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Original Article

The Effect of Earnings Management on Stock Market Reactions to Stock Split Event

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Abstract - *This study discusses the effect of earnings management on stock market reactions to stock split events on the Indonesia Stock Exchange. Market reactions to stock split announcements vary and can be caused by asymmetric information between managers and shareholders, where managers may take advantage of stock splits to divert attention from actual performance by conducting earnings management. This study aims to examine whether earnings management that increases earnings affects market reactions to stock split announcements, with the hope of providing empirical evidence regarding the relationship between earnings management and market reactions to stock split events. The sample in this study was a company that carried out a stock split from 2018-2022 listed on the Indonesia Stock Exchange. The purposive sampling method was used in this study, and 35 samples were obtained. The data analysis technique used in this study was logistic regression analysis. The results of this study indicate that earnings management that increases profits has a positive effect on market reactions to stock split events. This means that the higher the level of earnings management that increases profits, the greater the possibility of an increase in positive reactions when a stock split occurs.*

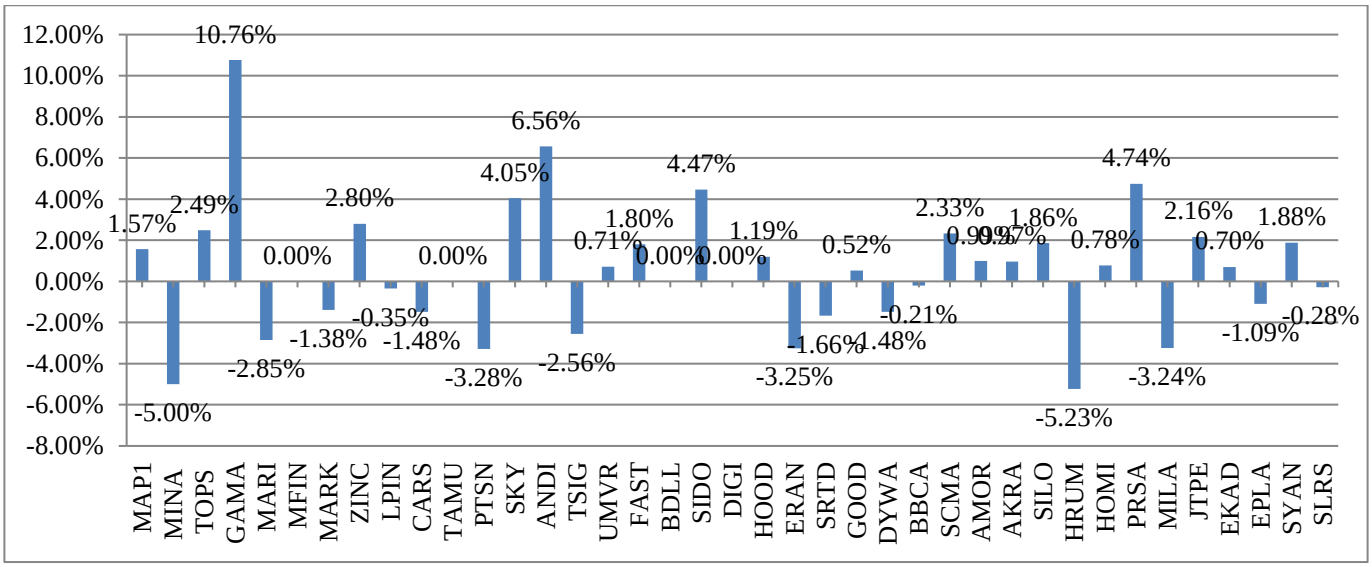
Keywords - *Market reaction, Earnings management, Stock split.*

