

The Impact of Analyst Following on Accounting Information Quality

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Abstract. This article mainly discusses the impact of analyst tracking on accounting information quality based on the background of analyst tracking and accounting information quality. However, the specific path of the interaction between the two and the mechanism of their impact on the capital market have not been fully revealed in existing research. This study seeks to address these gaps by examining how analyst tracking impacts the quality of accounting information and exploring the regulatory and feedback effects of their interaction on the capital market. Specific problem analysis is conducted on the impact of analyst tracking on accounting information quality, and qualitative analysis is used to conduct literature review methods. Finally, it is concluded that analyst tracking has an impact on accounting information quality in terms of transparency and tracking willingness, complexity and information interpretation threshold. It regulates and feedbacks the capital market and proposes methods to strengthen supervision. By combining these literature with our research, our study demonstrates the importance of regulatory policies seeking a balance between enhancing accounting transparency and regulating analyst independence. Therefore, our research provides theoretical support for the formulation of future regulatory policies.

1 Introduction

With the rapid development of the capital market, analysts, as important information intermediaries, have formed a complex interactive mechanism between their tracking behavior and the quality of accounting information. The quality of accounting information is directly related to the efficiency of resource allocation in the capital market, and analysts not only influence market decisions through information collection and interpretation, but their own behavior is also constrained by the quality of corporate information disclosure.

The research aim is to systematically elucidate the mechanism underlying analyst tracking and its dynamic correlation with accounting information quality, shedding light on

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how both contribute to transparency enhancement, complexity management, and market response strengthening. The findings aim to provide a theoretical foundation for optimizing the capital market's information environment. The research contribution of this article is reflected in three aspects: firstly, integrating literature and qualitative analysis, clarifying the dual role of analyst tracking in improving accounting information comparability and reducing information asymmetry; Secondly, the non-linear relationship between accounting information quality and analyst tracking density was revealed, and the moderating effect of institutional environment on their interaction was explored; Thirdly, from an international comparative perspective, practical suggestions are proposed to strengthen regulatory policies and balance analyst independence, providing a new research path for promoting the healthy development of the capital market.

2 The role and mechanism of analyst tracking

2.1 information intermediary function

Analysis is the process of collecting, processing, and disseminating accounting information to help investors reduce decision-making costs. Research has shown that companies with a larger number of tracking analysts respond more quickly to market stock price fluctuations, improve the horizontal comparability of accounting information, enhance the consistency of accounting information caliber, and improve market information efficiency [1]. Analysts are not only transmitters of information, but also market supervisors who promote standardized accounting practices in enterprises through questioning and suggestions.

For instance, in 2020, Tesla reported consecutive quarterly profits for the first time. However, its financial report failed to clearly distinguish between one-time gains (such as revenue from carbon emission credits) and profits from core operations. The market swiftly reacted, with Tesla's stock price plummeting by 12% within a week of the report's release. This case illustrates how analysts' interpretation of information aids investors in more accurately assessing a company's value, thus reducing the risk of irrational decision-making driven by trends.

2.2 supervisory role and risk prediction role

The supervisory role of analysts improves the vertical comparability of accounting information quality, attracts more investors, and reduces investors' return on capital. Analysts' predictions are affected by conflicts of interest, and negative disclosures to companies reduce their optimistic forecasts of analyst profits. This has a negative impact on analysts' reputation and weakens their supervisory role. In 2018, Tesla faced a "privatization storm". Through the supervision of several analysts, Tesla finally gave up its private plan, significantly improving the company's transparency and reducing market misjudgments.

3 The impact of analyst tracking on the quality of accounting information

3.1 transparency and tracking willingness

High quality accounting information, such as high earnings sustainability and sufficient disclosure, can attract analysts to track. Analysts belong to third-party auditing institutions, and the independence and professionalism of third-party auditing institutions help reduce the possibility of management manipulating financial information, thereby improving the transparency and reliability of accounting information [2]. Furthermore, the quality of accounting information is closely linked to the density of analyst tracking. Poor-quality accounting information raises the forecasting costs for analysts, as it complicates the prediction process. Companies utilize a variety of financial tools, such as common stock, preferred stock, debt instruments, and employee stock options, to fund their operations, each influencing the company's capital structure. The enterprise's value, defined by the combined worth of these instruments and potential bankruptcy costs, impacts the willingness of analysts to track the firm. A subpar information environment, therefore, diminishes analyst engagement and weakens the transparency of accounting information.

