidential Election period, which in this research 2 events are chosen specifically:

- 24th April 2024: General Elections Commission of Indonesia determines the result of the presidential election
- 20th October 2024: Inauguration Day of the new President of Indonesia

2.4 Signaling Theory

Signaling theory originates from the foundational work on information asymmetry in economic markets, where it was first formally articulated to explain how parties with superior private information can credibly communicate that information to less-informed counterparts through observable actions or characteristics (Spence, 1973). The core problem that signaling theory addresses is one of adverse selection: in markets where information is unevenly distributed between buyers and sellers, or between firms and investors, the inability of uninformed parties to distinguish between high-quality and low-quality counterparts leads to market inefficiencies and potentially to market breakdown (Akerlof, 1970). Signals serve as mechanisms through which informed parties can bridge this informational gap, provided that the signals are costly enough to produce that low-quality actors cannot profitably imitate them, thereby preserving the credibility and informativeness of the signal in equilibrium. In the context of financial markets, signaling theory has become a central analytical framework for

understanding how firms communicate their quality, stability, and future prospects to investors who lack direct access to internal corporate information.

In corporate finance, signaling theory is most prominently applied to explain a wide range of firm decisions that would otherwise appear suboptimal from a purely operational standpoint but are rational when understood as credible communications of private information to external stakeholders. Dividend policy is among the most studied signaling mechanisms in this literature, with the theoretical argument that firms paying higher dividends are signaling their confidence in sustained future earnings, since only financially robust firms can afford the cash outflows associated with consistent dividend maintenance (Ross, 1977). Similarly, capital structure decisions carry signaling content, as firms that take on higher levels of debt are implicitly signaling managerial confidence in the firm's ability to generate sufficient future cash flows to service its obligations, a signal that less profitable firms would be unable to credibly replicate (Myers & Majluf, 1984). Share repurchase announcements have also been interpreted through a signaling lens, with the argument that firms buying back their own shares are communicating managerial belief that the stock is currently undervalued by the market relative to its intrinsic worth (Ikenberry et al., 1995).

Firm size functions as a particularly powerful and widely recognized signal in financial markets. Larger firms are generally perceived by investors as more established, more operationally diversified, and more capable of weathering economic disruptions, which translates into lower perceived risk and a lower cost of capital (Banz, 1981). The signaling value of firm size derives partly from its observability and partly from the implicit endorsement it represents: large firms have typically survived extended periods of competitive selection, regulatory scrutiny, and market volatility, all of which provide external validation of their operational quality and managerial competence. In the context of political uncertainty, larger firms send a credible signal to market participants that they possess the organizational resources, political networks, and financial buffers necessary to adapt to shifting policy environments, which may explain why investors tend to revise their expectations about large firms differently from small firms in response to political events (Dang et al., 2017). This size-based signaling dynamic is directly relevant to understanding why firm size emerges as a significant moderator of CAR in studies of political event effects on stock markets.

Firm age similarly carries substantial signaling value in financial markets. Older firms have demonstrated sustained viability over extended periods, which investors interpret as a credible signal of managerial quality, business model robustness, and the capacity to generate stable earnings across varying economic conditions (Diamond, 1989). The informational value of firm age as a signal is grounded in the logic of survival: the mere fact that a firm has remained operational and publicly listed for many years serves as an implicit certification of its competitive strength and governance standards, reducing the degree of uncertainty

that investors face when assessing its future prospects. In contrast, younger firms carry greater opacity and uncertainty because they have shorter track records, less established relationships with regulators and financiers, and greater vulnerability to early-stage operational disruptions (Berger & Udell, 1998). This differential signaling capacity between older and younger firms has important implications for how markets respond to political uncertainty events, as the established reputational capital of older firms may provide a form of informational cushion that moderates investor anxiety during periods of political transition.

The quality and transparency of information disclosure also function as critical signals in financial markets, particularly in the context of emerging economies where mandatory disclosure standards may be less stringent than in developed markets. Firms that voluntarily provide more detailed, timely, and verifiable financial disclosures are signaling their confidence in the quality of their fundamentals and their commitment to investor protection, which reduces information asymmetry and lowers the risk premium demanded by investors (Healy & Palepu, 2001). In markets characterized by higher baseline levels of information asymmetry, such as Indonesia's stock exchange, the differential in disclosure quality across firms becomes a more pronounced determinant of how investors process uncertainty during politically turbulent periods. Firms that have established reputations for transparent reporting are better positioned to reassure investors during periods of political uncertainty because they provide the informational foundation necessary for investors to independently assess the implications of political developments for firm value.

State ownership constitutes a particularly nuanced form of signal in emerging market contexts. Government ownership of a firm can be interpreted by investors as a signal of implicit state backing, suggesting that the firm benefits from preferential access to government contracts, subsidized financing, regulatory leniency, and protection against competitive entry or bankruptcy (Boubakri et al., 2004). This implicit guarantee reduces the perceived downside risk of investing in state-owned enterprises, which can translate into lower risk premiums and more stable stock prices during periods of political uncertainty. However, the signaling value of state ownership is not uniformly positive. Investors also recognize that government ownership may signal weaker corporate governance, lower managerial efficiency, and greater susceptibility to politically motivated resource allocation decisions that prioritize social or political objectives over shareholder value maximization (Shleifer & Vishny, 1994). The net effect of state ownership as a signal therefore depends on the institutional context and the specific political circumstances under consideration, making it a theoretically ambiguous but empirically important variable in studies of political event effects on stock returns.

Signaling theory also provides a framework for understanding how the identity and characteristics of political actors send signals to financial markets. The election of a new president or the composition of a new government cabinet can

function as signals about the future direction of economic policy, the degree of continuity with existing regulatory frameworks, and the likely prioritization of competing policy objectives such as fiscal consolidation, infrastructure investment, or redistributive transfers (Boutchkova et al., 2011). Markets process these political signals in conjunction with firm-level signals to arrive at revised valuations, meaning that the stock market reaction to a political event is not determined solely by the event itself but by the interaction between the political signal and the firm-specific characteristics that determine how sensitive each firm is to the anticipated policy changes. This interaction between political and firm-level signaling is central to understanding the cross-sectional variation in CAR observed across firms during political event windows, and it underscores the importance of incorporating firm-level moderating variables such as size, age, and ownership structure into empirical analyses of political event effects.

The integrated application of signaling theory to the present research context suggests that firm-level observable characteristics, specifically firm size, firm age, and state ownership function as signals that modulate how investors interpret and respond to the political uncertainty generated by the 2024 Indonesian presidential election and inauguration. During periods of elevated political uncertainty, investors rely more heavily on observable firm signals to differentiate between companies that are well-positioned to navigate the political transition and those that are more vulnerable to adverse policy shifts (Zhang, 2006). Larger, older, and state-affiliated firms send signals of resilience, political connectedness, and institutional backing that may partially offset the negative informational content of political uncertainty, while smaller, younger, and privately owned firms lack these mitigating signals, making their stock prices more susceptible to downward revisions during politically turbulent periods. This theoretical logic provides the foundational rationale for the firm-level hypotheses developed in subsequent sections of this chapter, connecting the broader framework of signaling theory to the specific empirical predictions of this research.

2.5 Resource-Based View (RBV)

The Resource-Based View (RBV) of the firm is one of the most influential theoretical frameworks in strategic management and corporate finance, asserting that sustained competitive advantage and superior firm performance derive from the possession of resources and capabilities that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Unlike market-based views that locate the sources of competitive advantage in industry structure and external positioning, the RBV directs analytical attention inward to the firm-level heterogeneity in resource endowments that exists even among firms competing in the same industry and market environment. The foundational premise of the RBV is that firms are bundles of unique resources and capabilities whose differential availability across firms explains persistent performance differences that cannot be attributed solely to market structure, technology, or managerial decisions made in response to external

conditions (Penrose, 1959). In the context of financial markets and political event studies, the RBV provides a powerful theoretical basis for understanding why firm-level characteristics such as size, geographic diversification, and organizational age generate systematically different stock market responses to political events, as these characteristics serve as observable proxies for underlying resource heterogeneity.

The intellectual origins of the RBV are typically traced to the work of Edith Penrose (1959), whose theory of the growth of the firm articulated the idea that firms accumulate productive resources over time through the learning processes of their managerial teams, generating growth potential that is both firm-specific and path-dependent. This Penrosean insight that firms possess unique productive resources whose exploitation depends on accumulated organizational knowledge laid the groundwork for the later formalization of the RBV by Wernerfelt (1984) and its subsequent development into a comprehensive strategic theory by Barney (1991). Barney's framework operationalized the RBV through the VRIN criteria: resources that are Valuable in enabling the firm to exploit opportunities or neutralize threats, Rare in their distribution across current and potential competitors, Inimitable in the sense of being difficult or costly for competitors to replicate, and non-substitutable in that no strategically equivalent alternative resource exists. Resources meeting all four criteria are the source of sustained competitive advantage, while resources that are merely valuable and rare but easily imitable or substitutable generate only temporary competitive advantage (Barney, 1991).

Resources in the RBV tradition are broadly categorized into tangible assets, such as physical capital, financial capital, and technological equipment, and intangible assets, such as organizational culture, managerial expertise, reputational capital, and relational networks (Grant, 1991). Capabilities, which are the organizational routines and processes through which firms deploy and combine their resources, constitute a related but distinct category that captures the firm's capacity to generate value from its resource endowments rather than the endowments themselves. The distinction between resources and capabilities is analytically important because firms with similar resource stocks can generate vastly different performance outcomes depending on the sophistication and effectiveness of the capabilities through which those resources are deployed. In the context of political risk management, for example, firms may possess comparable financial resources but differ dramatically in their capability to leverage governmental relationships, interpret regulatory signals, and implement adaptive strategic responses to political transitions, with these capability differences producing distinct stock market outcomes during political event windows.

The relevance of the RBV to understanding firm-level responses to political uncertainty lies in its fundamental premise that firms are heterogeneous in their resource endowments and capabilities, and that this heterogeneity produces differential outcomes when firms are exposed to the same external shocks. A

presidential election or political transition constitutes an exogenous shock to the operating environment that confronts all listed firms simultaneously, yet the RBV predicts that firms' stock market responses to this shock will vary systematically based on the depth and quality of their resource stocks. Firms with superior resource endowments, including greater financial depth, more extensive organizational capabilities, stronger reputational assets, and richer political economy relationships, are better positioned to absorb and adapt to political transitions, which translates into more resilient equity valuations and smaller negative CAR around political event dates (Hillman & Hitt, 1999). The RBV therefore provides the theoretical bridge between firm-level observable characteristics such as size, geographic diversification, and age and the cross-sectional variation in CAR that this research seeks to explain.

Dynamic capabilities, an extension of the core RBV framework developed by Teece et al. (1997), further enriches the theoretical basis for linking firm-level resource endowments to political event responses. Dynamic capabilities are defined as the firm's capacity to integrate, build, and reconfigure internal and external competencies in response to rapidly changing environments, precisely the type of environmental change that a major political transition represents. Firms with well-developed dynamic capabilities are not merely endowed with superior resource stocks but possess the organizational agility to redeploy those resources adaptively in response to new political conditions, regulatory signals, and policy shifts introduced by incoming administrations. In the Indonesian context, where political transitions have historically been accompanied by significant shifts in concession policies, subsidy structures, and infrastructure investment priorities, the dynamic capabilities of listed firms constitute a critical determinant of their capacity to navigate the policy uncertainties generated by the 2024 presidential election. Investors assessing the implications of the election for LQ45-listed firms would therefore be expected to factor in observable proxies for dynamic capabilities when revising their valuations, producing differential CAR that reflects the market's assessment of firm-level adaptive capacity.

The RBV also provides theoretical grounding for the geographic diversification variable examined in this research. From a resource-based perspective, geographic diversification is not simply a risk-spreading mechanism but an active resource development strategy through which firms build proprietary capabilities in cross-border management, international market knowledge, and multi-jurisdictional regulatory navigation (Rugman & Verbeke, 2004). Firms that have successfully diversified geographically have demonstrated the organizational capability to replicate and adapt their core competencies across diverse institutional environments, which the RBV would interpret as evidence of the transferability and depth of their underlying resource base. This capability dimension of geographic diversification has direct implications for how geographically diversified firms respond to domestic political events: their demonstrated capacity to operate effectively across multiple political environments signals to investors that domestic

political uncertainty represents a manageable rather than existential challenge, moderating the negative stock price impact of political transitions (Kim et al., 1993).

Firm age, one of the central independent variables of this research, is closely aligned with the RBV's emphasis on the path-dependency of resource accumulation. The RBV predicts that resource stocks cannot be instantaneously acquired but must be built up gradually through deliberate investment, organizational learning, and the accumulation of tacit knowledge over time (Dierickx & Cool, 1989). This temporal dimension of resource accumulation means that older firms have had longer to develop their intangible resource stocks, including managerial expertise, stakeholder relationships, brand equity, and institutional knowledge, relative to younger firms that are still in the early stages of building their resource bases. The concept of causal ambiguity in the RBV, the difficulty of replicating resources when the precise sources of their value are not fully understood even by the firm itself, explains why these accumulated intangible resources are especially difficult for younger firms to imitate, preserving the competitive advantage of older resource-rich incumbents. In the context of political event studies, this time-dependency of resource accumulation provides the RBV-grounded rationale for expecting that older firms, with their richer accumulated resource endowments, will exhibit more resilient stock market responses to political uncertainty than their younger counterparts.

The integration of the RBV into the theoretical framework of this research serves to complement and deepen the signaling theory perspective developed in section 2.4. While signaling theory focuses on the communicative function of firm-level observable characteristics in reducing information asymmetry between firms and investors, the RBV provides the underlying strategic rationale for why these signals carry genuine informational content: they are observable proxies for firm-level resource endowments and capabilities that translate into real differences in adaptive capacity, political resilience, and earnings sustainability during political transitions. Together, signaling theory and the RBV offer a theoretically coherent and mutually reinforcing framework for explaining why firm size, geographic diversification, firm age, and state ownership generate cross-sectional variation in CAR around the 2024 Indonesian presidential election and inauguration, with each theory contributing a distinct but complementary explanatory logic to the empirical hypotheses developed in subsequent sections.