1. Introduction

Public companies always strive to increase the company's value and obtain the potential for future company growth (Firmansyah and Indriani, 2021). In relation to creating corporate value, there are many things that management can do to provide positive signals to shareholders and stakeholders. Delivering positive signals related to the company's sustainability is important for management. These positive signals will increase the company's value and secure the management's position as a manager. Corporate action is an alternative company policy for attracting and retaining old investors. One of the company's corporate actions that can indicate that the company has bright prospects is a stock split (Indriani, 2022). A stock split is a process in which a corporation reduces the par value or stated value of its shares, consisting of shares that have not been and have been issued and treasury shares (Warren et al., 2016). A stock split is an increase in the number of shares outstanding by reducing the nominal value of the shares. A stock split can be illustrated as follows; for example, the nominal value of one share is divided into two so that there are two shares, each of which has a nominal value of half the initial nominal. With a stock split, investors will receive additional shares, but the proportion of their company ownership will not change. The market price of the shares will decrease so that the total value of the shares held remains the same. With no change in the value of the shares, the stock split means it has no economic value. Companies can use stock split information to convince capital market players about the company's profitable prospects to the public. Stock splits do not affect share capital, share premium, retained earnings, or total equity (Weygandt et al., 2015). Hence, stock splits have no economic value that plays a role in the company's operational processes. However, stock splits occur quite often and at least temporarily affect the company's market capitalization by pushing the company's post-split share price higher or lower depending on the nature of the split (Duffy et al., 2023). Stock split activities continued to be carried out on the Indonesia Stock Exchange (IDX) during the 2018-2022 period, with an average of 8 companies conducting stock splits each year (IDX, 2024). Empirical evidence regarding stock splits also supports this, which shows that the market reacts differently to stock split announcements. According to Brigham and Gapenski (1994), several studies have shown controversial and varied results regarding the effects of stock splits. Indriani (2022) found an abnormal return around the day of the stock split announcement, which was considered a positive signal for investors. This aligns with the results of Novitasari's (2018) study, which found a significant difference in abnormal returns before and after the stock split. However, Renaldi's (2022) study found that there was no significant correlation between abnormal stock returns before the stock split and

abnormal stock returns after the stock split. The following is Table 1, which shows the differences in market reactions when stock splits were announced in 2018-2022: Table 1 shows the difference in market reactions to stock split events. Of the 39 companies that conducted stock splits in the 2018-2022 period, 19 companies reacted positively, 15 companies reacted negatively, and 4 companies did not react. This aligns with research by Brigham and Gapenski (1994), which states that several studies have shown controversial and varied results regarding the effects of stock splits. According to Jogiyanto (2017), this difference in reaction is thought to occur due to the sophistication of investors in responding to the availability of information presented. The theory of market efficiency in decisions explains that sophisticated investors will not react to all information. They will interpret and analyze information in more depth before making a decision.The stock split event is one of the pieces of information that still needs to be studied more deeply, especially since the information is not economically valuable, so market players need to know the real motive for the stock split. Investors need to know whether receiving signals through stock splits efficiently shows the company's prospects or a company's opportunism. Based on agency theory, asymmetric information between managers and shareholders results in the motive for the stock split being known only to managers. Managers may want to divert investors' attention to their performance so that the main motive for the stock split policy is not known to shareholders (Indriani, 2022). The stock split policy is expected to motivate managers to have optimal performance in the future and continue to gain shareholder trust. However, there is another possibility when managers have more perfect information than shareholders: earnings management actions. The existence of managerial accrual policy discretion and asymmetric information causes managers to manage earnings (Firmansyah and Irawan, 2018).

Earnings management utilizes accounting rules and creates financial reports that inflate or smooth profits (Tuovila, 2020). Earnings management is a choice of accounting policies by management to maximize the utility of managers and/or the company's market value. The practice of earnings management is influenced by the conflict between the interests of management and investors, which arises because each party tries to achieve or consider the level of prosperity they desire (Scott, 2014). In an employment contract, investors are motivated to gain profit, while management is motivated to obtain incentives from the principal for their work. The occurrence of agency conflicts can encourage company management to make financial reports that benefit their interests so that they do not reflect the actual situation (Firnanti et al. 2019). Management's motivation to maximize incentives or bonuses encourages management to take actions outside the contractual agreement, namely earnings management actions that increase profits (income increasing). This is supported by research conducted by Boermawan and Siregar (2013), which proves that companies that carry out stock splits manage earnings and experience an increase in income in the pre-stock split period. Under the assumption that companies that carry out stock splits are proven to carry out earnings management that increases profits (income increasing). Ulya's (2023) research found that earnings management practices existed before the stock split announcement period. The results of Firmansyah and Indriani's (2021) research found that the company's stock split policy was used as an event for managers to manage greater earnings. Research conducted by Louis and Robinson (2005) explains that to increase the credibility of discretionary accruals to provide signals to the company, management can use other signals to strengthen the credibility of the earnings management signal. One of the other signals in question is a stock split.



