

# THE RESILIENCE OF BLUE-CHIP STOCKS: MANAGERIAL ABILITY, AUDIT QUALITY, AND STOCK PRICE CRASH RISK IN THE INDONESIA LQ45 INDEX

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## Abstract

*This study examines whether managerial ability mitigates stock price crash risk in Indonesian blue-chip firms, whether audit quality moderates this relationship, and how leverage behaves after controlling for firm-specific heterogeneity. The study uses a quantitative explanatory design with balanced panel data from 22 firms listed consistently in the LQ45 index during 2022-2025, yielding 88 firm-year observations. Stock price crash risk is measured by Down-to-Up Volatility (DUVOL), with Negative Conditional Skewness (NCSKEW) and Crash Dummy used as robustness proxies. Managerial ability is estimated using the Demerjian score, audit quality is proxied by a Big Four dummy, and the interaction term is orthogonalized to mitigate multicollinearity. Model selection tests indicate that the Fixed Effect Model is the preferred estimator. The results show that managerial ability shows a negative effect on DUVOL at the 10% significance level, indicating that competent managers reduce bad news hoarding and mitigate crash risk. Audit quality has a positive and significant effect, suggesting that Big Four auditors accelerate transparency and market absorption of adverse information. However, audit quality does not moderate the managerial ability-crash risk relationship. Leverage is no longer significant after fixed effects are controlled. Robustness checks using NCSKEW and Crash Dummy confirm the negative direction of managerial ability. These findings refine the understanding of blue-chip resilience in an emerging market*

**Keywords:** *blue-chip stocks; managerial ability; audit quality; stock price crash risk; LQ45*

## INTRODUCTION

Indonesia's capital market has entered a phase that is increasingly sensitive to the quality of corporate information after the pandemic period. Investors not only assess accounting performance, but also assess disclosure credibility, governance, trading liquidity, capital structure, and the company's ability to respond to macroeconomic pressures. In this context, stocks that are members of the LQ45 Index are often seen as a relatively more resilient group of stocks because they have large market capitalization, high liquidity, and good company fundamentals. The Indonesia Stock Exchange defines LQ45 as an index that measures the price performance of 45 stocks with a relatively large market capitalization, high liquidity, and good fundamentals (Indonesian Stock Exchange, 2024). However, blue-chip status does not remove the risk of an extreme decline in stock prices. Large companies can still experience stock price crash risk when the market receives bad information suddenly.

Stock price crash risk refers to the possibility of a sharp and disproportionate decline in stock prices due to the accumulation of bad information that was previously not reflected in the market price. The financial literature explains that crash risk arises when managers hold bad news within a certain period and the market then adjusts prices to the extreme after the information is revealed (Hutton et al., 2009; Jin & Myers, 2006; Kothari et al., 2009). This risk cannot be understood solely as market volatility because it includes issues of reporting quality, information opacity, governance, and bad-news hoarding mechanisms (Habib et al., 2018; Kim & Zhang, 2016).

In the perspective of information asymmetry theory, managers have more complete internal information than outside investors. This information inequality creates space for managers to choose the timing, intensity, and substance of disclosure (Akerlof, 1970; Healy & Palepu, 2001). If bad information

is repeatedly withheld, the stock price can become too high relative to its fundamental value. When the accumulation of bad information can no longer be hidden, the market makes a major correction that is reflected in the crash risk. Therefore, information asymmetry theory provides a more specific explanation than agency theory in explaining the mechanism of bad news hoarding in the capital market.

Corporate governance theory is also relevant in this study because crash risk can be reduced through supervision, accountability, and transparency mechanisms. Good governance demands a structure that protects the interests of investors, supervises management, and ensures timely disclosure of materials (OECD, 2023; Shleifer & Vishny, 1997). In a public company, the governance mechanism is not only sourced from the board of commissioners and audit committees, but also external auditors, institutional investors, market analysts, creditors, and regulators. Therefore, crash risk needs to be analyzed as a result of the interaction between internal management capabilities and external oversight mechanisms.

One of the interesting internal factors is managerial ability. Managers with high abilities can allocate resources more efficiently, read market opportunities better, and manage operational risks more disciplinedly (Demerjian et al., 2012). In the Indonesian context, the issue of managerial ability and characteristics is also relevant in explaining investment efficiency and reporting practices, although the direction of its influence can be influenced by managerial reputation, capability size, and risk-taking tendencies (Butar Butar, 2022; Sulhendri et al., 2024). In the context of crash risk, high managerial ability should reduce the need for managers to hold back bad news because the company is managed more efficiently and operational problems can be anticipated earlier. Thus, managerial ability is predicted to reduce the risk of stock price falls through a decrease in information asymmetry and an improvement in the quality of internal decisions.