3.2 complexity and information interpretation threshold

The inherent complexity of accounting information can raise the threshold for analysts in processing and interpreting data. An effective governance structure can regulate corporate activities and incentivize managers appropriately, ensuring the authenticity and timeliness of accounting disclosures, especially in the face of non-compliant actions [3]. There is a close relationship of mutual influence and promotion between the two. High quality accounting information can help operators better understand the true operating conditions of the company, formulate forward-looking development plans, predict and control possible business risks, thereby protecting the rights and interests of relevant personnel and improving the governance structure of the company in a targeted manner [4]. The conservatism of accounting information alleviates information asymmetry, makes executive compensation more sensitive to accounting earnings, and encourages management to make more effective investment decisions. All of these indicate that conservatism may be beneficial from a contractual perspective. On the contrary, other studies have found that robustness reduces the sustainability and predictability of earnings, promotes earnings management, reduces the accuracy of analyst forecasts, and may decrease the value relevance of earnings, indicating that from a valuation perspective, robustness may be harmful [5]. At the same time, raising the threshold for interpreting accounting information quality and enhancing the complexity of analysts' tracking of accounting information quality.

4 The role of analyst tracking and accounting information quality in the capital market

4.1 the regulatory role of capital market response

The capital market system requires listed companies to disclose accounting information to investors. When there are significant misstatements in accounting information, the tracking density of analysts will amplify market reactions. In financial fraud incidents [6],

companies with greater analyst coverage typically experience sharper declines in stock prices, illustrating how analyst tracking enhances market sensitivity to corporate missteps. Studies indicate that as a country's financial development (FD) progresses, the effectiveness of financial analysts in overseeing corporate behavior improves. Specifically, in countries with advanced financial markets, increased analyst coverage correlates with a reduction in earnings management. This effect is less pronounced in countries with underdeveloped financial systems. These findings suggest that robust financial development reduces oversight costs, curbing earnings manipulation and fostering a more transparent market [7].

4.2 feedback effect

Analysts question and inquire about improving information disclosure for potentially bankrupt companies. For example, in companies where analysts frequently focus on revenue policies, management tends to adopt conservative accounting methods to reduce disputes. In modern companies, management and operation rights are separated, and management rights are exercised by professional managers. Due to the management and shareholders

Asymmetric information between managers may lead to agency problems, where managers do not act in accordance with shareholder interests but prioritize their own interest

resulting in conflicts of interest between managers and shareholders. Management behavior adjustment: When analysts question the company's accounting information or frequently focus on certain financial policies, management may adjust its accounting methods to reduce disputes. For example, in companies where analysts frequently focus on revenue policies, management tends to adopt conservative accounting methods to avoid potential negative market reactions [8]. In modern companies, the separation of management and operation rights leads to the problem of information asymmetry. The tracking and questioning of analysts can help alleviate this information asymmetry, encourage management to disclose information more transparently, and thus reduce agency problems. The strengthening of market reactions and the tracking behavior of analysts not only affect the internal information disclosure of the company, but also affect the market's response to accounting information. When there are significant misstatements in accounting information, the tracking density of analysts will amplify market reactions. For example, in financial fraud incidents, companies that track more analysts have a greater decline in stock prices, reflecting the strengthening effect of analyst behavior on market sentiment [9]. Over time, this feedback mechanism encourages companies to improve their information disclosure practices, which in turn strengthens market responses. Continuous analyst oversight leads to more robust internal controls, improving the transparency and reliability of financial data [10]. Overall, the feedback effect, through the supervision and questioning of analysts, prompts companies to improve the quality of information disclosure, alleviate information asymmetry issues, and strengthen market reactions to accounting information. This two-way interaction mechanism helps to improve the overall information efficiency of the capital market.