Source: Data processed, 2024

Fig. 1 Impact of earnings management on investor reactions to stock split events

Therefore, the occurrence of differences in market reactions during a stock split event is thought to be influenced by indications of earnings management actions to increase profits (income increasing) that stock investors can detect. Based on the explanation above, the theory and the results of previous studies, the researcher is interested in researching whether earnings management that increases profits affects investor reactions in the stock market to stock split events.

2. Conceptual Framework and Research Hypothesis

Agency theory emphasizes the main problem between agents and principals as the difference in interests between the two (Scott, 2014). Agents can act opportunistically by prioritizing their personal goals, so to overcome these actions, it is necessary to set incentives and costs for managers to monitor their performance (Hill and Jones, 1992). In the relationship between agents and principals, managers have more perfect information than shareholders about the company because managers directly run the company's business processes. This condition causes an information imbalance between agents and principals, often called information asymmetry. Information asymmetry allows agents to take actions that the principal cannot predict by utilizing their excess information (Indriani, 2022). Managers utilize this condition to manage earnings. To achieve goals or incentives, managers manage earnings by manipulating financial reports to produce financial reports that look good in the eyes of investors. Stock splits are a form of signal or information provided by the company. Stock splits do not impact changes in financial reports. However, several studies have shown a relationship between stock splits carried out by companies and earnings management activities carried out by managers. The research includes research by Boermawan and Siregar (2013), which shows that companies that carry out stock splits are proven to carry out earnings management, which results in an increase in income in the pre-stock split period. Research by Chan et al. (2019) shows a change in stock performance after a stock split caused by earnings management. The results of research by Firmansyah and Indriani (2021) found that the company's stock split policy was used as an event for managers to manage greater earnings. This is thought to cause the difference in market reactions from several stock split events. Based on the theory of decision-making market efficiency, sophisticated investors will not react to all information and will interpret and analyze information in more depth before making a decision (Jogiyanto, 2017). The sophistication of investors in processing and analyzing each piece of information is thought to impact the differences in reactions given to each stock split announcement because they can detect indications of managers carrying out earnings management that increases profits. Based on the theory of decision-making market efficiency, investors are considered to have a negative reaction to the stock split event because they can detect indications of earnings management. This is in accordance with the research of Sholichah and Handoko (2019), which states that earnings management proxied by discretionary accruals harms market reactions proxied by Cumulative Abnormal Return (CAR). Istifarda's research (2015) found that earnings management negatively and significantly affects stock market reactions. The results of Istiqomah and Andhariani's research (2017) showed that earnings management has a negative effect on market reactions proxied by stock returns. The results of Malahim et al.'s research (2022) stated that earnings management has a negative effect on market reactions, which causes stock prices to decline.