However, empirical findings regarding managerial ability and crash risk have not been fully converged. Liu & Lei (2021) shows that managerial ability can increase crash risk when combined with managerial overconfidence. Chen & Du (2024) also discovers the dark side of the CEO's abilities when those abilities are used for rent-seeking and information concealment. Instead, Fang et al. (2024) found that generalist CEOs can lower crash risk through accounting conservatism and a decline in real profit management. This difference in results shows that there is a research gap regarding the direction of the influence of managerial ability, especially in blue-chip issuers in emerging markets such as Indonesia.

Audit quality is an external mechanism that cannot be ignored. High-quality auditors are expected to narrow the space for information asymmetry, increase the credibility of financial statements, and force management to disclose material information in a more timely manner. The audit literature shows that auditor size and reputation are related to audit quality because large auditors have stronger reputational incentives, technical competence, and audit resources (DeAngelo, 1981; DeFond & Zhang, 2014; Francis & Yu, 2009). Indonesian evidence also shows that audit quality relates to stock price response, although each audit proxies, such as KAP size, auditor specialization, audit opinion, and tenure audit, can produce different influences (Challen et al., 2023). Li et al. (2022) It also proves that expanding auditor disclosure can suppress bad-news hoarding practices and reduce stock price crash risk.

The research gap in this research also arises from the limitations of empirical evidence in the Indonesian context. Butar Butar (2020) testing income smoothing, default risk, and stock price crashes in Indonesian companies, while Butar Butar & Murniati (2021) shows that the quality of financial reporting is related to stock price crash risk in Indonesian companies. Soeprajitno et al. (2023) found the relationship between CSR disclosure and crash risk in the context of the Indonesian market, while Sutrisno et al. (2023) suggests that some internal governance mechanisms, such as the proportion of independent commissioners, institutional ownership, and audit committees, can reduce the risk of falling share prices in conventional Indonesian banks. Salehi et al. (2022) expand the discussion on audit attributes and crash risk in emerging markets, while Andreou et al. (2023) emphasizing that opacity and overinvestment are important channels in explaining crash risk. However, studies that specifically test managerial ability, audit quality, and interaction between the two in LQ45 issuers are still limited. Therefore, this study seeks to fill this gap by focusing on analysis on Indonesian blue-chip stocks for the 2022-2025 period.

This research has three contributions. First, this study re-examines the relationship between managerial ability and stock price crash risk with a negative directional hypothesis, so that it is theoretically stronger and not defensive. Second, this study integrates information asymmetry theory and corporate governance theory to explain the mechanism of bad news hoarding and the role of auditors in accelerating transparency. Third, this study uses a Fixed Effect Model based on the results of the panel model selection test and adds robustness checks through NCSKEW and Crash Dummy. Thus, this

study provides stronger evidence on the resilience of blue-chip stocks in Indonesia.

## FRAMEWORK OF THINKING

### Research Conceptual Model

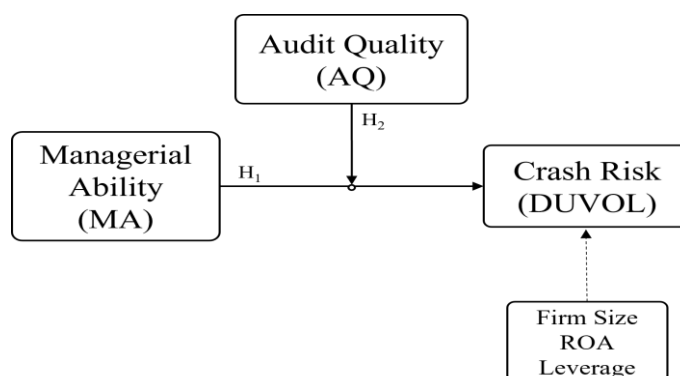


Figure 1. Research Framework Model

### Information Asymmetry Theory and Stock Price Crash Risk

Information asymmetry theory explains that the company's internal parties have more complete information than outside investors. This inequality creates adverse selection and moral hazard because investors cannot fully observe the quality of managerial decisions and the fundamental condition of the company (Akerlof, 1970; Healy & Palepu, 2001). In the capital market, information asymmetry does not only arise through unavailable information, but also through delays in disclosure, timing of information release, and management narratives in corporate reports.