5 Regulatory environment and institutional constraints

5.1 the impact of mandatory disclosure policies

The Sarbanes Oxley Act (SOX) requires companies to strengthen internal control disclosure, and research has found that such policies significantly increase analysts' reliance on accounting information. When the accounting information disclosed by listed companies to the public is more comparable, securities analysts with industry expertise and professional knowledge can interpret and analyze the target company by comparing and analyzing it with similar companies, which helps to enhance its comparability of accounting information and strengthen supervision. The regulatory system itself can effectively constrain the performance forecasting behavior of listed companies, and the analyst governance regulatory function no longer plays a supplementary role in the regulatory system, demonstrating the importance of mandatory disclosure policies [11].

6 International comparative perspective

The findings of this study suggest that high-quality accounting information can reduce the forecasting costs for analysts and enhance market pricing efficiency. The research emphasizes the need to balance improvements in accounting transparency with the regulation of analyst independence, thereby fostering more effective analyst oversight within the capital market framework. Additionally, while the role of analyst oversight contributes positively to the quality of corporate information disclosure, forecasting behaviors remain subject to conflicts of interest and institutional constraints. Regulatory policies must seek a delicate balance between enhancing accounting transparency and preserving analytical independence. Future research could further explore how different types of analysts impact accounting information quality and investigate the non-linear relationship between analyst tracking and accounting information quality through empirical studies. Moreover, expanding research on capital markets across different countries would further enrich the understanding of analyst tracking and its role in the quality of accounting information.

7 Conclusion

This study found that high-quality accounting information can reduce the cost of analyst forecasting and improve market pricing efficiency. It seeks a balance between improving accounting transparency and regulating analyst independence, and better promotes analyst supervision by integrating with the capital market. At the same time, the role of analyst supervision helps to improve the quality of company information disclosure. However, its forecasting behavior is also constrained by conflicts of interest and institutional environment. Regulatory policies need to seek a balance between improving accounting transparency and regulating analytical independence. In the future, the impact of different types of analysts on accounting information quality can be analyzed, and the nonlinear relationship between analyst tracking and accounting information quality can be further explored through empirical research. Increasing research on capital markets in other countries can enrich the understanding of analyst tracking and accounting information quality.

Firstly, extensive research has explored the relationship between analyst tracking and accounting information quality. For example, existing research mainly focuses on the impact of analyst tracking on accounting information transparency, while our study enriches the literature in this field by providing new evidence on the impact of analyst tracking on accounting information complexity and interpretation thresholds. By exploring the interactive mechanism between analyst tracking and accounting information quality, we have expanded our understanding of capital market information efficiency.

Secondly, our research is consistent with the literature on the regulatory role of capital markets. Previous studies have provided ample evidence highlighting the amplifying effect of analyst tracking on market reactions in financial fraud events. Research has shown that companies with higher analyst tracking density experience greater stock price declines in financial fraud events. Although most of these studies focus on mature markets, our research indicates significant differences in the relationship between analyst tracking behavior and accounting information quality in emerging markets, further supplementing the literature in this field.

Thirdly, our research also supplements the literature on the relationship between corporate governance structure and accounting information quality. For example, existing research has shown that a reasonable governance structure can effectively improve the authenticity and immediacy of accounting information. In this study, we provide evidence on how analyst tracking promotes the improvement of corporate governance structure through its supervisory role, demonstrating the bidirectional impact channel between analyst tracking and accounting information quality. Our research results on analyst tracking and accounting information quality also provide a reasonable explanation for the impact of corporate governance structure on accounting information quality in previous studies.

Fourthly, our research is linked to literature on regulatory policies and institutional constraints. Existing literature emphasizes the importance of mandatory disclosure policies, such as the Sarbanes Oxley Act, for the quality of accounting information. Recent studies have shown that mandatory disclosure policies significantly increase analysts' reliance on accounting information. Especially, research from an international comparative perspective shows that analysts in emerging markets tend to rely more on non accounting information.

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