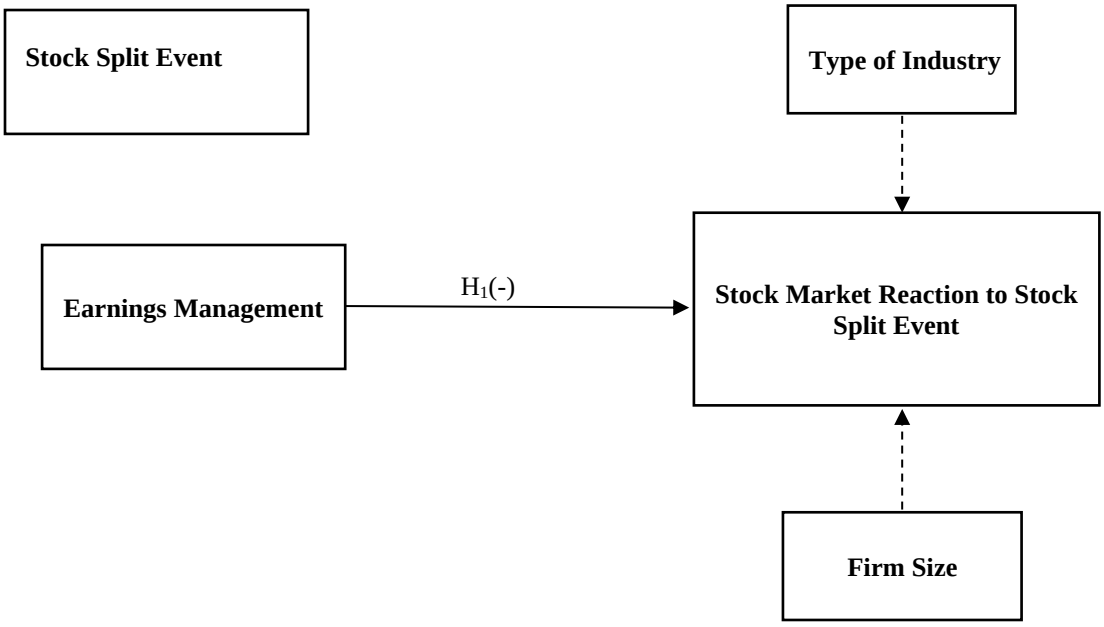


Fig. 2 Conceptual framework

From this explanation and supporting theories and previous research, the following hypothesis can be formulated:

H1: Earnings management that increases earnings has a negative effect on the stock market reaction to stock split events.

3. Research Methods

This study was conducted on companies that conducted stock splits listed on the Indonesia Stock Exchange (IDX) in 2018-2022 and stockbit. This research period was chosen to see the long-term impact related to earnings management practices on stock market reactions to stock split events, identify patterns or trends that occurred over the research period and eliminate short-term effects caused by economic changes that occurred in the short term. The location of the research was carried out by accessing the official IDX and Stockbit websites because of the availability of complete data related to the research conducted. The sampling method in this study uses the purposive sampling method with the following criteria:

- There is an exact date when the Company announced the stock split.
- The company made a profit when the last financial report was published before the stock split.

3.1. Operational Definition of Variables

3.1.1. Earnings Management

Earnings management utilizes accounting rules to apply and create financial reports that inflate or smooth profits (Tuovila, 2020). Earnings management is a legal and very effective method in accounting techniques and can be used to obtain specific results for company goals involving accrual manipulation (Kliestik et al., 2020). Suppose the Discretionary Accrual (DA) value is positive. In that case, it indicates earnings management with increasing profits (income increasing). If it is negative, it indicates an indication of earnings management with a pattern of decreasing profits (income decreasing), while if the DA value is zero, it indicates no indication of earnings management. This study will focus on indications of earnings management that increase profits (income increasing). The value of discretionary accruals is calculated using the Modified Jones Model developed by Dechow and Dichev (2002). The calculation model is as follows.

- Calculate total accruals using the cash flow approach using the following formula:
  $TA_{i,t} = Earnings_{i,t} – CFO_{i,t}$

Information:
$TA_{i,t}$: Total accruals of company t in period t
$Earnings_{i,t}$: Net profit of company i in period t
$CFO_{i,t}$: Cash flow from operating activities of the company i in period t

- Determine the estimates of α1, α2, and α3 (regression coefficients of total accruals) through regression using the following equation.
  $TA_{i,t}/A_{i,t-1} = \alpha_1(1/Ai,t\text{-}_1)+\alpha_2(\Delta REV_{i,t}-\Delta REC_{i,t}/A_{i,t\text{-}1})+\alpha_3(PPE_{i,t}/A_{i,t-1})$