Stock price crash risk is one of the extreme consequences of information asymmetry. When managers hold off on bad news, stock prices can move not fully reflecting fundamental risk. The accumulation of bad news is then unleashed abruptly when economic, audit, regulatory, or market pressures no longer allow management to maintain withheld information. At that point, the market corrected the price sharply. This mechanism makes bad news hoarding the centre of explanation for crash risk (Hutton et al., 2009; Jin & Myers, 2006; Kothari et al., 2009).

### Corporate Governance Theory, Managerial Ability, and Audit Quality

Corporate governance theory views the company as a contractual system that requires a supervisory mechanism so that managerial decisions are in line with the interests of shareholders and other stakeholders. Effective governance strengthens transparency, accountability, investor protection, and timely disclosure of material information (OECD, 2023; Shleifer & Vishny, 1997). In the context of crash risk, governance works by reducing the space for delaying bad information and limiting opportunistic discretion of management.

Managerial ability is the manager's capacity to convert company resources into revenue efficiently (Demerjian et al., 2012). More competent managers tend to be able to detect problems early, allocate assets more productively, and devise more effective risk mitigation strategies. From an information asymmetry perspective, this ability reduces the need to hold back bad news because internal issues can be addressed before they develop into major market pressures. From a corporate governance perspective, capable managers support the quality of internal control and reporting accuracy.

Based on this logic, this study positions managerial ability as a factor that reduces stock price crash risk. In other words, the higher the managerial ability, the less likely it is that there will be an accumulation of bad information that goes unrevealed. Therefore, the first hypothesis is formulated in a negative directional manner as follows:

H1: Managerial ability has a negative effect on stock price crash risk in LQ45 issuers.

Audit quality acts as an external governance mechanism. The Big Four auditors have a strong

reputation, audit methodology, specialist network, and reputational incentives to demand reporting transparency (DeAngelo, 1981; DeFond & Zhang, 2014; Francis & Yu, 2009). High-quality auditors can speed up the recognition of bad information, improve disclosure discipline, and reduce management room to store bad news. At the same time, auditors can also strengthen the benefits of managerial ability as competent managers acquire more credible reporting channels to convey information to the market.

However, in the context of LQ45, the relationship can become more complex. Blue-chip companies have relatively mature governance and several layers of oversight. Therefore, auditors and managers can perform functions independently. Audit quality can still affect DUVOL through transparency mechanisms, but it does not necessarily strengthen the influence of managerial ability interactively. Theoretically, the moderation hypothesis remains formulated as follows:

H2: Audit quality strengthens the negative influence of managerial ability on stock price crash risk in LQ45 issuers.

## RESEARCH METHODS

### Research Theory

This research is based on information asymmetry theory and corporate governance theory as the main theory. Information asymmetry theory explains that information inequality between management and investors can trigger the retention of bad news that leads to crash risk. Corporate governance theory explains that internal and external oversight mechanisms, including external audits, can strengthen corporate transparency and accountability. Agency theory and signalling theory are used as supporting theories. Agency theory describes the conflict of interest between managers and shareholders, while signalling theory describes how capital structure and reporting attributes are perceived by the market.

### Research Type, Population, and Sample

This study uses a quantitative approach with an explanatory design. This design was chosen because the research aims to test the influence of managerial ability, audit quality, and its interaction on stock price crash risk based on numerical data and panel data econometric models.

The research population includes all companies that have been members of the LQ45 Index on the Indonesia Stock Exchange during the 2022-2025 period. The sample was determined using purposive sampling with the following criteria: the company was consistently incorporated into LQ45 during the study period, had complete annual financial statements, had information from external auditors, and had weekly stock price data and the required control variables. Based on these criteria, 22 issuers were obtained during four years of observation, bringing the total number of analysis units to 88 firm-year observations.

### Data Collection Techniques

This study uses secondary data in the form of panels. Financial statement data is obtained from annual reports and audited financial statements published through the Indonesia Stock Exchange and the websites of each company. External auditor data is traced from independent auditor reports. Weekly stock price data and the Composite Stock Price Index are used to calculate company-specific returns and proxy stock price crash risk.