2.6 Firm Size

Firm size is one of the most extensively studied variables in empirical corporate finance and asset pricing, consistently emerging as a significant determinant of stock returns, risk profiles, corporate behavior, and investor decision-making across a wide range of market contexts and time periods (Banz, 1981). In financial research, firm size is most commonly operationalized using the natural logarithm of total assets, market capitalization, or total revenues, with the

logarithmic transformation applied to reduce the skewness inherent in the raw distribution of firm size across listed companies and to allow for more meaningful linear estimation in regression frameworks (Dang et al., 2017). The choice of size proxy can influence empirical results to some degree, but the fundamental relationship between firm size and financial outcomes tends to be robust across alternative operationalizations, reflecting the fact that size captures a broad constellation of firm characteristics including organizational complexity, resource endowments, market power, and access to capital markets.

The theoretical relationship between firm size and stock market behavior is grounded in several complementary mechanisms. The most foundational of these is the information environment hypothesis, which posits that larger firms are subject to greater analyst coverage, more extensive media attention, and higher levels of institutional investor scrutiny, all of which collectively reduce the degree of information asymmetry between the firm and external investors (Atiase, 1985). Because larger firms operate in richer information environments, their stock prices tend to incorporate available information more rapidly and more completely than those of smaller firms, making them less susceptible to large informational surprises and more resilient to episodes of market-wide uncertainty. This information environment advantage of large firms is particularly consequential during politically turbulent periods, when the quality and speed of information processing become critical determinants of how efficiently stock prices adjust to new political signals.

A second foundational mechanism linking firm size to market behavior is the risk-based explanation embedded in asset pricing theory. The seminal size effect documented by Fama and French (1993) established that small firms earn systematically higher average returns than large firms after controlling for market risk, an anomaly they interpreted as compensation for a size-related risk factor associated with the greater vulnerability of small firms to economic downturns, financial distress, and liquidity constraints. Larger firms, by contrast, are generally more financially diversified, carry stronger balance sheets, and have broader access to external financing through both debt and equity markets, all of which reduce their exposure to systematic and idiosyncratic risk (Frank & Goyal, 2009). During periods of political uncertainty, this risk differential between large and small firms becomes particularly salient, as investors reassess the capacity of firms of different sizes to absorb and adapt to potential policy changes under a new political administration.

The relationship between firm size and political sensitivity is an important dimension of the size-return nexus that has received growing attention in the empirical literature. Large firms tend to have more developed governmental relations functions, more resources to devote to lobbying and regulatory engagement, and greater bargaining power in negotiations with government agencies, all of which reduce their vulnerability to adverse regulatory changes

under new administrations (Hillman et al., 2004). Furthermore, large firms are more likely to be classified as systemically important by governments and regulators, creating implicit expectations of preferential treatment or bailout protection during periods of economic or political stress. These political economy advantages of large firms translate into lower political risk premiums in their stock valuations, meaning that investors require less additional compensation for holding large firm stocks during politically uncertain periods compared to small firm stocks.

Conversely, smaller firms face a structurally more challenging environment during periods of political uncertainty. Their limited financial resources constrain their ability to engage with the political process, adapt their business models to new regulatory requirements, or absorb the costs associated with policy transitions (Beck et al., 2005). Small firms also tend to be more operationally concentrated in narrow product markets or geographic regions, making them more exposed to sector-specific policy changes that a more diversified larger firm could more easily weather. Additionally, the thinner analyst coverage and lower institutional investor presence characteristic of small firm stocks means that price discovery during politically turbulent periods is slower and more uncertain, potentially leading to larger and more persistent abnormal return responses to political events. These structural disadvantages of small firms during political transitions provide a theoretical basis for expecting that firm size will moderate the magnitude of CAR around major political events.

The empirical literature on firm size and event-driven abnormal returns provides strong support for the theoretical expectation that size significantly influences market reactions to major announcements and political events. Studies of earnings announcements have consistently found that the price response to new information is inversely related to firm size, with smaller firms exhibiting larger abnormal returns around announcement dates, reflecting the greater informational content of the announcement relative to what was previously known about the firm (Collins & Kothari, 1989). In the political event context, research has demonstrated that firm size shapes the cross-sectional distribution of CAR around elections and policy announcements, with the direction and magnitude of the size effect depending on the nature of the political change and the policy environment it creates (Leary & Roberts, 2013). These findings collectively suggest that firm size is not merely a control variable but a theoretically meaningful moderator of how political information is priced across different segments of the stock market.

In the Indonesian market context, firm size carries additional significance as a determinant of political event effects on stock returns. Indonesia's corporate landscape is characterized by a relatively small number of very large conglomerates that dominate key sectors of the economy and maintain extensive relationships with the government, while the broader universe of listed firms includes many smaller companies with limited political access and financial resources (Fisman, 2001). This polarization of the corporate landscape means that the differential effect of

political events on large versus small firms is likely to be particularly pronounced in Indonesia compared to markets with more evenly distributed firm size distributions. The LQ45 index, which is the focus of this research, already skews toward larger and more liquid firms, but even within this relatively select group of companies, meaningful variation in firm size exists that is expected to generate cross-sectional differences in CAR around the two political event dates examined in this study.

Furthermore, the 2024 Indonesian presidential election introduced specific policy uncertainties that are likely to affect firms of different sizes in distinct ways. Larger firms in the LQ45 index, particularly those in capital-intensive sectors such as infrastructure, mining, and telecommunications, are more exposed to government concession and licensing decisions that may shift under a new administration, creating both upside and downside political risk that investors must price (Warjiyo & Juhro, 2019). At the same time, these large firms possess greater adaptive capacity and political connectedness that may partially offset their policy exposure, resulting in a more muted net CAR response. Smaller firms within the index, while less directly exposed to large-scale government policy decisions, are more vulnerable to the generalized uncertainty premium that accompanies political transitions and less capable of signaling resilience to investors through established reputational capital and disclosed political relationships.

Drawing together the information environment advantage, the risk-based explanation, and the political economy positioning of large firms discussed above, a consistent theoretical expectation emerges: larger firms are better positioned to signal resilience, absorb policy shocks, and maintain investor confidence during political transitions. This leads to the following hypothesis:

Hypothesis 2 (H_2): Firm size has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

2.7 Geographic Diversification

Geographic diversification refers to the strategic expansion of a firm's operations, revenues, or assets across multiple countries or regions beyond its domestic home market, with the objective of reducing exposure to location-specific risks and accessing growth opportunities that may not be available within a single national market (Rugman & Verbeke, 2004). As a corporate strategy, geographic diversification has been studied extensively across the international business and financial economics literatures, where it is broadly understood as a mechanism through which firms can reduce the volatility of their earnings streams by spreading operational exposure across markets that are subject to different economic cycles, regulatory environments, and political conditions (Kim et al., 1993). The fundamental intuition underlying geographic diversification as a risk management

strategy mirrors that of portfolio diversification in asset pricing theory: when the performance drivers of different geographic markets are imperfectly correlated, combining exposure to multiple markets reduces the overall variance of firm-level outcomes relative to single-market concentration.

The theoretical foundations of geographic diversification as a value-creating strategy draw from several established frameworks in international business research. Internalization theory suggests that multinational firms expand geographically when the benefits of internalizing cross-border transactions within the firm exceed the costs of operating in foreign markets, with the result that geographically diversified firms develop proprietary capabilities in managing across diverse institutional and regulatory environments (Buckley & Casson, 1976). The resource-based view of the firm further argues that geographic diversification enables firms to leverage their core competencies and proprietary assets across a broader set of markets, generating economies of scope that are unavailable to purely domestic competitors (Barney, 1991). The eclectic paradigm, also known as the OLI framework, synthesizes ownership, location, and internalization advantages to explain why firms choose to operate in specific foreign markets and how geographic expansion generates value through access to location-specific resources, lower-cost inputs, and proximity to growth markets (Dunning, 1988). Together, these theoretical perspectives establish geographic diversification not merely as a passive risk-spreading strategy but as an active source of competitive advantage that can enhance firm value independently of its risk-reduction properties.

From a financial markets perspective, geographic diversification affects stock valuations through multiple channels that have distinct implications for how investors assess firms during periods of political uncertainty. The most direct channel is the earnings stabilization effect: firms with operations spread across multiple geographic markets are less dependent on the economic and political conditions of any single country, meaning that adverse political developments in the home market are partially offset by continued performance in foreign markets (Reeb et al., 1998). This earnings stabilization reduces the sensitivity of the firm's expected cash flows to domestic political events, which in turn lowers the magnitude of stock price adjustment required when domestic political uncertainty materializes. For investors assessing the implications of a major political transition such as a presidential election, geographically diversified firms therefore present a more resilient earnings profile than purely domestic firms, making their valuations less sensitive to the political uncertainty premium that tends to depress stock prices during electoral periods.

A second financial channel through which geographic diversification affects stock market behavior is the access to international capital markets. Firms with established foreign operations tend to develop relationships with international investors, foreign banks, and multilateral financial institutions that provide access to funding sources that are insulated from domestic political and financial

conditions (Desai et al., 2004). This diversified financing base reduces the dependence of geographically diversified firms on domestic credit markets, which can tighten significantly during periods of political uncertainty as domestic lenders become more risk-averse. The reduced financing risk of geographically diversified firms translates into lower default probabilities and more stable equity valuations during politically turbulent periods, providing an additional buffer against the negative stock price effects typically associated with domestic political transitions.

However, the relationship between geographic diversification and firm value is not uniformly positive, and the empirical literature documents what has come to be known as the diversification discount, a phenomenon where diversified firms trade at a valuation discount relative to the sum of their focused parts (Denis et al., 2002). This discount has been attributed to several factors, including the increased organizational complexity of managing operations across multiple regulatory and cultural environments, the agency costs associated with allocating capital across geographically dispersed business units, and the informational challenges faced by investors in accurately assessing the performance and risk profile of highly diversified multinational firms. In the context of political event studies, the diversification discount implies that the risk-reducing benefits of geographic diversification may be partially offset by the valuation penalties associated with complexity and opacity, creating an ambiguous net effect that is ultimately an empirical question.

The currency risk dimension of geographic diversification introduces an additional layer of complexity in evaluating the relationship between international exposure and stock market performance during political events. Firms that generate revenues in foreign currencies are exposed to exchange rate fluctuations that can amplify or attenuate the domestic-currency value of their overseas earnings depending on the direction of currency movements triggered by political developments (Jorion, 1990). In Indonesia, major political events such as presidential elections have historically been associated with volatility in the Indonesian Rupiah, as foreign investors reassess country risk and adjust their currency exposures accordingly. For Indonesian firms with significant foreign currency revenues, Rupiah depreciation triggered by political uncertainty can translate into higher domestic-currency earnings from overseas operations, potentially producing a positive offset to the negative domestic political risk premium. Conversely, firms with foreign currency-denominated debt may face higher debt service costs during episodes of Rupiah weakness, partially or fully negating the earnings benefit of foreign revenue diversification.

The degree of geographic diversification also influences the information environment surrounding a firm's stock, with important implications for how efficiently and completely investors can process political event information. Highly diversified multinational firms are subject to disclosure requirements across multiple jurisdictions, which can simultaneously increase the total volume of

publicly available information about the firm and introduce greater complexity in the interpretation of that information (Duru & Reeb, 2002). Investors and analysts must assess the political implications of a domestic election not only for the firm's home-country operations but also for its foreign subsidiaries, joint ventures, and supply chains, a more complex analytical task that may result in slower or more heterogeneous market reactions compared to purely domestic firms. This informational complexity suggests that the CAR of geographically diversified firms around political event dates may be characterized by greater cross-sectional dispersion, reflecting differences in investor capacity to process the multi-dimensional implications of political events for internationally exposed firms.

Empirical research on the stock market effects of political events has increasingly recognized geographic diversification as a meaningful moderator of firm-level abnormal returns. Studies of election effects across multiple countries have found that firms with higher levels of international revenue diversification tend to exhibit smaller absolute CAR around electoral event dates compared to purely domestic firms, consistent with the theoretical prediction that geographic diversification insulates firm value from domestic political shocks (Pantazalis et al., 2000). However, the direction of this moderating effect varies with the specific nature of the political event: in cases where the election outcome is expected to produce significant changes in trade policy, foreign investment regulations, or currency management, geographically diversified firms may actually experience larger abnormal returns than domestic firms, as the political event carries more direct implications for their cross-border operations and revenue streams (Boutchkova et al., 2011).

In the Indonesian context, geographic diversification among LQ45-listed firms is particularly relevant given the country's role as a major commodity exporter and its integration into regional and global value chains in sectors such as mining, palm oil, consumer goods, and manufacturing. Firms in these sectors that have diversified their operations or revenue bases across multiple Asian or global markets are less dependent on the domestic demand and regulatory conditions that a change in presidential administration most directly affects (Tomassen et al., 2012). At the same time, Indonesia's policy environment under successive administrations has placed varying degrees of emphasis on resource nationalism, local content requirements, and restrictions on foreign ownership, creating a political context in which the geographic footprint of a firm is a particularly salient determinant of its sensitivity to political transition risk. Investors evaluating the implications of the 2024 presidential election for LQ45-listed firms would therefore be expected to systematically differentiate between firms with significant international exposure and those with predominantly domestic operations, producing cross-sectional variation in CAR that reflects the moderating role of geographic diversification.

Hypothesis 3 (H_3): Geographic diversification has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

2.8 Firm Age

Firm age is defined as the number of years a company has been in operation since its founding or since its initial listing on a public stock exchange, and it serves as a fundamental organizational characteristic that captures a wide range of attributes related to institutional maturity, operational experience, reputational capital, and informational transparency (Loderer & Waelchli, 2010). As a variable in empirical corporate finance and financial economics research, firm age has been employed both as a direct predictor of financial outcomes and as a proxy for the degree of information asymmetry between the firm and external capital market participants, with the underlying premise that older firms are generally better known, more thoroughly analyzed, and more predictable in their behavior than younger firms that have shorter and less complete track records (Berger & Udell, 1998). The multidimensional nature of what firm age captures makes it a theoretically rich variable whose effects on stock market behavior cannot be reduced to a single mechanism but must instead be understood as the product of several interacting forces related to information, risk, organizational capacity, and institutional embeddedness.