Information:
$TA_{i,t}$: Total accruals of company t in period t
$A_{i,t-1}$: Total assets of company i in the previous period (t-1)
$\Delta REV_{i,t}$: Company i's revenue in period t minus revenue in period t-1
$PPE_{i,t}$: Fixed assets (gross) of company i in period t
α : The coefficient of the regression result of equation b

- Using the regression coefficient in the previous equation, the Nondiscretionary Accruals (NDA) value is calculated using the following equation.
  $NDA_{i,t} = \alpha_1(1/A_{i,t-1})+ \alpha_2(\Delta REV_{i,t}-\Delta REC_{i,t}/A_{i,t-1})+\alpha_3(PPE_{i,t}/A_{i,t-1})$

- Calculate discretionary accruals (DA) using the following formula.
  $DA_{i,t} = (TA_{i,t}/A_{i,t-1}) - NDA_{i,t}$

Information:
$DA_{i,t}$: Discretionary accruals of firm i in period t
$TA_{i,t}$: Total accruals of company i in period t
$A_{i,t-1}$: Total assets of company i in the previous period (t-1)
$NDA_{i,t}$: Non-discretionary accruals of company i in period t

3.1.2. Stock Market Reaction to Stock Split Events

In this study, market reaction is measured using the abnormal return indicator. The observation period used in this study is a 7-day observation period, namely 3 days before observation (t-3), 1 day during observation (event date, t = 0) and 3 days after the announcement date (t + 3). This 7-day window period is determined based on research (Dewanata, 2021). Abnormal returns from market reactions to stock split events are divided into positive and negative abnormal returns, which are then measured in logistic regression testing with dummy variables (Andini, 2019) where:

1 = Stock split event that is reacted positively
0 = Stock split event that is reacted negatively

3.1.3. Firm Size

This study chose the company size variable as a control variable to avoid research bias from the influence of company size in different samples. Oktaviana (2023) states that company size is a variable measured by the total amount of company assets. The total company assets are then transformed into a natural logarithm (Ln). Systematically, it can be formulated as follows:

$Size_t$ = Ln(Total Aset)

3.1.4. Type of Industry

The types of industries in this study are divided into two: high profile and low profile. The criteria for determining companies as high profile and low profile are grouped according to Roberts (1992), Preston (1977), Patten (1991), Hakston and Milne (1996) (Wati et al., 2021). Companies classified as high profile receive wide public attention if there is a failure or error in their operational activities. Companies included in this industrial group are mining, chemical, forestry, paper, automotive, aviation, agribusiness, tobacco and cigarettes, food and beverage products, media and communications, electrical energy, engineering, health and transportation and tourism.

Low profile companies do not receive much public attention when their operations fail or make errors in certain aspects of their production processes or results. This industrial group includes construction, finance and banking companies, medical equipment suppliers, property, retailers, textiles and textile production, and personal and household products.

The type of industry variable in this study was measured using a dummy, namely 1 for high-profile companies and 0 for low-profile companies. The population in this study consists of companies listed on the Indonesia Stock Exchange, and stock splits were conducted in the 2018-2022 period, consisting of 39 companies from various sectors. The sampling method in this study uses the purposive sampling method with the following criteria:

- There is an exact date when the Company announced the stock split.
- The company made a profit when the last financial report was published before the stock split.

In this study, the data analysis technique used logistic regression analysis. The logistic regression analysis tool is used because the dependent variable in this study is a dummy, namely the market reaction to the stock split event. Logistic regression is a regression used to test whether the probability of the occurrence of a dependent variable can be predicted by its independent variables (Ghozali, 2016). In this study, data analysis was used with the help of the SPSS V.24 program.

4. Results and Discussion

The sample determination process in this study is presented in the following table:

Based on Table 2, it can be seen that the number of companies that conducted stock splits in the 2018-2022 period was 39 companies. 4 companies did not make a profit or experienced losses during the 2018-2022 period. The number used as a sample in this study was 35 companies.