### Variables and Measurements

Stock price crash risk is measured with DUVOL as the main proxy. The calculation of DUVOL follows (J. Chen et al., 2001). The first stage is to estimate the company's specific return by regressing the weekly stock return against the weekly market return with two lags and two leads to overcome nonsynchronous trading as suggested Dimson (1979).

$$R_{i,t} = \alpha_i + \beta_1, iR_{m,t-2} + \beta_2, iR_{m,t-1} + \beta_3, iR_{m,t} + \beta_4, iR_{m,t+1} + \beta_5, iR_{m,t+2} + \varepsilon_{i,t} \quad (1)$$

The residual of equation (1) is used to calculate the firm-specific weekly return as follows:

$$W_{i,t} = \ln(1 + \varepsilon_{i,t}) \quad (2)$$

Furthermore, weeks with specific returns below average are categorized as down weeks, while

weeks with specific returns above average are categorized as up weeks. DUVOL is calculated by the following formula:

$$DUVOL_{i,t} = \log \left( \frac{(n_u-1)\sum_{down} W_{i,t}^2}{(n_d-1)\sum_{up} W_{i,t}^2} \right) \quad (3)$$

As a robustness test, this study used NCSKEW. Higher NCSKEW values indicate a specific return distribution that is more skewed towards crash risk. The NCSKEW formula is as follows:

$$NCSKEW_{i,t} = - \left( \frac{n(n-1)^{3/2} \sum W_{i,t}^3}{(n-1)(n-2)(\sum W_{i,t}^2)^{3/2}} \right) \quad (4)$$

The second robustness test uses the Crash Dummy. A Crash Dummy is worth 1 if there is at least one week in a firm-year with a firm-specific weekly return lower than the firm-year average of 3.09 standard deviations. The threshold of 3.09 is used because it represents an extreme event at the normal distribution. If there is no crash week, the variable is valued 0.

$$CrashDummy_{i,t} = \begin{cases} 1, & \text{if } W_{i,t} < Mean(W_{i,t}) - 3,09SD(W_{i,t}) \\ 0, & \text{if not} \end{cases} \quad (5)$$

Managerial ability is measured using scores Demerjian et al. (2012). The first stage calculates the efficiency of the company with Data Envelopment Analysis. The second stage separates the influence of company characteristics from efficiency scores through Tobit regression. The residual of the model represents pure managerial ability.

$$MaxEff_{i,t} = \alpha_0 + \alpha_1 \ln(\text{Total Asset})_{i,t} + \alpha_2 \text{Market Share}_{i,t} + \alpha_3 FCF_{i,t} + \alpha_4 \text{Firm Age}_{i,t} + \alpha_5 \text{Segment}_{i,t} + \alpha_6 \text{Forex}_{i,t} + \varepsilon_{i,t} \quad (6)$$

Audit quality is measured with Big Four dummies. A value of 1 is given if the company's financial statements are audited by a Big Four-affiliated KAP, and a value of 0 if audited by a non-Big Four KAP. The control variables consist of firm size, leverage, and ROA (Brigham & Houston, 2018).

$$SIZE_{i,t} = \ln(\text{Total Assets})_{i,t} \quad (7)$$

$$LEV_{i,t} = \frac{\text{Total Liabilities}_{i,t}}{\text{Total Assets}_{i,t}} \quad (8)$$

$$ROA_{i,t} = \frac{\text{Net Income}_{i,t}}{\text{Total Assets}_{i,t}} \quad (9)$$

To overcome multicollinearity in the moderation model, this study uses orthogonalization. The initial interaction variables between managerial ability and audit quality were regressed to the two forming variables. The residual of the equation is used as the final interaction variable.

$$(MA \times AQ)_{i,t} = \delta_0 + \delta_1 MA_{i,t} + \delta_2 AQ_{i,t} + \mu_{i,t} \quad (10)$$

The residual  $\mu_{i,t}$  of equation (10) is extracted as MA\_Audit\_Final. With this procedure, the interaction components used in the main model are variations of interactions that are no longer described linearly by managerial ability and audit quality.

#### Data Analysis Techniques

Data analysis was carried out by panel data regression. Model selection is carried out through the Chow Test, Hausman Test, and Breusch-Pagan Lagrange Multiplier Test. Based on the results of the model selection test, the Fixed Effect Model is used as the main model because it is able to control the unobserved fixed heterogeneity between firms. The main models of the research are formulated as follows:

$$DUVOL_{i,t} = \alpha + \beta_1 MA_{i,t} + \beta_2 AQ_{i,t} + \beta_3 MA\_Audit\_Final_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROA_{i,t} + \lambda_i + \varepsilon_{i,t} \quad (11)$$

For robustness checks, this study estimates two additional models. First, NCSKEW is used as an alternative proxy for crash risk and is estimated by the Fixed Effect Model. Second, Crash Dummy is used as a binary dependent variable and is estimated by a logistic regression panel.