The life cycle theory of the firm provides the most comprehensive theoretical framework for understanding how firm age shapes corporate financial behavior and market valuations. Under this framework, firms pass through distinct developmental stages. From introduction through growth, maturity, and eventually decline, each characterized by different earnings profiles, investment opportunities, cash flow patterns, and financing needs (Dickinson, 2011). Young firms in the introduction and early growth stages tend to exhibit high revenue volatility, negative or unpredictable earnings, heavy dependence on external financing, and elevated operational risk as they work to establish viable business models and competitive positions in their target markets. As firms age and move through the growth and maturity stages, their earnings tend to become more stable and predictable, their cash generation capacity improves, their dependence on external financing decreases, and their competitive positions become more entrenched, all of which reduce the fundamental uncertainty surrounding their valuation. This lifecycle-driven progression from high uncertainty to greater predictability has direct implications for how investors process new information, including politically significant events, about firms at different stages of organizational development.

Information asymmetry is one of the central mechanisms through which firm age exerts its influence on stock market behavior and investor decision-making. Younger firms are characterized by shorter histories of publicly disclosed financial performance, narrower analyst coverage, less extensive media

documentation, and more limited track records of management decision-making under varying economic conditions, all of which make it more difficult for external investors to form precise and reliable expectations about their future performance (Hadlock & Pierce, 2010). This elevated information asymmetry surrounding young firms translates into greater stock price sensitivity to new information events, as each new piece of publicly available information carries more incremental value for investors who have less prior knowledge on which to draw. Older firms, by contrast, have accumulated extensive public records of financial performance, strategic decisions, and responses to prior episodes of economic and political uncertainty, providing investors with a richer informational foundation that reduces the marginal impact of any single new information event on their valuation assessments.

Reputational capital accumulation is another critical mechanism linking firm age to financial market outcomes. Over extended periods of operation, firms build reputations with customers, suppliers, financiers, regulators, and investors that function as valuable intangible assets, reducing transaction costs, lowering the cost of capital, and creating competitive barriers that protect the firm's market position against new entrants and rivals (Diamond, 1989). In the context of capital markets, an older firm's established reputation for financial reporting integrity, dividend consistency, and strategic prudence serves as a credibility signal that allows investors to form more confident valuations, particularly during periods of heightened uncertainty when the informational content of current disclosures may be difficult to interpret. This reputational credibility buffer is largely unavailable to younger firms, which have not yet had sufficient time to demonstrate consistent behavior across diverse economic conditions and must therefore rely more heavily on current signals to establish their standing with investors.

Organizational learning and adaptive capacity represent a third important channel through which firm age influences stock market reactions to external shocks, including political events. Older firms have accumulated institutional knowledge, established internal processes, and developed managerial competencies through their exposure to a wider variety of economic conditions, regulatory changes, and political transitions over their longer operational histories (Sørensen & Stuart, 2000). This accumulated experience makes older firms better equipped to recognize the implications of political changes, adapt their strategies accordingly, and communicate their adaptive capacity credibly to investors. The organizational routines and stakeholder relationships that older firms have developed over decades of operation provide operational resilience that younger firms, still in the process of building their organizational capabilities, cannot readily replicate. During periods of political uncertainty such as presidential elections, this differential in adaptive capacity is particularly relevant, as investors assess not only the immediate implications of political events for firm value but also the firm's capacity to navigate the policy changes that the new administration is likely to implement.

The relationship between firm age and financial leverage further mediates the effect of age on stock market behavior during political events. Research has consistently found that older firms tend to carry lower levels of financial leverage relative to their assets, reflecting their greater capacity to generate internal cash flows sufficient to fund investment without recourse to external debt and the reputational benefits that allow them to access debt markets on more favorable terms when external financing is required (Flannery & Rangan, 2005). Lower financial leverage reduces the sensitivity of older firms' equity valuations to interest rate changes, credit market tightening, and investor risk aversion, all of which tend to intensify during periods of political uncertainty as market participants reassess country risk and the cost of capital. This leverage-related resilience of older firms translates into more stable equity valuations during political event periods, providing a financial structural basis for the expectation that firm age moderates the magnitude of CAR around major political announcements.

Dividend policy provides an additional mechanism linking firm age to stock market behavior that is particularly relevant in the context of political event studies. Older, more mature firms are significantly more likely than younger firms to pay regular dividends, reflecting their more stable earnings, lower reinvestment requirements, and greater capacity to commit to sustained cash distributions to shareholders (DeAngelo et al., 2006). The commitment to regular dividend payments serves as a powerful signal of financial health and managerial confidence in future earnings stability, which can partially insulate the stock prices of dividend-paying firms from the uncertainty premium that political transitions introduce. Investors who hold older, dividend-paying firms during periods of political uncertainty benefit from a known income stream that provides a return floor independent of capital gains, reducing the downside risk associated with political event-driven price declines and potentially moderating the magnitude of negative CAR around political event dates.

Empirical research on the relationship between firm age and abnormal returns around significant events provides consistent support for the theoretical expectation that age shapes market reactions to new information. Studies of initial public offerings have documented that younger firms exhibit dramatically higher post-listing return volatility than older firms, reflecting the greater uncertainty surrounding their business models and growth trajectories that takes time to resolve as the firm establishes a public track record (Ritter, 1991). Research on earnings announcement effects has similarly found that the stock price response to earnings surprises is inversely related to firm age, with younger firms exhibiting larger price reactions to a given magnitude of earnings surprise, consistent with the information asymmetry hypothesis (Zhang, 2006). In the political event context, the expectation is that older firms will exhibit smaller absolute CAR around election and inauguration dates compared to younger firms, as their richer informational environments and established reputational capital reduce the incremental impact of political signals on investor valuations.

In the specific context of the Indonesian stock market and the LQ45 index, firm age carries additional institutional significance. Indonesia's corporate history has been shaped by several major political and economic transitions, including the transition from the Suharto regime to democratic governance in 1998, the Asian Financial Crisis of 1997-1998, and subsequent periods of democratic consolidation and economic reform, all of which have tested the resilience of listed firms and produced significant differentiation between firms that survived these transitions and those that did not (Leuz & Oberholzergee, 2006). Firms that have remained listed on the Indonesia Stock Exchange across these multiple episodes of political and economic disruption have demonstrated a form of institutional resilience that investors may reasonably expect to be informative about their capacity to navigate the policy uncertainties introduced by the 2024 presidential transition. Older firms in the LQ45 index, having survived previous episodes of political uncertainty in Indonesia, carry implicit survival credentials that younger firms listed after the major transition episodes cannot claim.

Furthermore, the relationship between firm age and political connectedness in the Indonesian context is particularly relevant. Many of Indonesia's oldest and largest listed firms were established during or before the Suharto era, during which business-government relations were characterized by extensive patronage networks and politically mediated resource allocation (Fisman, 2001). These firms have had decades to develop and institutionalize their relationships with government agencies, regulatory bodies, and political actors, giving them a form of political embeddedness that reduces their vulnerability to adverse policy changes under new administrations. Younger firms that have emerged in the post-Suharto democratic era operate in a more competitive and less patronage-driven political economy, which while generally more meritocratic, also means that they lack the deeply institutionalized government relationships that provide older firms with a buffer against political transition risk.

The convergence of information asymmetry reduction, reputational capital accumulation, adaptive organizational capacity, and survival credentials in the Indonesian institutional context collectively suggests that older firms will exhibit a more muted or favorable stock market response to political uncertainty events. This leads to the following hypothesis:

Hypothesis 4 (H_4): Firm age has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period

2.9 State Ownership

State ownership refers to the condition in which a national or subnational government holds a significant equity stake in a publicly listed or privately held corporation, thereby exercising varying degrees of influence over the firm's

strategic direction, governance structure, resource allocation decisions, and operational priorities (Shleifer & Vishny, 1994). The phenomenon of state ownership in listed firms is particularly prevalent in emerging market economies, where governments have historically used corporate ownership as an instrument of industrial policy, economic development, and political patronage, resulting in the coexistence of state-owned enterprises (SOEs) alongside privately owned firms within the same stock exchange (Boubakri et al., 2004). In Indonesia, state-owned enterprises occupy a central position in the national economy, with significant government equity stakes concentrated in strategic sectors including banking, telecommunications, energy, infrastructure, and construction, many of which are represented among the most heavily traded stocks in the LQ45 index. The presence of government ownership in these firms creates a distinctive set of financial, governance, and political dynamics that fundamentally shapes how their stocks are valued and how they respond to political events such as presidential elections and inaugurations.

Agency theory provides the foundational analytical framework for understanding the governance implications of state ownership and its consequences for firm performance and stock market behavior. The core insight of agency theory, as originally articulated by Jensen and Meckling (1976), is that the separation of ownership and control in the modern corporation creates a principal-agent relationship in which managers, acting as agents, may pursue objectives that diverge from the wealth-maximization interests of shareholders, acting as principals. This divergence of interests generates agency costs, defined as the sum of monitoring expenditures by the principal, bonding expenditures by the agent, and the residual loss from suboptimal decision-making that persists despite these efforts to align incentives. In the context of privately owned firms, competitive market pressures, managerial labor markets, corporate control mechanisms such as hostile takeovers, and performance-based compensation contracts serve as partial disciplining mechanisms that limit the extent to which managers can pursue self-serving objectives at the expense of shareholder value (Fama, 1980).

In state-owned enterprises, however, the standard agency problem is fundamentally transformed and in many respects intensified by the substitution of the government as the primary principal. Unlike private shareholders who have clear financial incentives to monitor managerial behavior and demand value-maximizing decisions, government shareholders are motivated by a complex and often contradictory set of objectives that extend well beyond financial return maximization (Boycko et al., 1996). Governments as corporate owners pursue social welfare objectives such as employment preservation, regional economic development, and the provision of affordable public services. Also political objectives such as patronage distribution, electoral support cultivation, and the rewarding of politically loyal constituencies. And last but not least, strategic objectives such as the maintenance of national champions in sectors deemed critical to economic security. These non-financial objectives create a systematic divergence

between the decisions made by SOE managers and the decisions that would maximize shareholder value, resulting in higher agency costs in state-owned enterprises compared to their privately owned counterparts.

The multiple principal problem represents a further amplification of agency costs in state-owned enterprises that distinguishes them from both privately owned firms and simple two-party principal-agent relationships. In SOEs, managerial decisions are subject to the potentially conflicting demands of multiple government stakeholders, including different ministries, legislative bodies, regional governments, and individual politicians, each of whom may have distinct and incompatible objectives for the firm (Laffont & Tirole, 1993). This multiplicity of principals with divergent interests creates governance ambiguity that further weakens managerial accountability, as managers can strategically play different principals against one another to secure discretion for self-serving behavior while deflecting responsibility for poor performance. The resulting governance weakness in SOEs tends to produce slower strategic adaptation, lower operational efficiency, and more politically motivated resource allocation decisions that collectively reduce firm value relative to what could be achieved under clearer governance structures with more focused shareholder objectives.

The soft budget constraint phenomenon further distinguishes the financial behavior of state-owned enterprises in ways that are directly relevant to stock market valuations during political events. Coined by Kornai (1979) to describe the tendency of socialist enterprises to receive financial bailouts from the state regardless of their economic performance, the soft budget constraint has been widely applied in the corporate finance literature to explain why SOEs in mixed economies tend to undertake riskier investments, carry higher leverage, and operate with lower efficiency than privately owned firms of comparable size and sector. The expectation among SOE managers and external stakeholders that the government will intervene to prevent bankruptcy or severe financial distress reduces the disciplining effect of financial pressure and insulates SOE management from the market consequences of poor decisions. For stock market investors, the soft budget constraint creates an ambiguous valuation signal: while it reduces the probability of catastrophic downside outcomes, it also reduces the upside potential associated with the competitive efficiency that market discipline would otherwise promote.

Despite these governance inefficiencies, state ownership confers a set of financial and political advantages on SOEs that can translate into superior stock market performance under specific conditions, particularly during periods of political transition. The most important of these advantages is the implicit government guarantee that state ownership provides, which reduces the default risk of SOE debt and lowers the cost of capital relative to comparable privately owned firms (Faccio et al., 2006). This lower cost of capital translates into higher present values for SOE cash flows and potentially higher equity valuations, particularly in

environments where credit market access is constrained and the cost of external financing is elevated by macroeconomic or political uncertainty. During political transitions, when market-wide risk premiums tend to rise and credit conditions tighten for private firms, the implicit state guarantee enjoyed by SOEs may provide a relative valuation advantage that partially or fully offsets the negative political uncertainty premium affecting the broader market.

Political connection theory extends the analysis of state ownership advantages by highlighting the preferential access to government resources, contracts, licenses, and regulatory dispensations that politically connected firms enjoy relative to unconnected private firms (Faccio, 2006). State-owned enterprises represent the most direct and institutionalized form of political connection, as government ownership provides an explicit and legally recognized channel through which political actors can direct public resources, contracts, and regulatory decisions in favor of the firms they own. During periods of political transition such as presidential elections, the value of political connections becomes highly sensitive to which political actors will control the levers of government resource allocation under the incoming administration, creating significant uncertainty about whether existing SOE advantages will be maintained, enhanced, or diminished under new political leadership (Fisman, 2001). This political connection uncertainty is a key driver of the stock price dynamics of SOEs around electoral events, as investors attempt to assess the implications of potential changes in government composition for the political economy advantages that underpin SOE valuations.

The moderating role of state ownership in the relationship between firm characteristics and CAR during political events reflects the fundamental transformation of firm behavior and investor expectations that government ownership induces. When state ownership interacts with firm size, the resulting moderating effect reflects the combined influence of scale advantages and political economy dynamics on stock market reactions to political events. Large SOEs occupy a particularly prominent position in Indonesia's political economy, as they are often the dominant employers in their sectors, the primary conduits for government infrastructure spending, and the most visible symbols of state capitalism, all of which make their strategic direction highly sensitive to changes in political leadership (Economist Intelligence Unit, 2023). Investors evaluating large SOEs during political transition periods must simultaneously assess the implications of the political change for the firm's commercial operations, its access to government contracts and subsidies, and the likelihood of changes in management that could affect strategic direction, creating a more complex valuation problem than that faced for large private firms whose policy sensitivity is mediated primarily through regulatory and macroeconomic channels rather than direct ownership relationships.

The moderating effect of state ownership on the relationship between geographic diversification and CAR introduces additional complexity rooted in the

intersection of political connection value and international exposure. State-owned enterprises in Indonesia have historically been more domestically oriented than their private counterparts, reflecting both the domestic policy objectives they are designed to serve and the restrictions on overseas investment that have traditionally been applied to firms with significant government equity stakes (Voss et al., 2010). For SOEs that have achieved geographic diversification, the coexistence of political connection advantages derived from domestic government ownership and the risk-reduction benefits of international revenue diversification creates a layered buffering effect against domestic political uncertainty that is theoretically distinct from the effects of either characteristic alone. Conversely, geographically concentrated SOEs face the full impact of domestic political transition risk without the offsetting benefits of international diversification, potentially producing larger negative CAR around political event dates compared to geographically diversified SOEs.