4.1. Data Analysis and Hypothesis Testing

4.1.1. Goodness Of Fit Test

The feasibility test of the regression model or Goodness of Fit Test is assessed based on Hosmes and Lemeshow's Goodness of Fit Test to test hypothesis 0 (zero) then the empirical data fits or is in accordance with the model, and there is no difference with the data, so the model can be said to be fit. Suppose the chi-square value in the Hosmer and Lemeshow's of Fit Test Statistic is equal to or <0.05.

In that case, H0 is rejected, which means there is a significant difference between the model and its observation value, so the Goodness of fit is not good. If the value is more than > 0.05, then H0 is accepted, which means the model predicts its observation value.

Based on Table 3, it can be seen that the results of the Hosmer and Lemeshow's Goodness of Fit test show that the Chi-square value is 6.858 with a significance value of 0.44> 0.05. This means that H0 is accepted. This shows that the hypothesized model fits the data or can be accepted because it matches the observation results.

4.1.2. Overall Fit Model

The overall model can be assessed by paying attention to the -2LL value (-2 log Likelihood). The -2LL statistic can be used to determine if the independent variable is added to the model and whether it significantly improves the model fit (Ghozali, 2016). If the -2LL value in the initial condition (Block 0) decreases in the next condition (Block 1), the regression model is better than before the independent variable was included. Table 5.3.2 shows that at the beginning, the value of -2LL (Block Number = 0), while at the end, the value of -2LL (Block Number = 1).

Table 2. Research sample determination process

	Criteria	Total
1	Total Companies Conducting Stock Splits in the 2018-2022 Period	39
2	Total companies that conducted stock splits and experienced losses in the 2018-2022 period	(4)
3	Number of observations = 35 x 1	35
4	Number of observations 2018-2022	35

Source: Data processed, 2024

Table 3. Hosmes and Lemeshow's goodness of fit test

Step	Chi-square	df	Sig.
1	6,858	7	0,444

Source: Data processed, 202

Table 4. Model Fit Step 1

Iteration		-2 Log likelihood	Coefficients
			Constant
Step 0	1	35,230	1,200
	2	35,029	1,377
	3	35,028	1,386
	4	35,028	1,386

Source: Data processed, 2024

Table 5. Model Fit Step 2

Iteration History[a,b,c,d]						
Iteration		**-2 Log likelihood**	**Coefficients**			
			Constant	**Earnings Management**	**Firm Size**	**Type of Industry**
Step 1	**1**	30,239	-3,641	0,757	0,147	0,040
	2	27,052	-6,161	1,765	0,223	0,056
	3	25,960	-7,346	2,791	0,249	0,128
	4	25,824	-7,606	3,277	0,251	0,162
	5	25,822	-7,625	3,358	0,251	0,166
	6	25,822	-7,626	3,360	0,251	0,167
	7	25,822	-7,626	3,360	0,251	0,167

Source: Data processed, 2024

In the table above, it can be seen that the initial -2 Log Likelihood value is 35.028, and this shows that the -2 Log Likelihood value (Block Number = 0) > -2 Log value (Block Number = 1) or 35.028 > 25.822, meaning that the logistic regression model formed is better.

4.1.3. Cox and Snell's Square

The Nagelkerke R Square test modifies the Cox and Snell R Square coefficient to ensure its value varies from 0 to 1. This is done by dividing the Cox and Snell R Square value by its maximum value (Ghozali, 2011:341). A small value means that the ability of the independent variables to explain the dependent variable is minimal.

A value close to one means that the independent variables provide almost all the information needed to predict the dependent variable. Based on Table 6 above, it can be seen that the Nagelkerke R Square value is 0.366, which means that the market reaction variable can be explained by earnings management by 36%. The remaining 64% is explained by other variables not included in this research model.

4.1.4. Classification Matrix

The classification matrix shows the predictive power of the regression model in predicting the likelihood of a market reaction to a stock split event. This number is seen in the classification table in the logistic regression output.

Based on Table 7, the regression analysis results show that the model's ability to predict market reactions after a stock split event that is positively or negatively reacted is 80%.

From the table above, it can also be seen that the market reaction that is positively reacted is 100% of the total sample of 35 companies. The market reaction that negatively reacted was 0% of the 35 companies.