$$NCSKEW_{i,t} = \alpha + \beta_1 MA_{i,t} + \beta_2 AQ_{i,t} + \beta_3 MA\_Audit\_Final_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 ROA_{i,t} + \lambda_i + \varepsilon_{i,t} \quad (12)$$

$$\begin{aligned} \text{Logit}(\text{Pr}(\text{CrashDummy}_{i,t} = 1)) \\ = \alpha + \beta_1 MA_{i,t} + \beta_2 AQ_{i,t} + \beta_3 MA\_Audit\_Final_{i,t} + \beta_4 SIZE_{i,t} + \beta_5 LEV_{i,t} \\ + \beta_6 ROA_{i,t} + u_i \quad (13) \end{aligned}$$

## RESULTS AND DISCUSSION

### RESULTS

#### Panel Data Model Selection Test Results

**Table 1. Panel Data Model Selection Test Results**

Test Type	Compared Models	Probability	Verdict	Selected Models
Chow Test	Pooled OLS and Fixed Effect Models	0,0446	p < 0.05	Fixed Effect Model
Hausman Test	Random Effect Model and Fixed Effect Model	0,0086	p < 0.05	Fixed Effect Model
Breusch-Pagan LM Test	Pooled OLS and Random Effect Models	0,4328	p > 0.05	Pooled OLS against REM

Source: Stata 17 output, secondary data processed (2026)

Table 1 shows that the Chow Test yields a probability of 0.0446. This value is smaller than 0.05 so the Fixed Effect model is more accurate than the Pooled OLS. These results show that there are fixed characteristics between companies that need to be controlled so that the estimation is not biased due to omitted firm-specific factors.

The Hausman test yields a probability of 0.0086. This value is also smaller than 0.05 so the Fixed Effect Model is more accurate than the Random Effect Model. Econometrically, these results show that the difference in coefficients between FEM and REM is systematic. Thus, the use of REM risks producing inconsistent estimates because the individual effects of the company correlate with the explanatory variables.

The Breusch-Pagan LM test shows a probability of 0.4328, making the Pooled OLS more efficient than the Random Effect Model. However, the final decision is not based on LM separately. Since the Chow Test and the Hausman Test both lead to the Fixed Effect Model, this study establishes FEM as the primary model.

### Descriptive Statistics

**Table 2. Descriptive Statistical Results**

Variable	N	Mean	Std. Dev.	Min	Max
DUVOL	88	0,1790	1,1116	-2,0829	6,2168
Managerial Ability	88	-0,0019	0,1492	-0,5669	0,3354
Audit Quality	88	0,8977	0,3047	0,0000	1,0000
Firm Size	88	32,6543	1,3889	30,4065	35,5790
Leverage	88	0,5253	0,2506	0,1141	0,9356
ROA	88	0,0837	0,1041	-0,0384	0,7321
Crash Dummy	88	0,2273	0,4215	0,0000	1,0000
NCSKEW	88	0,0399	1,0195	-2,1285	4,9722

Source: Stata 17 output, secondary data processed (2026)

The average value of DUVOL of 0.1790 indicates that in general LQ45 issuers have a higher downside volatility tendency than the upside, although the average is still relatively close to zero. The maximum value of 6.2168 indicates the presence of certain observations with very strong downside

volatility pressure. These findings confirm that blue-chip companies are not completely free from the risk of falling stock prices.

Managerial ability has an average value of -0.0019 with a standard deviation of 0.1492. The minimum value of -0.5669 and the maximum value of 0.3354 indicate that managerial efficiency capabilities remain variable between LQ45 issuers. The audit quality has an average of 0.8977, which means that 89.77% of observations are audited by Big Four auditors. The dominance of the Big Four suggests that highly reputable auditors have become a common practice in LQ45 companies, so the variation in audit quality is relatively limited.

Crash Dummy has an average of 0.2273. This means that around 22.73% of firm-year observations experienced a minimum of one crash week based on the threshold of 3.09 standard deviation. NCSKEW has an average of 0.0399 and a standard deviation of 1.0195, which indicates a variation in negative skewness between companies and between years. These statistics support the use of alternative proxies in robustness checks.

### Multicollinearity and Orthogonalization Test

**Table 3. Results of Variance Inflation Factor After Orthogonalization**

Variable	VIF	1/VIF
Firm Size	1,98	0,5061
Leverage	1,72	0,5817
ROA	1,36	0,7373
Audit Quality	1,08	0,9241
Managerial Ability	1,07	0,9314
MA_Audit_Final	1,01	0,9941
Mean VIF	1,37	-

Source: Stata 17 output, secondary data processed (2026)

Table 3 shows that the overall VIF value is well below the 10 threshold, with an average VIF of 1.37. These results suggest that the orthogonalization procedure effectively lowers the multicollinearity that usually appears in the moderation model. Thus, the interpretation of managerial ability coefficients, audit quality, and MA\_Audit\_Final can be done more stably.