The moderating effect of state ownership on the relationship between firm age and CAR similarly reflects a complex interaction between institutional longevity and political embeddedness. Many of Indonesia's oldest state-owned enterprises were established during the early post-independence period or during the Suharto era, giving them decades of experience navigating Indonesia's political transitions and establishing deep institutional relationships with government agencies and regulatory bodies across successive administrations (Leuz & Oberholzergee, 2006). For these old and state-owned firms, political transitions represent a known and recurring organizational challenge rather than a novel threat, and their established bureaucratic relationships and institutional networks provide adaptive resources that younger SOEs and private firms of comparable age cannot access. This interaction between firm age and state ownership in shaping the CAR response to political events suggests that the marginal effect of firm age on political event abnormal returns differs systematically between state-owned and privately owned firms, justifying the inclusion of the interaction term between age and ownership in the empirical framework.

The empirical literature on state ownership and stock market performance provides nuanced support for the theoretical expectations outlined above. Studies of SOE stock market reactions to political events in emerging markets have found that state-owned firms exhibit systematically different CAR patterns compared to private firms, with the direction and magnitude of the difference depending on the nature of the political event, the policy orientation of the incoming administration, and the sector-specific policy implications of the political transition (Boubakri et al., 2012). Research on privatization events has consistently found that the transfer of state ownership to private hands generates positive abnormal returns, consistent with the theoretical expectation that private ownership disciplines are associated with higher shareholder value (Megginson & Netter, 2001). Conversely, research on government bailouts and nationalization events has found that SOEs receiving expanded state support during financial crises exhibit mixed market reactions,

reflecting the tension between the reduced default risk associated with state backing and the governance efficiency costs of increased government involvement (Bortolotti & Faccio, 2008).

Hypothesis 5 (H_5): State ownership has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 6a (H_{6a}): State ownership has moderating effect between firm size and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 6b (H_{6b}): State ownership has moderating effect between geographic diversification and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 6c (H_{6c}): State ownership has moderating effect between firm age and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

CHAPTER III

METHODOLOGY

3.1 Research Framework

Based on the literatures that have been reviewed and to investigate the impact of the 2024 Indonesian Presidential Election, a research framework has been developed accompanied by the following list of hypotheses from the previous chapter.

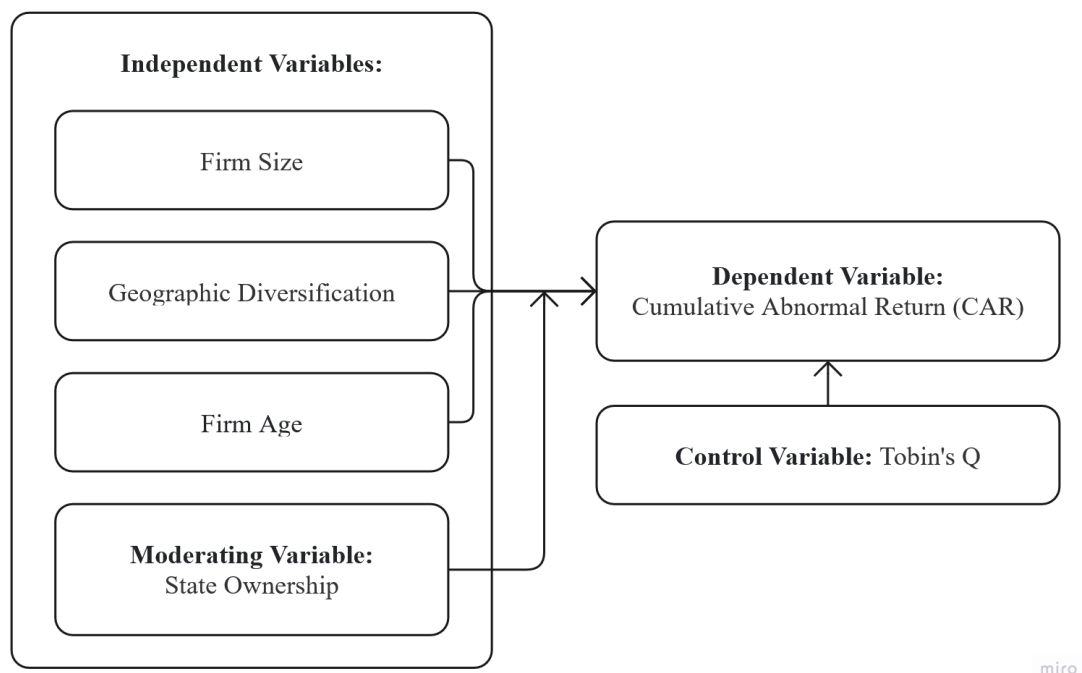


Figure 3.1 Conceptual framework

Hypothesis 1 (H_1): There is a negative impact on CAR of companies' shares that are listed in LQ45 Stock Market Index in IDX during 2024 Indonesian Presidential Election period, which in this research 2 events are chosen specifically:

- 24th April 2024: General Elections Commission of Indonesia determines the result of the presidential election
- 20th October 2024: Inauguration Day of the new President of Indonesia

Hypothesis 2 (H_2): Firm size has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 3 (H_3): Geographic diversification has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 4 (H_4): Firm age has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 5 (H_5): State ownership has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 6a (H_{6a}): State ownership has moderating effect between firm size and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 6b (H_{6b}): State ownership has moderating effect between geographic diversification and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Hypothesis 6c (H_{6c}): State ownership has moderating effect between firm age and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

3.1.1 Independent Variable

1. Firm Size

Firm size is the measure of how big is the scale of company's operation, which usually is measured by total assets, and it's important because it affects financial performance, access to financing, and overall growth potential of the company (Kumar et al., 1999). For this research, firm size will be measured with the following formula:

$$Firm\ Size = \ln(Total\ Assets)$$

Where:

- $\ln$ = natural logarithm
- Total Assets = total assets reported in the firm's financial reports

The reasoning behind using natural logarithm of the company total assets is because different firms' total assets differ by quite a lot, hence large firm total assets will dominate the results. With natural logarithm these values are compressed into a manageable range which also reduces data skewness because firm size data is usually right-skewed (Cortés et al., 2021).

2. Geographic Diversification

Geographic diversification is the measure of company's expansion in terms of their operation across multiple countries beyond its domestic market (Hitt et al., 1997). It's important because international diversification of company's assets affects its value and investor perception, which also influence market reactions (Doukas & Lang, 2003). For this research, geographic diversification will be measured with the following formula:

$$\text{Geographic Diversification} = \frac{\text{Total Foreign Assets}}{\text{Total Assets}}$$

Where:

- Total Foreign Assets = total assets outside home country reported in the firm's financial reports
- Total Assets = total assets reported in the firm's financial reports

The reasoning behind using this formula is because it reflects the percentage of company's resources that are committed to international operations (Hitt et al., 1997). It also standardizes the diversifications across companies of different sizes, hence allowing meaningful comparison in empirical analysis (Qian et al., 2008).

3. Firm Age

Firm age is the measure of length of time a company has operated since its establishment, showcasing the total experience and organizational development over time (Cowling et al., 2018). It's important because market responses can be influenced by varying level of credibility, uncertainty, and information transparency exhibited by different life-cycle stages of a firm (Martins & Pires, 2024). For this research, firm age will be measured with the following formula:

$$\text{Firm Age} = \ln(2024 - \text{the establishment year})$$

The reasoning behind using this formula is to capture the diminishing marginal impact of firm age hence reducing the data skewness to help improves the explanatory power and reliability (Luffarelli & Awaysheh, 2018).

3.1.2 Moderator Variable

1. State Ownership

State ownership in Indonesian context is a form of corporate ownership where the Indonesian government holds majority or full equity control over the firm, giving the state full influence over the firm strategic decisions and goal, which is usually beyond pure maximization of profit (Tihanyi et al., 2019). It's important because it can influence how market see political events, where difference in political connections and governance in state-owned firm affect investor reactions (Vaaler & Schrage, 2009). For this research, state ownership will be measured like this:

$$State\ Ownership = \begin{cases} 1 & \text{if State - owned} \\ 0 & \text{if Private - owned} \end{cases}$$

The reasoning behind using this formula is to distinguish ownership structure quantitatively to enable clear comparison of how ownership type moderates the outcome (Sun et al., 2017).

3.1.3 Dependent Variable

1. Cumulative Abnormal Return (CAR)

CAR is a cumulative measure of Abnormal Return (AR) that's usually used in event studies to investigate the total impact of a specific event(s) on a firm's stock price. AR is usually defined as the difference between actual returns of the stock and the stock expected returns over a certain period of time (MacKinlay, 1997). For this research, CAR will be measured with the following formula:

$$CAR_{i(T_1, T_2)} = \sum_{t=T_1}^{T_2} AR_{it}$$

Where:

- $CAR_{i(T_1, T_2)}$ = Cumulative Abnormal Return of stock i from day T_1 until day T_2
- T_2 = last day used in the CAR calculation
- T_1 = first day used in the CAR calculation
- AR_{it} = Abnormal Return of stock i on day t

This formula widely used for empirical research because it removes normal market movements hence isolating the effect of an event. It also aggregates the remaining abnormal return over time. Hence it provides a clear and statistically testable measure of how new event(s) influence firm value and also investor behavior (Kothari & Warner, 2007).

3.1.4 Control Variable

1. Tobin's Q

Tobin's q is a ratio between a firm total market value and its total book assets. It reflects the market value of a firm relative to its owned assets and its expected growth opportunities (Ehrmann & Fratzscher, 2004). It's an important control variable because it captures a firm valuation and growth characteristics that could influence investor reactions in event studies, hence helping separate such reactions from the true effect of the event being analyzed (Luffarelli & Awaysheh, 2018). For this research, tobin's q will be measured with the following formula:

$$Tobin's\ Q = \frac{Total\ Market\ Value}{Total\ Book\ Assets}$$

Where:

- Total Market Value = listed share × Share Price
- Total Book Assets = total assets reported in the firm's financial reports

The reasoning behind using this formula to calculate tobin's q is because it is widely accepted in empirical research for a practical reason, that is the approximation of the theoretical concept, where total book assets serve as replacement cost's proxy. Meanwhile the total market value reflects expectations of the investors, hence making ratio consistent and comparable across firms (Butt et al., 2023).

3.2 Research Data

The data used in this research are secondary data collected from the companies which have their stocks listed in LQ45 Stock Market Index in IDX during the 2024 Indonesian Presidential Election period. In total the samples are 45 pairs of data for each company consisting of total assets, overseas assets, state ownership, total listed shares, share price, and firm establishment year.

CAR research depends on price change or reactions, so if the stocks are illiquid, the stock price cannot efficiently reflect the current condition (Kerr, 2019). The reason for using data from companies that are listed in LQ45 Stock Market Index are because the stock price performance of said companies has a relatively large market capitalization, high liquidity, and good fundamentals according to IDX screening. In contrast, random sampling could introduce noise and distort empirical results and have illiquidity bias (Amihud, 2002). Meanwhile IDX80, a larger index, may have stocks with less trading frequency, and slower price adjustment, hence less liquidity which might lower the accuracy of the CAR and dilute the effect of the CAR (Brown & Warner, 1985; Amihud, 2002). A smaller index lacks representativeness of the whole market. Therefore, LQ45 index stocks are the middle of the road between data quality and representativeness.

Some of these data are then used for calculating the variables needed for this research while some are used directly. These data are mainly collected from

IDX official websites, besides the historical price of shares for a certain period that are collected for CAR calculation from investing.com.

3.2.1 Descriptive Statistics

Below is the descriptive statistics table for the variables used in this research, which includes the variable's name, number of observations, the mean, the standard deviation, the minimal and the maximal number.

Table 3.1 Descriptive Statistics

Variable	Obs	Mean	Std. dev.	Min	Max
CAR1	45	-0.023	0.143	-0.319	0.271
CAR2	45	-0.019	0.074	-0.165	0.158
TQ1	45	1.074	1.148	0.047	6.250
SO1	45	0.267	0.447	0.000	1.000
FS1	45	31.890	1.610	26.244	35.311
GD1	45	0.044	0.115	0.000	0.512
FA1	45	3.535	0.720	1.099	4.511
TQ2	45	1.141	1.198	0.044	5.096
SO2	45	0.289	0.458	0.000	1.000
FS2	45	32.077	1.373	29.003	35.382
GD2	45	0.042	0.112	0.000	0.508
FA2	45	3.528	0.750	1.099	4.511

Source: Author's calculation result

3.2.2 Correlation Matrix

Below is the correlation matrix table for the variables used in this research. Correlation matrix is important in this research because it helps detect potential multicollinearity issues, because high correlations between independent variables can distort coefficient estimates and decrease the reliability of the result from the model (Shrestha, 2020).

Table 3.2 Correlation Matrix

	CAR1	CAR2	TQ1	SO1	FS1	GD1	FA1	TQ2	SO2	FS2	GD2	FA2
CAR1	1.000											
CAR2	-0.167	1.000										
TQ1	0.117	0.012	1.000									
SO1	-0.279	0.069	-0.260	1.000								
FS1	-0.108	0.119	-0.511	0.413	1.000							
GD1	0.034	0.126	-0.081	-0.197	-0.004	1.000						
FA1	-0.078	-0.077	0.182	0.072	0.122	-0.104	1.000					
TQ2	0.012	-0.051	0.509	0.008	-0.258	-0.098	0.080	1.000				
SO2	-0.276	0.196	0.014	0.392	0.014	0.078	-0.065	-0.326	1.000			
FS2	-0.296	0.087	-0.368	0.395	0.645	0.068	-0.026	-0.521	0.411	1.000		
GD2	0.272	0.201	-0.067	-0.221	0.055	0.499	-0.241	-0.057	-0.200	-0.076	1.000	
FA2	-0.137	-0.169	0.005	0.236	0.190	0.010	0.295	0.007	0.093	0.083	-0.136	1.000

Source: Author's calculation result

3.3 Research Methods

For this research we will use multiple methods or formulas to make use of the collected data. These methods or formulas in order of use are event study, market model, expected return, abnormal return, and lastly multivariate regression analysis.