Table 6. Model summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	25,822	0,231	0,366
Source: Data processed, 2024			

Table 7. Classification table

			Predicted		
	Observed		Market Reaction		Percentage Correct
			Negative Reaction	Positive Reaction	
Step 1	Market Reaction	Negative Reaction	0	7	0
		Positive Reaction	0	28	100
	Overall Percentage				80

Source: Data processed, 2024

4.1.4. Logistic Regression Test

Logistic regression is an analysis method that functions to analyze the effect of an independent variable on a dependent variable, provided that the data form of the dependent variable is dichotomous data, such as yes and no, agree and disagree, women and men, and others (Andini, 2019). In the logistic regression analysis technique, normality and classical assumption tests are no longer required on the independent variables (Ghozali, 2016). Table 8 shows the results of the logistic regression test as follows:

Table 8. Logistic Regression test results

Variable		B	S.E.	Wald	df	Sig.	Exp(B)
Step1	Earnings Management	3,360	1,701	3,900	1	0,048	28,798
	Firm Size	0,251	0,195	1,654	1	0,198	1,285
	Type of Industry	0,167	0,996	0,028	1	0,867	1,181
	Constant	-7,626	5,558	1,882	1	0,170	0,000

Source: Data processed, 2024

Based on the results of the logistic regression test in Table 8, the following regression equation can be formed:

$$RPSS = \beta0 + \beta1\ (ML) + \beta2\ (SIZE) + \beta3\ (INDSTR) + \varepsilon$$

$$RPSS = -7,626 + 3,360ML + 0,251SIZE + 0,167INDSTR + \varepsilon$$

- The constant value of -7.626 means that if the value of earnings management, company size, and type of industry is equal to zero, then the tendency of stock market reaction to stock split events shows a negative reaction of 7.626.
- The regression coefficient value of the earnings management variable is 3.360 with a significance value of 0.048, meaning that if earnings management increases profits increases, there is a tendency to increase positive market reaction to stock split events by 3.360.
- The regression coefficient value of the company size variable is 0.251 with a significance value of 0.198, meaning that if the company size increases, there is no tendency for an increase in market reaction to stock split events.
- The regression coefficient value of the type of industry variable is 0.167 with a significance value of 0.867, meaning that if the type of industry increases, there is no tendency for a market reaction to stock split events.

4.2. Significance Test Results (t-Test)

The t-test determines how much influence the independent variable has on the dependent variable. In this study, the t-test is used to determine the effect of earnings management variables and company size and type of industry on market reactions to stock split events.

The test results for the earnings management variable based on Table 8 show that the significance value for the earnings management variable is 0.048, which is smaller than $\alpha = 0.05$ and has a positive regression coefficient value of 3.360. This indicates a positive and significant influence of earnings management that increases profits on the stock market reaction to stock split events, so the hypothesis in this study is rejected.

4.2.1. The effect of earnings management on stock market reactions to stock split events

The hypothesis test results in this study are that earnings management that increases earnings has a positive effect on market reactions to stock split events. The earnings management variable obtained analysis results that showed a positive and significant direction of influence, so this study's hypothesis was rejected. In agency theory, management sometimes has certain motives or an opportunistic nature; by utilizing more information, it has to achieve personal goals. Asymmetric information in this relationship limits investors from knowing the real motives behind implementing the stock split policy. This condition results in the potential for management to take actions that are not in line with the interests of investors, namely by carrying out earnings management (Indriani, 2022). In relation to market reaction to stock split events, Boermawan and Siregar (2013) proved that companies that carry out stock splits carry out earnings management and experience an increase in income in the pre-stock split period.