Methodologically, orthogonalization does not change the substance of the theoretical relationship between variables. This technique only separates the interaction components that overlap linearly with their forming variables. Therefore, MA\_Audit\_Final represents a statistically cleaner effect of interactions.

### Key Regression Results of the Fixed Effect Model

**Table 4. Main Regression Results of Fixed Effect Models with DUVOL Proxies**

Variable	Coefficients	Std. Error	t-stat	p-value	Remarks
Managerial Ability	-2,5252	1,4263	-1,77	0,082	Significant negative 10%
Audit Quality	2,7479	1,1839	2,32	0,024	Significant positive 5%
MA_Audit_Final	2,9858	8,0649	0,37	0,713	Insignificant
Firm Size	-0,9781	1,1853	-0,83	0,413	Insignificant
Leverage	-3,1386	2,4043	-1,31	0,197	Insignificant
ROA	-2,7363	1,8107	-1,51	0,136	Insignificant
Constant	31,5241	38,4844	0,82	0,416	-

Source: Stata 17 output, secondary data processed (2026)

Model summary: Number of observations = 88; Number of groups = 22; Within R-squared = 0.1881; Between R-squared = 0.0579; Overall R-squared = 0.0410; F(6.60) = 2.32; Prob > F = 0.0446; rho = 0.7746.

Table 4 shows that managerial ability has a coefficient of -2.5252 with a p-value of 0.082. This result is significant at the rate of 10% and has a negative direction. Thus, H1 is supported. This means

that the higher the managerial ability, the lower the DUVOL in the LQ45 issuer. Substantively, these findings support the argument that more competent managers are able to manage resources efficiently, identify problems early, and reduce the urge to hold back bad news.

The audit quality has a coefficient of 2.7479 with a p-value of 0.024. These results show a significant positive influence at the 5% level. This positive direction should not be read as an audit failure. In the context of DUVOL, these results can be interpreted as a transparency acceleration effect. Big Four auditors encourage faster and more disciplined disclosure of bad information, so that the market absorbs the information in the form of downside volatility in the current period. Thus, high-quality auditors can improve DUVOL in the short term as it accelerates price discovery, while preventing the build-up of latent crash risks in subsequent periods.

The MA\_Audit\_Final variable has a coefficient of 2.9858 with a p-value of 0.713. These results show that audit quality does not moderate the relationship between managerial ability and stock price crash risk. Thus, H2 is not supported. The insignificance of moderation suggests that in established companies such as LQ45, managerial ability and audit quality work as two relatively independent governance mechanisms. Managers play a role in internal efficiency, while auditors play a role in the discipline of transparency. Both are important, but they do not statistically reinforce each other in this model.

Leverage has a coefficient of -3.1386 with a p-value of 0.197. Once the Fixed Effect Model controls for fixed heterogeneity between firms, leverage is no longer a significant determinant of DUVOL. These results correct the findings in previous models that still use Pooled OLS. This means that the influence of leverage seen in the pooled model is likely to be influenced by differences in fixed characteristics between companies, such as sectors, asset structures, credit reputations, and unobserved risk profiles.

### Robustness Check with NCSKEW and Crash Dummy

**Table 5. Robustness Check with Alternative Proxies Crash Risk**

Models	Dependent Proxies	Estimator	MA Coefficient	Leverage Coefficient	Key Findings
Robustness 1	NCSKEW	Fixed Effect	-2,8229	-3,0805	MA's direction remains negative
Robustness 2	Crash Dummy	Panel Logit	-0,5536	-0,9558	The direction of the MA and leverage remains negative

Source: Stata 17 output, secondary data processed (2026)

Table 5 shows that the robustness check results support the consistency of the direction of managerial ability's influence. When crash risk is measured by NCSKEW and estimated using the Fixed Effect Model, the managerial ability coefficient remains negative at -2.8229. These results reinforce the key finding that managerial ability is associated with a reduced risk of a crash-skewed return distribution.

In the Crash Dummy model with the logistic regression panel, the managerial ability coefficient also remained negative at -0.5536. Although the panel's logit results are more accurately read as a directional resilience test because the dependent variables are binary and the number of observations is relatively limited, the consistency of the negative direction reinforces the argument that more competent managers tend to suppress the chances of extreme crash events. The leverage coefficient on Crash Dummy was also negative at -0.9558, but it was not the main determinant after the heterogeneity of the company was taken into account.