3.3.1 Event Study

Event study is one of the methodologies used for quantitative research on econometric to evaluate the impact of a specific event that might have an impact on the value of a firm by analysing the reaction of stock price in the market (MacKinlay, 1997). The main idea of event study is based on efficient market hypothesis, which according to it, stock prices will quickly and accurately incorporate all available information, therefore any kind of new information related to an information will be reflected in abnormal price movements around the period the event occurs (Malkiel & Fama, 1970).

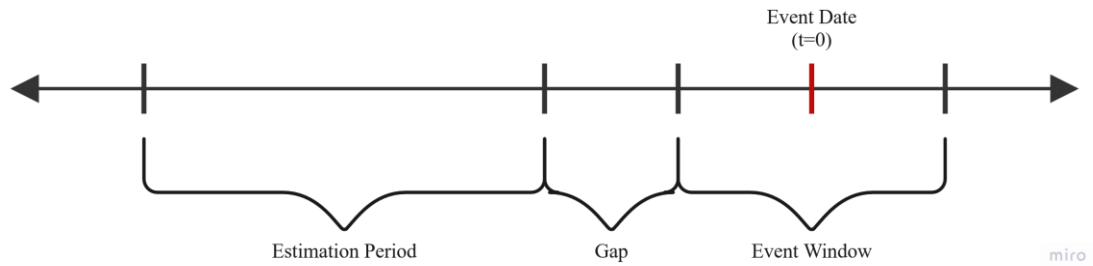


Figure 3.2 Event study timeline

The methodology of event study consists of several steps, the first one is defining the event and also the date of said event, secondly is choosing the appropriate event window and estimation window, thirdly is calculating the expected returns using a model (for this research market model is the chosen model), and last but not least is getting the abnormal returns results from the difference between actual returns and expected returns (Brown & Warner, 1985). These abnormal returns are then added up over the event window to calculate CARs, which give a comprehensive measure of the market reaction to the event across multiple days rather than a single point in time (Kothari & Warner, 2007).

For this research there are 2 events that will be studied, the first event is on 24th April 2024 when the General Elections Commission of Indonesia determines the result of the presidential election on and the second event is on 20th October 2024 which is the Inauguration Day of the new President of Indonesia. Since 20th October 2024 is not on trading day, a substitute date closest to the day will be chosen, which is 21st October 2024. For each event there will be 10 trading days event window both before and after the event day (-10, +10) because it allows the capture of both pre-event information leakage and post-event market adjustments, making sure that delayed or anticipating investor reactions are counted on for the analysis (MacKinlay, 1997). After the event window there will be 20 trading days gap to prevent contamination of the normal return model by event-related information, therefore making sure that the estimation of expected returns reflects normal market conditions rather than being influenced by the event itself (Brown & Warner, 1985). And right after that there are gonna be 100 trading days estimation period to provide a large enough sample to get stable and reliable parameter estimates for expected return models, while also still being close enough to the event window to reflect current market dynamics (Kothari & Warner, 2007). Below is the table showcasing the date for the event date, event window, and estimation period.

Table 3.3 Event Date, Event Window, and Estimation Period

	Event Date (0)	Event Window (-10, +10)	Estimation Period (-31 – -131)
1 st Event	24 th April 2024	2 nd April 2024	3 rd October 2023

		– 13 th May 2024	– 28 th February 2024
2 nd Event	21 st October 2024	7 th October 2024	1 st April 2024
		– 4 th November 2024	– 5 th September 2024

Source: Author's chosen data

3.3.2 Market Model

Market model is a commonly used model in econometrics that help explains stock's return as a linear function of the overall market return. This allows the estimation of expected return of the stock based on its systematic relationship with the market (MacKinlay, 1997). The model assumes that each stock has a stable relationship with the market, which is characterized by alpha as an intercept that represents the abnormal performance and also by beta that captures stock's return sensitivity related to the market movements (Malkiel & Fama, 1970). Here is the standard formula of market model that is used to calculate the expected return.

$$E(R_{it}) = \alpha_i + \beta_i R_{mt} + \epsilon_{it}$$

Where:

- $E(R_{it})$ = expected return of stock i on day t
- α_i = alpha, is the intercept for stock i
- β_i = beta, is the systematic risk coefficient of stock i
- ϵ_{it} = epsilon, error term representing idiosyncratic shocks

Market model is usually used in event studies because it improves the abnormal return estimation precision by controlling for market movements, hence reducing the error term's variance, which is more precise than simpler models such as the mean-adjusted return model (Kothari & Warner, 2007).

3.3.3 Abnormal Return

Abnormal return is the difference between the actual return of a stock and the expected return of a stock calculated by using the market model, which captures the stock return's portion that can be attributed to the new event or new information that is currently affecting the firm (MacKinlay, 1997). This theory is important to event study methodology because it helps isolate an event impact's by filtering out the usual market movements and performances, allowing the research to assess if the event or information create any value or loss for the stockholders (Brown & Warner, 1985). For this research, abnormal return will be measured with the following formula:

$$AR_{it} = R_{it} - E(R_{it})$$

Where:

- AR_{it} = Abnormal return of stock i on day t

- R_{it} = Actual return of stock i on day t

The reasoning behind using this formula is justified because it provides a clear and measurable way to quantify deviations from normal performance, hence allowing the statistical testing of whether the observed stock's returns are significantly different from what would be expected under normal market conditions (Campbell et al., 1997).

3.3.4 Multivariate Regression Analysis

Multivariate regression analysis is a regression analysis that use multiple variables. It's used to examine the relationship between dependent variable(s) and multiple independent variables at the same time, thus allowing the estimation of the individual contribution of each independent variable while controlling for other variable (Wooldridge, 2016). For this research, the multivariate regression analysis will be done with the following functions.

$$CAR_{(i,t)} = \alpha_0 + \alpha_1 TQ_i + \alpha_2 SO_i + \alpha_3 FS_i + \alpha_4 GD_i + \alpha_5 FA_i + \varepsilon_i$$

Where:

- α = coefficient
- TQ_i = tobin's q of stock I as control variable
- SO_i = state ownership of stock I as independent variable
- FS_i = firm size of stock I as independent variable
- GD_i = geographic diversification of stock I as independent variable
- FA_i = firm age of stock I as independent variable

The second function that is going to be used is for the moderating effect of state ownership on the other variables.

$$CAR_{(i,t)} = \alpha_0 + \alpha_1 TQ_i + \alpha_2 SO_i + \alpha_3 (FS_i \times SO_i) + \alpha_4 (GD_i \times SO_i) + \alpha_5 (FA_i \times SO_i) + \varepsilon_i$$

CHAPTER IV

RESULTS & ANALYSIS

4.1 First Event

4.1.1 First Event CAR T-test

The first event for this research is on 24th April 2024 the General Elections Commission of Indonesia determines the result of the presidential election. The first test is t-test on the dependent variable, which is CAR. This test is done to determine whether the average abnormal returns observed during the event window are different from zero statically, to indicate whether the event has a significant impact on firm performance (Brown & Warner, 1985). This test is fitting for event study methodology because it provides a clear statistical inference framework to check whether the estimated CAR mirrors real market reaction rather than random fluctuations in stock returns (MacKinlay, 1997). By applying this test to CAR, the importance of investor response to new information can be seen, thereby validating whether this event leads to abnormal performance consistent with theoretical expectations such as market efficiency (Kothari & Warner, 2007).

Table 4.1 First Event CAR T-test

Variable	Obs	Mean	Std. err.	t value	p value
CAR1	45	-0.023	0.021	-1.103	0.138

Source: Author's calculation result

The data reveal an average cumulative abnormal return of minus 0.023. This indicates a slight dip, nearly 2.3 percent, among LQ45 companies across the event period. Such a shift points to restrained skepticism following the election announcement. Investor behavior may stem from ambiguity surrounding upcoming policy paths. Market participants appear reserved rather than alarmed when assessing governance outlooks, and this response aligns with earlier research on how financial systems process political transitions (Malkiel & Fama, 1970).

The t-value of minus 1.103 suggests the average return shift lies close to zero roughly one standard error out of alignment not far enough to signal any notable departure from expected levels. Hence, when viewed through statistical criteria, the impact appears faint, blending into routine market noise (MacKinlay, 1997). The p-value of 0.138 emerges, exceeding the standard boundary of 0.05. thus, the likelihood stands at 13.8 percent that the noted drop in CAR occurred randomly, so the null hypothesis of no abnormal return cannot be rejected with

confidence (Wooldridge, 2013). It also goes without saying that hypothesis H_1 cannot be fully supported.

Financial markets tend to foresee the impact of significant political developments such as elections. Because of this, asset values might shift prior to outcomes being confirmed. Investor behavior adjusts in advance, factoring likely scenarios into pricing well ahead of time. As a consequence, when official results emerge, minimal surprise remains to trigger further movement. This limited informational impact helps explain muted reactions at the moment of announcement (Brown & Warner, 1985).

One possibility lies in the idea that electoral results might not deliver major economic disruptions. Instead of shifting forecasts on borrowing costs, oversight policies, or operating environments uniformly, their influence could differ widely among companies. As a result, patterns observed at an aggregate level appear faint, lacking clear statistical presence (Baker et al., 2016). Firm-specific variations play a role, given that certain businesses gain from political shifts whereas others face setbacks. As such, when opposing responses within the LQ45 index are combined, favorable and unfavorable deviations cancel out, hence yielding a cumulative abnormal return close to zero without statistical relevance (Kothari & Warner, 2007).

Unexpected shifts in trading patterns often cloud analysis, because day-to-day price changes react sharply to diverse external triggers. A narrow timeframe around an election may blend political effects with unrelated financial signals, blurring cause and effect (MacKinlay, 1997). This highlights how hard it becomes to separate specific outcomes from general turbulence. With too few firms or data points, spotting a minor true effect becomes unlikely, since statistical strength depends on sample volume. A result might miss detection simply due to scale, leading to weak t-values and non-significant outcomes (MacKinlay, 1997). When numbers run low, confidence in identifying subtle patterns fades, regardless of actual presence. Limited scope can mask reality, leaving results inconclusive despite genuine underlying trends.

Developing economies such as in Indonesia often display limited market responsiveness when compared to advanced economies. New information tied to governance events tends to influence prices more gradually or unevenly across trading periods. As a result, observing a strong cumulative abnormal return within a tight timeframe becomes uncommon - a pattern noted in earlier analysis (Malkiel & Fama, 1970). Still, the lack of significance does not imply zero effect. Instead, the influence may have been minimal, uneven, or already expected, making it unlikely to appear as a clear, uniform deviation in returns among companies (Kothari & Warner, 2007).

4.1.2 First Event Multivariate Regression Analysis

Next is the independent, moderator, and control variables effect on the dependent variable, CAR. This data is gained from doing the multivariate regression analysis on the dependent variable with the multiple independent, moderator, and control variables.

Table 4.2 First Event Multivariate Regression Result

Variable	CAR1	CAR1
TQ1	0.026 (1.14)	0.026 (1.14)
SO1		3.191** (2.86)
FS1		0.036* (1.88)
GD1		-0.065 (-0.35)
FA1		-0.039 (-0.96)
_cons	-1.044 (-1.75)	-1.044 (-1.75)
N	45	45

t statistics in parantheses

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Source: Author's calculation result

Looking at the first event's multivariate regression result, state ownership shows a clear upward effect on CAR, with evidence supported by a p-value of 0.007, well below the one percent threshold. Firms under state ownership tend to outperform privately held ones in terms of CAR when the General Elections Commission of Indonesia determines the result of the presidential election. Investor confidence plays a role here: these companies appear more aligned with national policy paths, creating an impression of steadiness (La Porta et al., 1998). Since public enterprises are frequently viewed as beneficiaries of sustained political support post-election, market participants adjust their expectations accordingly. Reduced concerns about upcoming financial performance lead to stronger valuations relative to non-state counterparts. Such dynamics reflect how institutional backing influences perceived risk (Faccio, 2006).

State ownership often signals hidden backing by authorities, especially in developing economies. This shapes how people view investment safety when leadership shifts occur (Megginson & Netter, 2001). Because of such ties, companies linked to the government might secure favorable deals or funding more easily once votes are counted, and businesses adjust prices quickly, knowing this matters (Faccio, 2006). When election-related gains stand out clearly, it hints that public firms carry unique weight in investor minds, their fate seeming bound up with power and policy changes (La Porta et al., 1998).

Firm size also emerges as a statistically significant predictor in the first event, with a p-value of 0.035, falling below the conventional 5% significance threshold. This finding indicates that larger firms experienced meaningfully higher cumulative abnormal returns around the election result announcement, providing support for the theoretical expectation that firm size confers an informational and reputational advantage during periods of political uncertainty. One reason lies in how widely followed larger companies tend to be. They typically draw greater analyst scrutiny and media exposure, meaning that political news tends to integrate into their stock valuations more quickly and completely than in less visible counterparts (Fama & French, 1992). With broader business lines across markets, larger corporations are also generally perceived as less vulnerable when policy shifts arise, and that perception of resilience may explain why investors responded with greater confidence toward larger firms at the moment of official electoral confirmation (Merton, 1987).

The significance of firm size in the first event is also consistent with signaling theory, which holds that observable firm characteristics serve as informational cues that reduce uncertainty in the market. Larger firms are generally perceived as more capable of generating stable earnings, accessing external financing, and absorbing macro-level shocks associated with political transitions, all of which contribute to more favorable investor reactions (Banz, 1981). Furthermore, while large companies frequently appear in key market indexes and institutional holdings, shifts in trading activity linked to elections may align their performance more closely with broader market expectations during politically sensitive periods (Campbell et al., 1997). The significant positive relationship between firm size and CAR in this event therefore suggests that market participants actively rewarded scale as a proxy for political resilience and operational stability at the moment the 2024 election result was formally confirmed.

4.1.3 First Event State Ownership Moderating Effect Analysis

Next is the multivariate regression result along with the moderating effect of state ownership on the rest of the independent variables.