The results of this study were unable to confirm the theory of market efficiency in decision-making. In this theory, investors can analyze all information, including indications of earnings management before the stock split event, so that investors will react negatively to the stock split event because they detect indications of earnings management. However, the results of this study found that the higher the earnings management that increases profits carried out before the stock split event, the higher the market reaction shown by investors. This means that stock investors on the IDX are not yet efficient in decision-making. This is reflected in investors who cannot detect earnings management actions taken before the stock split event. However, on the other hand, according to Kencana (2021), several factors outside of the company's fundamental information influence investor decision-making, including economic conditions, external conditions of the company, and circulating issues. Based on signal theory, the signal in the form of a stock split event is seen by investors as a positive signal from the company to show prospects and commitment to increasing the company's value. Signals of a stock split event can increase investor perceptions of the

stability and potential for a company's growth. Investors today make decisions based on fundamental company analysis and look at the situation and phenomena that occur in and outside the company. Although investors know that the financial statements of companies that carry out stock splits contain earnings management that increases profits, investors believe that the stock split event signals the company's prospects. Investors who assume that companies with good performance carry out stock splits will undoubtedly accept the news by purchasing shares. This study's results align with research conducted by Nuraeni in Fatrisia and Purba (2022), which found that earnings management positively affects market reactions. Phan's (2018) research found that earnings management positively affects stock market reactions.

4.2.2. The Effect of the Control Variable of Firm Size on Market Reaction to Stock Split Events

The results obtained in Table 8 show that the significance value for the company size variable is 0.198, which is greater than $\alpha = 0.05$ and has a positive regression coefficient value of 0.251. This shows that company size as a control variable does not affect the stock market reaction to the stock split event. This study found that company size does not affect the market reaction to a stock split event. This happens because investors believe large companies will not always provide high returns. After all, many factors from outside the company can affect the profit or return that will be given. Investors also assume that company size does not have definite information about the company's performance picture, so the two things above do not affect company size and market reaction. This research is in line with research conducted by Anggaraini and Suprasto (2015), Pratiwi (2016), and Wijiantoro (2018), where the research results stated that company size does not influence market reaction.

4.2.3. The effect of the type of industry control variables on market reactions to stock split events

The results obtained in Table 8 show that the significance value for the type of industry variable is 0.867, greater than $\alpha = 0.05$ and has a positive regression coefficient value of 0.167. This shows that the type of industry as a control variable does not affect the stock market reaction to the stock split event. The type of industry is a company's characteristic related to the business sector, employees, business risk, and environment. Analysis of the type of industry is one of the important stages investors must take before deciding to invest because industry analysis can help investors identify investment opportunities. The type of industry may affect investor reactions to their goal of obtaining returns because each industry has different levels of risk and responsibility. This difference will affect the tendency of investors to invest and the amount of return obtained by investors (Hawu and Amanah, 2016). This study found that the type of industry did not affect the market reaction to the stock split event. This happened because investors did not consider the company industry type too much but rather the company's performance and other supporting information. In estimating future stock returns, investors use company performance as reflected in the company's financial reports and other information regarding the company's prospects (Hawu and Amanah, 2016).

5. Conclusion

The study results show that earnings management positively and significantly affects the stock market reaction to the stock split event. This means that the higher the earnings management that increases profits, the more likely there is an increase in positive reactions to the stock split event. Investors are advised to analyse a company's financial statements before investing thoroughly. The primary focus should be identifying signs of earnings management, such as a spike in earnings inconsistent with previous trends. In addition, investors must avoid making investment decisions solely based on market momentum due to a stock split. While the increase in stock prices may seem attractive, investment decisions should still consider the stock's intrinsic value. Investors are also advised to use a portfolio diversification approach. This aims to mitigate the risk of investing in stocks of companies that may engage in earnings management practices during a stock split. These findings have practical implications for stakeholders such as investors and users of financial information. These findings can be used as input for investors on the importance of reviewing and analyzing all types of information, such as earnings management and stock split events, before making investment decisions. Based on the results of the Cox and Snell's Square test, it can be seen that the Nagelkerke R Square value is 0.366, which means that the market reaction variable can be explained by earnings management by 36%. The remaining 64% is explained by other variables not included in this research model. Therefore, it is recommended that further research be conducted to add variables such as managerial ownership and market risk. This study used 35 samples of companies that conducted stock splits in the 2018-2022 period. Further research is recommended to increase the research period to obtain more representative results and provide a more comprehensive picture of the relationship between variables.

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