## DISCUSSION

### Managerial Ability Mitigates Stock Price Crash Risk

The results showed that managerial ability had a negative effect on DUVOL at a significance level of 10%. This finding is important because it changes the position of the argument from being defensive to more assertive and directional. Within the framework of information asymmetry theory, more competent managers have a better capacity to identify operational risks, manage resources, and

convey information in a more controlled manner. This competency reduces the need for bad news hoarding because potential problems can be addressed before they develop into extreme price pressures.

These findings are also consistent with corporate governance theory. Capable managers not only generate efficiency, but also strengthen the quality of internal processes. In LQ45 issuers, complex business processes require managerial capabilities to integrate strategy, control, reporting, and market response. As these capabilities increase, companies are better prepared to deal with information pressure and the market does not receive sudden bad surprises. This is the main mechanism that explains why managerial ability lowers crash risk.

These results expand on the findings Fang et al. (2024) which shows that the ability of CEOs can lower crash risk through the mechanism of accounting conservatism and the decline of real profit management. These findings also provide a more contextual reading of the Liu & Lei (2021) and L. Chen & Du (2024). Managerial skills can indeed have a dark side when accompanied by overconfidence or rent-seeking. However, in LQ45 issuers that have stronger market supervision, this ability is more visible as a source of efficiency and risk mitigation than an information concealment tool.

Significance at the 10% level needs to be read proportionally. Capital market research with blue-chip samples often faces relatively limited variation because companies have more homogeneous fundamental characteristics. Therefore, the consistent negative direction on DUVOL, NCSKEW, and Crash Dummy provides more important empirical support than narrow p-value readings. Overall, managerial ability is weakly significant as a relevant factor in explaining the resilience of blue-chip stocks to crash risk.

### **Audit quality Increases DUVOL as a Transparency Effect**

The results of the study show that audit quality has a significant positive effect on DUVOL. Conventionally, positive findings can be seen as the opposite of the view that high-quality auditors lower crash risk. However, a more appropriate reading in the context of this study is that Big Four auditors are accelerating transparency, not worsening governance. Highly reputable auditors have an incentive to maintain audit quality, demand stronger evidence, and encourage more timely recognition of material information.

From the perspective of information asymmetry theory, high-quality audits reduce information inequality by forcing bad information into the public space faster. When bad information is released early, the market can respond through downside volatility in the current period. Because DUVOL captures a comparison of volatility week down and week up, the increase in DUVOL may reflect a faster price discovery process. In other words, the positive influence of audit quality on DUVOL can show that auditors accelerate the absorption of bad news by the market.

This reading is in line with the argument Li et al. (2022) that broader disclosure of auditors could hinder bad-news hoarding. If the auditor suppresses the retention of bad information, then the market will receive negative information more quickly and not let the information accumulate into a latent crash. Therefore, the positive coefficient of audit quality should not be interpreted as evidence that the Big Four increase the company's economic risk. This finding is more accurately interpreted as the effect of transparency discipline that encourages an early price correction.

In LQ45 issuers, investors have high expectations for the quality of reporting. When Big Four auditors perform a strict monitoring function, information that was previously potentially delayed can emerge more quickly in a company's reports and disclosures. This effect makes the market make a price adjustment during the observation period. In the long term, this mechanism can actually prevent the accumulation of more destructive bad information. Thus, these results strengthen the role of audit as a corporate governance mechanism that disciplines transparency.

### **Audit quality Does Not Moderate the Relationship between Managerial Ability and Crash Risk**

The results of moderation showed that MA\_Audit\_Final was not significant. These findings show that audit quality does not reinforce the negative influence of managerial ability on stock price crash risk. The strongest explanation lies in the characteristics of LQ45 as a group of established companies. Companies in this index generally have relatively strong internal control systems, audit committees, boards of commissioners, analyst exposure, and investor oversight. As a result, the management function and audit function run through different governance channels.

Managerial ability works in terms of internal efficiency and decision quality. Audit quality work in terms of verification, validation, and disclosure discipline. In established companies, the two mechanisms do not always reinforce each other interactively because each has become part of a formal

governance system. Competent managers can still reduce crash risk through efficiency, while Big Four auditors can still encourage transparency without having to rely on managerial skills.

The insignificance of moderation can also be explained by the low variation in audit quality. Descriptive statistics show that 89.77% of observations are audited by Big Four auditors. When the majority of companies have the same audit quality scores, the ability of moderator variables to distinguish relationships between variables becomes limited. Orthogonalization successfully overcomes multicollinearity, but the technique cannot create economic variations that are not available in the data. Therefore, moderation failures reflect more the character of the blue-chip sample than the conceptually weak role of the audit.