Table 4.3 First Event Multivariate Regression Result with Moderating Effect

Variable	CAR1	CAR1
TQ1	0.026 (1.14)	0.026 (1.14)
SO1		3.191** (2.86)
FS1		0.036* (1.88)
GD1		-0.065 (-0.35)
FA1		-0.039 (-0.96)
c.FS1#c.SO1		-0.104** (-3.02)
c.GD1#c.SO1		-2.426 (-0.95)
c.FA1#c.SO1		0.039 (0.64)
_cons	-1.044 (-1.75)	-1.044 (-1.75)
N	45	45

t statistics in parantheses

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Source: Author's calculation result

Looking at the result from the table above, it can be seen that state ownership effect is still significant. One thing that is new and particularly noteworthy in this result is that firm size, when moderated by state ownership, becomes quite significant, with a p-value of 0.005 ($p < 0.01$) and a negative coefficient of 0.104. This interaction effect is an important finding because it reveals that the relationship between firm size and CAR is not uniform across all firms. Rather, it is fundamentally conditioned by the type of ownership behind the firm. The significance of this moderating effect highlights the importance of incorporating ownership structure as a boundary condition in models explaining

abnormal returns, as the same firm characteristic and size can produce contrasting market outcomes depending on whether the firm is privately or state owned.

In the case of privately owned firms, firm size shows a positive, though statistically insignificant, directional effect on CAR. This pattern is consistent with signaling theory, which holds that firm characteristics visible to external parties serve as informational cues that reduce uncertainty in the market. Company size has a positive effect on firm value, and an increased firm size can provide a positive perception for investors in making investment decisions (Komara et al., 2020). Larger private firms are generally perceived as more capable of generating stable earnings, accessing external financing, and absorbing market shocks, all of which contribute to more favorable investor reactions. Taking it from the perspective of signaling theory, large firms issue dividends to give a positive signal to the market that the firm is earning well and is financially stable, and a continuous policy of paying dividends helps investors distinguish between poor- and good-performing firms (Hashmi et al., 2020). This positive association between size and market perception in private firms, even when not reaching conventional significance thresholds, suggests that markets are directionally rewarding private firms that grow in scale, viewing size as a proxy for reliability and operational maturity. Positive financial indicators can signal operational efficiency and stability, prompting favorable investor reactions and higher firm valuation, particularly in contexts where investors lack perfect information (Singh et al., 2025). Therefore, the positive but insignificant coefficient on firm size for privately owned firms is not a null result. It is a directionally meaningful one that aligns with established theoretical frameworks.

Yet things shift clearly once state control becomes part of the picture. When companies are owned by the government, larger size links to weaker market reactions, shown by a meaningful drop in cumulative abnormal returns. This pattern emerges more sharply under certain conditions tied to governance structure. One reason lies in how public sector goals often differ from private ones. Instead of focusing only on financial outcomes, officials may emphasize employment stability or regional development. Such priorities sometimes clash with investor expectations. Political figures and administrators might guide decisions toward non-economic ends (Aguilera et al., 2020). Multiple aims - some economic, others social or political - can pull management in different directions. Conflicting demands tend to dilute focus on shareholder value. The presence of competing interests helps explain why bigger state-run firms perform less well in market terms. Evidence supports this view, pointing to misaligned incentives within these organizations. When state-owned enterprises expand, opposing goals do not fade - they grow stronger. Greater size brings higher political attention, tighter links to government agendas, yet also wider non-market duties, pushing profits further down the priority list. Because public firms carry policy tasks, how resources are used tends to weaken; managing them gets costlier. The more such obligations a firm takes on, the more funding it draws - yet that access often leads to poor

investment choices, dragging down corporate worth (Ye et al., 2021). Seeing this trend, those who invest tend not to see large state companies as beneficial; instead, bigger size reads as evidence of deeper waste and less focus on earnings.

Furthermore, the governance environment of SOEs exacerbates this dynamic. The pursuit of political promotion by state-owned enterprise executives can lead to a positive tendency to defer political will and bear additional policy burdens imposed by the government, resulting in a misalignment between the investment decisions made by state-owned executives and the financial goals of the company, leading to suboptimal investment decisions that hinder the overall investment efficiency of state-owned enterprises (Huo et al., 2024). When an SOE is large, these governance misalignments become more consequential in terms of resource misallocation and market credibility. The market, therefore, assigns a negative premium to firm size in state-owned contexts, effectively penalizing scale rather than rewarding it. State ownership levels link clearly to weaker short-term stock performance. This pattern suggests skepticism toward public sector management. Investor preference leans toward privately run firms. Confidence appears higher when companies operate without government control. Market behavior reflects doubt about state-led corporate strategies (Gu, 2003). When firm size amplifies this distrust, because larger SOEs are seen as even more entangled in political objectives, the result is a compounded negative market reaction captured by the significant negative coefficient in this study.

Taken together, these findings provide compelling evidence that ownership type fundamentally alters the informational content of firm size in the context of cumulative abnormal returns. Firm size is a positive signal under private ownership, but becomes a liability under state ownership. This distinction carries significant implications: it suggests that policies aimed at expanding the scale of SOEs without simultaneously reforming their governance and profit orientation may inadvertently destroy market value rather than create it. Future research should further explore how the degree of state ownership, not merely its presence, interacts with firm size to shape market reactions across different institutional environments.

4.2 Second Event

4.2.1 Second Event CAR T-test

On 20th October 2024 was the Inauguration Day of the new President of Indonesia, and this will be the second event tested for this research. The order of the test for the second event is the same as the first event. So, the first test for the second event is also t-test on the dependent variable, which is CAR. The result of this test can be seen below.

Table 4.4 Second Event CAR T-test

Variable	Obs	Mean	Std. err.	t value	p value
CAR2	45	-0.019	0.011	-1.730	0.045

Source: Author's calculation result

As can be seen from the table above, for the second event, which is the Inauguration Day of the new President of Indonesia, Prabowo Subianto, on 20th October 2024, the mean CAR is -0.019, indicating that the event produced a negative abnormal return on average across the sampled firms. This negative reaction is statistically significant at the 5% level, with a p-value of 0.045 ($p < 0.05$), meaning that the observed negative market response is unlikely to be the result of random variation alone. Accordingly, the second event provides statistical support for hypothesis H_1 , confirming that the presidential inauguration constitutes a meaningful market event that generates measurable and significant abnormal returns.

The negative CAR associated with the Prabowo-Gibran inauguration is consistent with a broader pattern documented in the event study literature, where political transitions that are already anticipated and a peaceful ones, can still generate negative short-term market reactions due to unresolved uncertainty about incoming policy directions. The pre-inauguration period surrounding the 2024 Indonesian presidential inauguration was characterized by the growing uncertainty around the new administration, shown through mostly negative average abnormal returns. Cumulative figures followed a similar path, drifting lower without clear direction. One could see instability taking shape where stability might have been expected. Figures failed to recover, lingering below normal levels throughout the period observed. Even on inauguration day itself, while indicators briefly turned positive to reflect temporary optimism about political stability, the post-event window continued to display volatility (Putra et al., 2025). This pattern aligns closely with the findings of the current study, where the overall CAR around the inauguration event settled into negative territory, suggesting that the market, in aggregate, reacted with caution rather than confidence to the transfer of presidential power.

A key reason for this negative market sentiment lies in the nature of the new administration's policy agenda and the fiscal uncertainties it introduced. Throughout Indonesia's shift in leadership, attention turned toward fiscal capacity under legal constraints. Funding expansive measures like the Free Nutritious Meals plan raised questions amid a mandated 3% deficit ceiling relative to GDP. Worries over mounting liabilities triggered financial unease. Currency values dipped as the rupiah lost strength. Meanwhile, returns on bonds climbed due to growing concern. Reactions unfolded gradually across investment circles when assumptions of higher

borrowing spread (Wihardja et al., 2025). These concerns were not without basis. The incoming Prabowo administration signaled expansive fiscal commitments even before formally taking office, and capital markets, which are sensitive to forward-looking risk assessments, began pricing in these uncertainties in the period surrounding the inauguration. Among those watching closely when Prabowo-Gibran took office were investors, though public interest ran high. Their attention stemmed from expectations about shifts in Indonesia's capital market. Movement in trading volume served as one indicator of response. So did deviations in returns within select IDX subsectors. These metrics together reflected how the market absorbed the transition. Not just sentiment, but measurable activity changed. While outcomes varied across sectors, patterns emerged in the data following the ceremony (Rizal et al., 2025). The fact that investors were watching the event so closely means that any negative signals embedded in the inauguration, including the scale of the new cabinet, the cost of flagship programs, and ambiguity around fiscal sustainability, would be rapidly incorporated into prices.

This behavior is consistent with the well-established theoretical framework of the Efficient Market Hypothesis (EMH), which asserts that markets quickly incorporate new information into asset prices. Political uncertainty around major political events induces managers and investors to react, with information asymmetry playing a central role in determining the direction and magnitude of stock returns, and unresolved uncertainty regarding policy outcomes tends to lead to investor selling pressure (Du et al., 2024). The inauguration itself, while marking the end of electoral uncertainty, simultaneously introduced a new layer of policy uncertainty, particularly regarding how the new president would balance ambitious welfare spending with Indonesia's fiscal rules and macroeconomic stability commitments. Parametric tests show a statistically significant negative impact of political transition events on stock returns, with the results suggesting that while such events resolve leadership uncertainty, they simultaneously introduce policy uncertainty that markets price negatively in the short term (Obradović & Tomić, 2017). The significant negative CAR of -0.019 observed in this study is therefore not anomalous but rather consistent with empirical evidence from political event studies across multiple markets.

Furthermore, the scale and composition of the new Prabowo cabinet, which became the largest in Indonesia's history with over 100 ministerial and vice-ministerial positions may have further amplified investor concern. Following the inauguration on 20th October 2024, President Prabowo unveiled the new Red and White Cabinet for the 2024–2029 term, consisting of 48 ministers, 5 ministerial-level officials, and 59 vice-ministers, making it the largest cabinet in Indonesia's history (Thawley et al., 2024). Such an unusually large cabinet, assembled largely to accommodate coalition partners, raises governance concerns for market participants who associate broader power-sharing arrangements with slower decision-making, divided policy priorities, and weaker institutional cohesion. Political factors influence stock markets by creating uncertainty and a lack of

confidence among investors, which decreases stock market prices, and in emerging markets, political instability and changes in governance structures have a particularly negative impact on economic performance and market returns (Mai et al., 2023). In this context, the inauguration and immediate post-inauguration period would have introduced precisely the kind of structural uncertainty that markets in emerging economies penalize through negative abnormal returns.

From the perspective of political uncertainty theory, this result is highly interpretable. Uncertainty tends to persist and even rise after a new president takes office, with different sectors being significantly and variably influenced by the inauguration event, and stock markets remaining greatly reactive in the days following the formal assumption of power (Selmi & Bouoiyour, 2020). In the case of Indonesia's 2024 inauguration, the market had absorbed some positive sentiment from the pre-election period and the decisiveness of Prabowo's electoral victory, but the formal commencement of governance and the revelation of the full cabinet composition and policy scope reset market expectations, contributing to the negative CAR observed in this study. Taken together, the statistically significant negative mean CAR of -0.019 provides robust empirical support for **H₁**, affirming that the presidential inauguration event carries meaningful informational content for the Indonesian stock market and that investors responded to it with measurable, negative short-term abnormal returns.

4.2.2 Second Event Multivariate Regression Analysis

Next is the independent, moderator, and control variables effect on the dependent variable, CAR. This data is gained from doing the multivariate regression analysis on the dependent variable with the multiple independent, moderator, and control variables.

Table 4.5 Second Event Multivariate Regression Result

Variable	CAR2	CAR2
TQ2	0.004 (0.36)	0.004 (0.36)
SO2		-0.501 (-1.00)
FS2		-0.001 (-0.04)
GD2		0.140 (1.43)
FA2		-0.030 (-1.33)
_cons	0.080 (0.16)	0.080 (0.16)
N	45	45

t statistics in parantheses

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Source: Author's calculation result

For the second event (the Inauguration Day of the new President of Indonesia), all of the independent variables are not statistically significant. The independent variables, state ownership, firm size, geographic diversification, and firm age none of which yielded significant results, suggest that these firm-level characteristics did not drive differential investor reactions around this particular political event. This outcome is broadly consistent with the argument that political transition events do not uniformly generate heterogeneous market responses across firms, as the nature and magnitude of investor reaction depends on the extent to which new policy directions are perceived as economically consequential (Białkowski et al., 2008).

The insignificance of state ownership is particularly interesting given that presidential inaugurations often signal potential shifts in government priorities, resource distribution, and regulatory policy. One might expect government-linked firms to experience differential market reactions if investors anticipated that the incoming president would alter the degree of political support extended to state-affiliated entities. However, the results indicate that no such differentiation occurred, which is consistent with evidence that the stock market effects of state

ownership are highly context-sensitive and do not uniformly manifest across all forms of political transition (Boubakri et al., 2008). The non-significance of firm size further implies that investors did not systematically favor larger or smaller firms when processing information related to the inauguration, a finding that aligns with literature suggesting that size-based return differentials tend to diminish during broadly anticipated macroeconomic or political events (Fama & French, 1992).

The absence of a significant effect for geographic diversification is also noteworthy. Firms that operate across multiple regions might be expected to respond differently to a national political event, as geographically diversified firms may be more or less exposed to policy changes depending on the international focus of the new administration's agenda. Nevertheless, the insignificant coefficient on GD2 suggests that the market did not price geographic diversification as a relevant factor during this event window, which is consistent with findings that geographic diversification does not consistently translate into abnormal stock performance in the context of political events (Lewellen & Nagel, 2006). Similarly, firm age is also statistically insignificant, indicating that more established firms were not treated differently from younger firms by investors reacting to the presidential inauguration. This may reflect the market's view that firm maturity does not confer a meaningful informational or operational advantage in navigating political transitions, which is consistent with research showing that the relationship between firm age and stock market performance is not stable across different event types (Loderer & Waelchli, 2010).

Collectively, the absence of significant results across all independent variables for the second event window may reflect an efficient market dynamic in which the presidential inauguration was already incorporated into stock prices prior to the official event date, leaving little cross-sectional variation to be explained by firm-level characteristics (Fama, 1970).

4.2.3 Second Event State Ownership Moderating Effect

Next is the multivariate regression result along with the moderating effect of state ownership on the rest of the independent variables.

Table 4.6 Second Event Multivariate Regression Result with Moderating Effect

Variable	CAR2	CAR2
TQ2	0.004 (0.36)	0.004 (0.36)
SO2		-0.501 (-1.00)
FS2		-0.001 (-0.04)
GD2		0.140 (1.43)
FA2		-0.030 (-1.33)
c.FS2#c.SO2		0.013 (0.85)
c.GD2#c.SO2		0.677* (2.66)
c.FA2#c.SO2		-0.030 (-1.33)
_cons	0.080 (0.16)	0.080 (0.16)
N	45	45

t statistics in parantheses

* $p < 0.05$; ** $p < 0.01$; *** $p < 0.001$

Source: Author's calculation result

Looking at the table, most of the numbers are still the same. That is except for geographic diversification that is moderated by state ownership, which becomes statistically significant with a p-value of 0.012 ($p < 0.05$) and a positive impact on cumulative abnormal returns (CAR) with a coefficient of 0.677. This finding suggests that the interaction between geographic diversification and state ownership plays a meaningful role in shaping investor reactions around the event window, even when the individual effects of each variable on their own fail to reach statistical significance. The emergence of significance through moderation implies that state ownership amplifies the positive market response associated with

geographic diversification, which is consistent with the notion that government-linked firms possessing broad international operations are perceived by investors as being better positioned to leverage political transitions for strategic advantage (Boubakri et al., 2008).

The positive and significant coefficient of 0.677 on the interaction term indicates that geographically diversified firms with higher levels of state ownership experienced greater cumulative abnormal returns during the event window compared to their non-state-owned counterparts. This result is intuitive given that state-owned or state-affiliated firms often maintain preferential access to government contracts, public infrastructure projects, and international regulatory networks, all of which may be more readily available to firms operating across multiple geographic areas (Faccio, 2006). When a new president is inaugurated, the market may anticipate that such firms are well-placed to benefit from redistributive policy changes or shifts in public spending priorities, and this anticipation is reflected in the positive abnormal returns captured by the interaction term (Fisman, 2001).

Furthermore, the significance of this moderated relationship underscores the importance of considering the joint effect of ownership structure and operational scope rather than examining these characteristics in isolation. Geographic diversification on its own may not be sufficient to generate positive abnormal returns if the firm lacks the political connections that state ownership can provide, as access to government networks is often a prerequisite for translating international presence into tangible economic benefits during periods of political change (Claessens et al., 2000). In the Indonesian context, where state-owned enterprises have historically maintained close ties with the central government and international markets, it is plausible that investors view the combination of state ownership and geographic reach as a strategic asset that becomes particularly valuable during presidential transitions (Leuz & Oberholzergee, 2006).

The moderation effect also points to the broader role of political connections in moderating the relationship between firm-level characteristics and stock market performance. Research has consistently shown that politically connected firms tend to outperform their non-connected peers around politically significant events, as markets price in the anticipated benefits of proximity to government power (Goldman et al., 2008). The positive coefficient on the interaction term in this study reinforces this view, suggesting that geographic diversification is most value-relevant to investors when it is combined with the political capital that state ownership provides, particularly in an emerging market context where institutional frameworks and regulatory enforcement may be less uniform across regions (La Porta et al., 1998).

4.3 Comparison between Events

To serves a structured summary that consolidates all the hypotheses tested in this research from both events, here are the recapitulation table of hypotheses tested in this research.

Table 4.7 Recapitulation Table of Hypotheses from Both Events

Hypotheses	1 st Event	2 nd Event
Hypothesis 1 (H_1): There is a negative impact on CAR of companies' shares that are listed in LQ45 Stock Market Index in IDX during 2024 Indonesian Presidential Election period.	Supported, Not Significant	Supported, significant
Hypothesis 2 (H_2): Firm size has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.	Supported	Not Supported
Hypothesis 3 (H_3): Geographic diversification has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.	Not Supported	Not Supported
Hypothesis 4 (H_4): Firm age has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.	Not Supported	Not Supported
Hypothesis 5 (H_5): State ownership has significant impact on CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.	Supported	Not Supported
Hypothesis 6a (H_{6a}): State ownership has moderating effect between firm size and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.	Supported	Not Supported
Hypothesis 6b (H_{6b}): State ownership has moderating effect between geographic diversification and CAR of companies' stocks that are listed in LQ45 Stock Market Index in IDX during the 2 specific event on 2024 Indonesian Presidential Election period.	Not Supported	Supported
Hypothesis 6c (H_{6c}): State ownership has moderating effect between firm age and CAR of companies' stocks that are listed in LQ45 Stock Market Index in	Not Supported	Not Supported

IDX during the 2 specific event on 2024 Indonesian Presidential Election period.

Source: Author's research result

Hypothesis 1 (H_1) predicts a negative impact on cumulative abnormal returns (CAR) of companies listed in the LQ45 Stock Market Index during the 2024 Indonesian Presidential Election period. For the first event (24th April 2024, the General Elections Commission of Indonesia determining the presidential election result), H_1 is supported but not statistically significant, while for the second event (20th October 2024, the Inauguration Day of the new President of Indonesia), H_1 is supported and statistically significant. The negative direction of the relationship during both events suggests that investors responded with a degree of caution and uncertainty surrounding the political transition, which is consistent with evidence that equity markets in emerging economies tend to react negatively to electoral outcomes when the level of political uncertainty remains elevated even after the result is announced (Białkowski et al., 2008). The fact that significance was only achieved during the inauguration event may reflect a delayed consolidation of investor sentiment, as markets fully priced in the implications of the new administration's policy direction only upon the formal transfer of power (Füss & Bechtel, 2007).

Hypothesis 2 (H_2) proposes that firm size has a significant impact on CAR of companies listed in the LQ45 Index across both events. The results show that H_2 is supported during the first event but not supported during the second event. The significance of firm size during the election result announcement on 24th April 2024, with a p-value of 0.035, confirms that larger firms experienced meaningfully higher cumulative abnormal returns at the moment the presidential outcome was officially confirmed. This finding is consistent with conventional expectations in the empirical finance literature, where larger firms are associated with richer information environments, greater analyst coverage, and faster price discovery that moderate the stock price impact of political events (Fama & French, 1992). Larger firms are also generally perceived as more capable of absorbing policy shocks and maintaining stable earnings trajectories under new administrations, which translates into more favorable investor reactions at politically sensitive junctures (Banz, 1981). The absence of a significant firm size effect during the second event, however, suggests that by the inauguration date, the size-based informational advantage had already been absorbed into stock prices following the earlier announcement, leaving little additional variation in firm size to explain cross-sectional differences in CAR during the second event window (MacKinlay, 1997).

Hypothesis 3 (H_3) posits that geographic diversification has a significant impact on CAR across both event windows. The hypothesis is not supported in either the first or the second event, indicating that the breadth of a firm's

international operations did not independently translate into differential abnormal returns during the presidential election period. This finding implies that geographic diversification, as a standalone firm characteristic, may not be sufficiently distinctive to drive investor behavior during politically charged events in an emerging market context. This is consistent with arguments that the benefits of geographic diversification are more likely to manifest over longer investment horizons rather than in short event windows where market reactions are driven primarily by macro-level political sentiment (Denis et al., 2002).

Hypothesis 4 (H_4) predicts that firm age has a significant impact on CAR during both events. Similar to firm size and geographic diversification, H_4 is not supported in either event. The insignificance of firm age across both windows suggests that the market did not reward or penalize firms based on their operational maturity when reacting to the presidential election outcomes. This may reflect the notion that in short-horizon event studies, investors tend to focus on immediate political and macroeconomic signals rather than on longer-term firm fundamentals such as age and experience (MacKinlay, 1997). Furthermore, within a liquid index such as the LQ45, older firms are not necessarily perceived as lower risk, which weakens the theoretical basis for an age-based return differential (Loderer & Waelchli, 2010).

Hypothesis 5 (H_5) examines whether state ownership has a significant impact on CAR during both events. The results show that H_5 is supported during the first event but not supported during the second event. The significance of state ownership during the election result announcement on 24th April 2024, suggests that investors perceived government-linked firms as being differentially exposed to the incoming administration's policy agenda at the moment the election outcome was officially confirmed. This is in line with evidence that politically connected and state-owned firms tend to experience positive abnormal returns around events that signal the continuation or strengthening of government ties (Faccio, 2006). However, the loss of significance during the inauguration event may indicate that by 20th October 2024, the market had already fully incorporated the implications of state ownership into stock prices during the earlier event window, leaving little new information to be processed on inauguration day (Fisman, 2001).

Hypothesis 6a (H_{6a}) tests whether state ownership moderates the relationship between firm size and CAR. This hypothesis is supported during the first event but not supported during the second event. The significant moderation effect during the election result announcement suggests that state ownership strengthened the influence of firm size on abnormal returns when the presidential outcome was first confirmed, possibly because larger state-affiliated firms were perceived as the primary beneficiaries of the new administration's economic agenda at that point in time (Boubakri et al., 2008). The absence of a significant moderation effect during the inauguration event may reflect the diminishing marginal impact

of political news as investors had already repositioned their portfolios following the earlier announcement (Leuz & Oberholzergee, 2006).

Hypothesis 6b (H_{6b}) proposes that state ownership moderates the relationship between geographic diversification and CAR. The results show that this hypothesis is not supported during the first event but is supported during the second event, with a positive and significant coefficient indicating that state-owned firms with broader geographic diversification experienced higher cumulative abnormal returns around the inauguration date. This finding suggests that the market recognized the strategic value of combining state ownership with wide international operational coverage specifically in the context of a formal transfer of presidential power, where new policy implementations and spending priorities become more concrete (Goldman et al, 2008). The delayed emergence of this moderation effect, appearing only in the second event, may reflect investors' growing recognition that geographically diversified state-linked firms are better positioned to capitalize on the new administration's national development programs once those programs become more clearly defined at inauguration (Claessens et al., 2000).

Hypothesis 6c (H_{6c}) examines whether state ownership moderates the relationship between firm age and CAR. This hypothesis is not supported in either event, suggesting that the combination of state ownership and firm maturity did not produce differential market reactions across either the election result announcement or the presidential inauguration. The absence of a moderation effect may imply that investors did not associate the longevity of state-linked firms with any particular advantage or disadvantage in navigating the political transition, which aligns with findings that firm age interacts with ownership structure in ways that are more relevant to operational efficiency and long-run profitability than to short-term market reactions around discrete political events (La Porta et al., 1998).

CHAPTER V

CONCLUSIONS

5.1 Conclusion

The study examined the impact of the 2024 Indonesian presidential election on the stock returns of LQ45-listed firms on the Indonesia Stock Exchange (IDX), employing an event study framework centered on two distinct political event dates: the official determination of the election result by the General Elections Commission of Indonesia (KPU) on 24th April 2024, and the presidential inauguration of Prabowo Subianto on 20th October 2024. The research investigated not only the aggregate market-level response through Cumulative Abnormal Return (CAR) analysis but also the cross-sectional determinants of that response by examining the moderating and direct effects of firm size, geographic diversification, firm age, and state ownership.

The findings across both events reveal a pattern that is broadly constant with the theoretical hypotheses inspired from the Efficient Market Hypothesis, political uncertainty theory, and signaling theory, while also producing nuanced results that enrich the existing literature on political finance in emerging market contexts.

Regarding Hypothesis 1, the results confirm a negative directional impact of both political events on CAR, lending empirical support to the general expectation that major political transitions generate negative abnormal returns in emerging equity markets. For the first event, the mean CAR of -0.023 was directionally negative but did not get to conventional levels of statistical significance, with a p-value of 0.138. This outcome aligns with evidence that financial markets often partially anticipate major political outcomes in advance, meaning that a significant proportion of the informational content is already absorbed into stock prices before the formal announcement, reducing the magnitude of the residual price reaction at the moment of official confirmation (Brown & Warner, 1985). The Indonesian market, like other emerging markets, may also exhibit slower and more uneven price adjustment to political information due to structural features such as lower institutional investor participation and higher information asymmetry (Bekaert & Harvey, 2002). For the second event, the mean CAR of -0.019 was both directionally negative and statistically significant at the 5% level ($p = 0.045$), providing robust support for Hypothesis 1. The significance of the negative CAR around the inauguration date reflects the introduction of a new layer of policy uncertainty at the moment of formal power transfer, particularly given the unprecedented scale of the new Prabowo cabinet and the fiscal ambiguities surrounding flagship government programs (Wihardja et al., 2025). Political transitions, even when democratically smooth, tend to sustain negative

equity market reactions as investors reprice expected cash flows under new policy regimes (Pástor & Veronesi, 2012).

Regarding Hypotheses 2, 3, and 4, the results show that firm size produced a statistically significant positive effect on CAR during the first event, while geographic diversification and firm age did not produce statistically significant effects on CAR during either event window. The significance of firm size during the first event ($p = 0.035$) is consistent with conventional expectations in the empirical finance literature, where larger firms are typically associated with richer information environments and faster price discovery that moderate the stock price impact of political events (Atiase, 1985). Larger firms benefit from greater analyst scrutiny, broader institutional investor coverage, and stronger perceived capacity to absorb policy shocks under incoming administrations, all of which contribute to more favorable abnormal returns at the moment of electoral confirmation (Banz, 1981). The absence of a significant firm size effect during the second event likely reflects information absorption dynamics, whereby the size-based advantage had already been priced into stock valuations following the first event, leaving little residual variation to explain during the inauguration window. The finding that geographic diversification did not independently drive CAR during either event is consistent with arguments that the risk-reduction benefits of international operational exposure are more likely to affect valuations over longer investment horizons than in the short event windows typical of event study analysis (Denis et al., 2002). In the immediate aftermath of a domestic political event, market-wide sentiment tends to dominate firm-level characteristics, leaving little room for geographic diversification to exert a differentiated influence on short-run stock returns. Similarly, firm age's insignificance across both events suggests that investor behavior during these political event windows was not systematically conditioned by the maturity or track record of individual firms. In short-horizon analyses, investors tend to focus on immediate macro-level political signals rather than on longer-term firm fundamentals such as age and organizational experience (MacKinlay, 1997).

Regarding Hypothesis 5, state ownership showed a statistically significant positive impact on CAR during the first event but not during the second event. The significance of state ownership around the election result announcement is consistent with the well-established finding in the political finance literature that government-linked and state-owned firms tend to benefit from perceived political proximity, as investors anticipate that these firms will maintain or expand their preferential access to government contracts, subsidized financing, and regulatory support under the incoming administration (Faccio, 2006). State ownership signals implicit governmental backing, which is particularly valued by investors in emerging markets where political connections translate more directly into economic benefits during periods of leadership transition (La Porta et al., 1998). The loss of significance during the inauguration event likely reflects information absorption dynamics: by the time of the formal transfer of power, the implications of state

ownership for firm-level political positioning had already been largely priced into stock valuations following the earlier election result announcement. This pattern is consistent with evidence that the stock market effects of state ownership are highly event-specific and subject to rapid market learning as the political landscape clarifies (Fisman, 2001).