These findings provide methodological implications. In a highly established sample such as LQ45, audit quality is more appropriately treated as a direct governance variable rather than a moderator. To test the moderation of the Big Four more robustly, follow-up research needs to extend the sample to non-LQ45 companies or compare companies with more balanced audit quality variations.

### **Leverage is no longer the determinant after the fixed effect model**

Leverage has no significant effect on DUVOL in the Fixed Effect Model. These results are important because they show that the influence of leverage on the previous pooled model is likely to be mixed with the fixed characteristics between firms. Once the FEM controls fixed differences such as industry sectors, asset structure, credit reputation, company age, and business profile, leverage no longer has significant clear power against crash risk.

These findings do not mean that leverage is not important in market risk analysis. Leverage remains relevant as an indicator of capital structure and payment pressure. However, in LQ45 issuers, leverage tends to be understood more contextually. Blue-chip companies typically have better access to funding, stronger creditor relationships, and more stable cash flow capabilities. Therefore, leverage variations do not automatically translate the market as a distress signal.

In a corporate governance perspective, debt can serve as a disciplinary mechanism because creditors demand compliance with payment schedules, covenants, and performance monitoring. However, in the FEM model, the effect of such discipline seems to have been absorbed by the fixed characteristics of the company. Thus, leverage is no longer the main determinant of crash risk once the fixed heterogeneity between LQ45 issuers is controlled.

### **Theoretical and Practical Implications**

Theoretically, this study strengthens the use of information asymmetry theory in explaining stock price crash risk. Crash risk is not simply the result of market volatility, but the result of asymmetrical information processing and delayed disclosure. Managerial ability reduces these risks because competent managers are better able to manage resources and reduce the pressure to withstand bad news. At the same time, corporate governance theory explains why Big Four auditors can improve DUVOL through transparency and price discovery mechanisms.

Practically, investors should not interpret the increase in DUVOL in companies audited by the Big Four automatically as a bad signal. In the blue-chip context, increased volatility downside may reflect faster information correction due to audit transparency. For companies, these results confirm the importance of building managerial capabilities and maintaining audit quality as two complementary governance mechanisms, even if they have not been proven to moderate each other. For regulators, these findings support the importance of strengthening disclosure and audit quality in maintaining the integrity of the capital market.

### **CONCLUSION**

This study examines the influence of managerial ability, audit quality, and the interaction of both on stock price crash risk in Indonesian LQ45 issuers for the 2022-2025 period. Using the Fixed Effect Model as the main model, this study found that managerial ability had a negative effect on DUVOL at a significance level of 10%. These results support the directional hypothesis that more competent managers are able to mitigate crash risk through operational efficiencies, earlier detection of problems, and reduced bad news hoarding incentives.

Audit quality has a significant positive effect on DUVOL. This finding is interpreted as the transparency acceleration effect. Big Four auditors encourage the disclosure of bad information more quickly, so that the market absorbs the information in the current period. Thus, the auditor's positive influence on DUVOL does not mean that auditors worsen governance, but it does show that high-quality

auditors accelerate price discovery and prevent the build-up of latent crash risks.

Audit quality has not been proven to moderate the relationship between managerial ability and stock price crash risk. In the LQ45 issuer, managers and auditors appear to perform governance functions independently. Managerial ability works through internal efficiency, while audit quality works through the discipline of transparency. Leverage is also no longer a significant determinant after the Fixed Effect Model controls fixed heterogeneity between firms.

Robustness checks with NCSKEW and Crash Dummy showed the direction of the managerial ability coefficient which remained negative. This consistency reinforces the conclusion that managerial ability is an important factor in the resilience of blue-chip stocks to crash risk. Theoretically, this study expands the application of information asymmetry theory and corporate governance theory in the context of the Indonesian capital market. Practically, this study emphasizes the importance of quality management and auditing in maintaining the credibility of information and stock price stability.

This research has limitations. The sample only included 22 LQ45 issuers with 88 observations, so the variation in data was relatively limited. In addition, audit quality is heavily dominated by Big Four auditors, so the moderation effect is difficult to detect. The next study is suggested to expand the sample to non-LQ45 companies, add other governance variables such as institutional ownership, audit committee, board independence, profit quality, ESG disclosure, investor sentiment, and stock liquidity, and test models with endogeneity approaches such as lagged independent variables, dynamic panels, or instrumental variables.

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