Regarding the moderating hypotheses, the results reveal an asymmetric and event-specific pattern that adds considerable nuance to the interpretation of the main effects. Hypothesis 6a, which predicted that state ownership moderates the relationship between firm size and CAR, was supported during the first event but not the second. The significant negative interaction coefficient during the first event indicates that state ownership reversed the expected positive relationship between firm size and CAR: while larger private firms experienced directionally positive abnormal returns, larger state-owned firms experienced progressively worse CAR as their size increased. This finding is consistent with agency theory arguments about the governance deficiencies of state-owned enterprises, where larger SOEs face more pronounced conflicts between commercial profit objectives and non-commercial political mandates, leading markets to penalize scale in state-owned contexts rather than reward it (Aguilera et al., 2020). The misalignment between state-owned enterprise executives' political promotion incentives and financial performance goals becomes more severe in larger SOEs, where resource misallocation is both more consequential and more visible to market participants (Huo et al., 2024). Hypothesis 6b, predicting state ownership moderation of the geographic diversification–CAR relationship, was not supported during the first event but was supported during the second event, with a positive and significant interaction coefficient of 0.677. This finding suggests that the strategic value of combining state ownership with broad international operations was recognized by investors specifically in the context of the formal inauguration, when the new administration's policy priorities became more concrete and geographically diversified state-linked firms appeared well-positioned to benefit from anticipated national development programs and public spending reallocations (Goldman et al., 2008). The delayed emergence of this moderation effect across events is consistent with the theoretical argument that the political capital embedded in state ownership is most directly relevant to investor behavior when the new government's spending priorities are imminent rather than merely probable (Claessens et al., 2000). Hypothesis 6c, which predicted moderation of the firm age–CAR relationship by state ownership, was not supported in either event. This finding aligns with research suggesting that firm age interacts with ownership structure primarily through operational efficiency and long-run profitability channels rather than through short-term market reactions to discrete political events (La Porta et al., 1998).

Taken together, the findings of this study provide empirical evidence that the 2024 Indonesian presidential election generated measurable negative abnormal returns among LQ45-listed firms, with the effect being statistically robust for the inauguration event and directionally consistent but statistically modest for the

election result announcement. The cross-sectional analysis reveals that state ownership was the most consistently relevant firm-level determinant of heterogeneous market reactions, both as a direct effect and as a moderator of other firm characteristics, underscoring the continuing importance of political economy considerations in explaining equity market behavior in Indonesia's emerging market context.

5.2 Implication

The findings of this study carry significant implications for multiple stakeholder groups, including investors and portfolio managers, corporate executives and boards, and policymakers and regulators operating within the Indonesian financial market context.

For investors and portfolio managers, the results suggest that major political events in Indonesia, particularly presidential elections and inaugurations, produce measurable short-term disruptions in stock returns that are sufficiently systematic to warrant attention in portfolio management and risk hedging strategies. The statistically significant negative CAR documented around the inauguration event indicates that investors who maintain unhedged long positions in LQ45-listed equities around presidential inauguration dates are exposed to meaningful downside return risk that cannot be fully explained by ordinary market fluctuations. The literature on political risk management in equity portfolios suggests that investors can mitigate this exposure through various strategies, including temporary reductions in equity exposure during politically sensitive event windows, greater use of derivatives to hedge against downside scenarios, and selective reallocation toward firms with characteristics associated with more resilient political event responses (Baker et al., 2016). The finding that state ownership was a significant positive predictor of CAR around the election result announcement implies that selectively overweighting government-linked firms ahead of major political announcements may generate tactical return advantages, though this strategy must be weighed against the governance-related discount documented for larger SOEs in the moderation analysis. Political risk is a systematic factor in emerging market equity investing, and failure to account for it in portfolio construction can expose investors to avoidable return volatility during politically charged periods (Białkowski et al., 2008).

For corporate executives and boards of directors, the results underscore the importance of proactive investor communication strategies around major political event dates. The evidence that market reactions to the 2024 Indonesian presidential election were influenced by firm-level characteristics such as state ownership and the interaction of ownership with size and geographic diversification suggests that how firms position themselves in the eyes of investors prior to political transitions matters for their short-run market valuations. Firms that can credibly signal resilience, adaptability, and political connectivity through their public communications, investor relations activities, and strategic positioning are likely to

experience more favorable market reactions during periods of political uncertainty (Healy & Palepu, 2001). The finding that larger state-owned firms experienced deteriorating CAR relative to their smaller SOE counterparts highlights the reputational and market valuation risks associated with the non-commercial mandates and governance weaknesses that characterize overly politicized state enterprises. This result reinforces arguments in the corporate governance literature that state-owned enterprises must prioritize governance reforms to align managerial incentives more closely with shareholder value maximization, particularly as they grow in size and political visibility (Shleifer & Vishny, 1994).

For policymakers and regulators, the study's findings provide valuable evidence about the informational efficiency of the Indonesian stock market in processing major political developments. The fact that a statistically significant negative CAR was observed around the presidential inauguration, driven in part by concerns about fiscal policy credibility, cabinet composition, and the scope of the new administration's programmatic commitments, suggests that capital markets serve as important real-time feedback mechanisms for the quality of political governance (Julio & Yook, 2012). Policymakers who wish to minimize the market disruption associated with political transitions should prioritize transparency and credibility in communicating economic policy directions before and after major political events, as policy uncertainty is a primary driver of the risk premium that investors embed in stock valuations during political transitions (Gulen & Ion, 2015). The significant role of state ownership documented in this study also highlights the need for ongoing governance reforms in Indonesia's state-owned enterprise sector, as the market's differentiated treatment of government-linked firms reflects real concerns about the efficiency, accountability, and profit orientation of public enterprises that have important implications for the broader development of Indonesia's capital markets.

Finally, the research also carries methodological implications for future event studies conducted in emerging market settings. The asymmetry between the first and second event results, where the same directional hypothesis yielded non-significant results for the election announcement but significant results for the inauguration, illustrates the importance of examining multiple event dates within the same political cycle rather than treating any single date as the definitive moment of political information revelation. Political information transmission in emerging markets tends to be more gradual and uneven than in developed markets, meaning that a comprehensive empirical assessment of political event effects requires attention to the full sequence of politically salient moments rather than a single announcement date (Patell & Wolfson, 1984).

5.3 Limitation

Beside the contributions, there are some limitations in this study that should be acknowledged and considered when analyzing the findings.

The first limitation concerns the sample scope. This study focuses exclusively on the 45 firms comprising the LQ45 index of the Indonesia Stock Exchange, which by design is restricted to the most liquid and largest-capitalization listed firms in Indonesia. While this sample selection is methodologically justified on the grounds of minimizing microstructure noise and ensuring high-quality price data, it limits the generalizability of the findings to the broader universe of Indonesian listed companies. Smaller and less liquid firms may exhibit substantially different patterns of political event responses due to their greater vulnerability to political uncertainty, lower analyst coverage, and less efficient price discovery, all of which would be missed by a sample confined to the LQ45 index (Amihud & Mendelson, 1987). The concentration of the sample among already large and institutionally well-covered firms may also attenuate the documented effects of firm size and other moderating variables, as the within-index variation in these characteristics is narrower than in a full-market sample. Furthermore, with only 45 firms in the sample, the study operates at the lower bound of what is conventionally considered adequate for multivariate regression analysis involving multiple independent and interaction terms. Small sample sizes reduce statistical power, increase the risk of Type II errors (failure to detect true effects), and can produce unstable coefficient estimates when models include several predictors simultaneously. The concentration of the sample among already large and institutionally well-covered firms may also compress the within-index variation in firm size relative to a full-market sample. While firm size did produce a statistically significant effect on CAR during the first event, the absence of a significant size effect during the second event may partly reflect this compressed variation, as the narrower size range within the LQ45 universe reduces the statistical power to detect size-based differences in market reactions when sentiment is more uniformly distributed across firms, as was the case around the inauguration.

A second limitation relates to the event window specification. The event windows employed in this study are relatively short, designed to capture the immediate market reaction to each of the two political events. While this approach is standard in the event study literature and consistent with the semi-strong form of the Efficient Market Hypothesis, it may not fully capture the complete adjustment of stock prices to the political information content of the election and inauguration events (MacKinlay, 1997). In emerging markets such as Indonesia, where price adjustment to new information can be slower and more protracted than in developed markets, some portion of the market reaction may occur outside the defined event windows, leading to an underestimation of the true political event effects. The choice of event window length necessarily involves a tradeoff between capturing the full market reaction and minimizing contamination from concurrent non-political events, and the specific windows employed here may not optimally balance these competing concerns for all firms in the sample.

A third limitation concerns the operationalization of the independent and moderating variables. Geographic diversification, in particular, is proxied by a

firm's international revenue share or the geographic scope of its reported operations, which may not fully capture the depth, profitability, and strategic integration of a firm's international activities. A firm with nominal international revenues may have very different exposure to the risk-reduction benefits of geographic diversification compared to a firm with deeply integrated and strategically managed multinational operations, yet both would receive similar scores on the proxy employed in this study (Rugman & Verbeke, 2004). Similarly, the binary or continuous measure of state ownership used in the analysis does not capture the degree of effective state control, the quality of governance within state-owned enterprises, or the nature of the political relationships maintained by state-affiliated firms, all of which may be more directly relevant to the political market outcomes observed than ownership share alone (Boubakri et al., 2004).

A fourth limitation pertains to the potential for confounding events. The two event dates examined in this study, 24th April and 20th October 2024, coincide with a period of considerable macroeconomic and geopolitical volatility, including movements in global commodity prices, changes in U.S. Federal Reserve monetary policy expectations, and broader emerging market currency pressures that affected the Indonesian rupiah during this period. While the event study methodology is specifically designed to control for market-wide return movements through the estimation of expected returns based on the market model, the presence of multiple concurrent macro-level shocks in close proximity to the event windows increases the risk that some portion of the observed abnormal returns reflects factors unrelated to the political events under study (Brown & Warner, 1985). This confounding risk is inherent to any event study conducted in real-world market conditions and cannot be entirely eliminated through methodological design, representing a necessary caveat to the causal interpretation of the CAR results.

A fifth and final limitation concerns the external validity of the findings. Although Indonesia is a significant and influential emerging market democracy with characteristics that make it broadly relevant to the political finance literature, the specific institutional features of the Indonesian context, including its multiparty coalition system, the distinctive role of state-owned enterprises, and the particular policy profile of the Prabowo administration, may limit the direct transferability of the findings to other emerging market democracies. Cross-country comparisons of political event effects are complicated by country-specific institutional differences that mediate the relationship between political transitions and stock market reactions, and the results of this study should therefore be interpreted as contextually specific findings that contribute to a broader comparative literature rather than as universal generalizations (Bekaert & Harvey, 2002).

5.4 Future Research

The results, along with limitations observed, suggest paths forward for further inquiry, paths that might refine insights into how political developments

influence stock markets in Indonesia as well as similar democratic nations at comparable economic stages.

First, future research should expand the sample beyond the LQ45 index to encompass a broader cross-section of IDX-listed firms, including smaller-capitalization and less liquid companies that may exhibit qualitatively different political event responses due to their greater vulnerability, lower information environment quality, and more limited political access. A broader sample would permit more powerful tests of the moderating effects of firm size, geographic diversification, and firm age by exploiting the full range of variation in these characteristics across the IDX-listed population, potentially revealing stronger and more nuanced effects than those detectable within the restricted LQ45 universe (Atiase, 1985). Such an expanded analysis would also provide a more complete picture of how political uncertainty is distributed across the full spectrum of publicly traded Indonesian firms.

Second, future studies should examine a longer time series of Indonesian presidential elections and political events, tracing the evolution of market reactions to political uncertainty across multiple electoral cycles since the democratic transition of 1998. A longitudinal perspective would allow researchers to assess whether the magnitude and pattern of political event effects on stock returns have changed over time as Indonesia's democratic institutions have matured, its capital markets have deepened, and its corporate governance standards have improved. Comparative analysis across elections would also provide a larger sample of event observations, improving statistical power and enabling more robust cross-sectional analysis of the firm-level determinants of political event responses (Pantzalis et al., 2000). The systematic variation in electoral competitiveness, candidate characteristics, and policy platforms across different elections provides natural variation that could be exploited to identify the specific features of political events that most strongly drive stock market reactions.

Third, future research should investigate the sectoral dimension of political event effects more systematically than is possible within a study focused on the LQ45 index as a whole. Given that different sectors of the Indonesian economy, including banking, infrastructure, energy, consumer goods, and telecommunications, have distinct relationships with government policy and are therefore likely to exhibit heterogeneous reactions to presidential elections and inaugurations, a sector-level analysis would provide important insights into the policy transmission channels through which political events affect equity valuations (Cohen et al., 2011). Sector-level studies could identify which industries are most sensitive to political transitions in the Indonesian context and which characteristics of incoming administrations, such as their infrastructure spending commitments, energy subsidy policies, and financial sector regulation orientations, most strongly drive cross-sectoral variation in abnormal returns.

Fourth, future research should consider incorporating political connectedness measures at the firm level, beyond the binary or continuous measure of state ownership employed in this study. Research on politically connected firms in emerging markets has documented that the benefits of political proximity extend beyond formal state ownership to include board-level connections to political parties, personal relationships between executives and government officials, and participation in government advisory bodies, all of which may be relevant determinants of how firms are affected by political transitions (Faccio, 2006). A more granular mapping of political connectedness among Indonesian listed firms, potentially drawing on board composition data, campaign contribution records, and regulatory filing information, would allow future studies to more precisely identify the political economy mechanisms through which stock returns are affected by elections and inaugurations.

Fifth, and finally, future research should extend the temporal scope of the analysis beyond the short event windows employed in this study to examine the medium- and long-term stock market consequences of political transitions in Indonesia. The short-run focus of event study methodology, while appropriate for isolating the immediate informational content of specific events, does not capture the evolving reassessment of firm valuations that occurs over the months following a political transition as policy directions become progressively clearer and investors accumulate evidence about the new administration's priorities, governance quality, and economic management approach (Julio & Yook, 2012). A longer-horizon analysis using monthly return data and portfolio sorting methodologies could examine whether the short-run abnormal returns documented in this study persist, reverse, or evolve in predictable ways as a function of the firm-level characteristics and political connectedness measures identified as significant in the present research.

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