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# THE EFFECT OF EARNINGS MANAGEMENT ON STOCK RETURN WITH INVESTORS SOPHISTICATION AS A MODERATING VARIABLE STUDY ON MANUFACTURING COMPANY LISTED ON INDONESIA STOCK EXCHANGE

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**ABSTRACT**

This study aims to analyze the effect of earnings management (earnings management) on stock returns with investor sophistication as a moderating variable in manufacturing companies listed on the Indonesia Stock Exchange in 2009-2018. The sample in this study were 29 manufacturing companies listed on the Indonesia Stock Exchange. The data in this study were obtained using a purposive sampling method with several criteria that have been determined by the researcher. The data analysis technique used is descriptive statistics, normality test, classic assumption test, hypothesis testing using multiple regression and t test with a significant level of 5%. Earnings management uses a discretionary accrual approach calculated by the modified Jones model, return stock using the Cumulative Abnormal Return (CAR) method is calculated using the Market Adjusted Model approach, while for investor intelligence it is proxied from the level of institutional ownership with a value of> 40%. The results of this study indicate that earnings management has a significant effect on stock returns, which indicates that the higher the earnings management performed by the company, the lower the stock returns will be obtained. In this study also found that earnings management before SEO has a negative effect on stock returns when considering the investor sophistication factor. In other words, investor sophistication moderates (strengthens) the effect of earnings management on stock returns.

Keywords: Earnings Management, Stock Return, Investor Sophistication, Discretionary Accrual

## INTRODUCTION

The word investment is not only known by a businessman or an accountant, but ordinary people have often heard or even carried out this investment activity. In general, investment can be defined as an activity to invest a number of funds in an assets, with the hope that one day the value of the asset will increases (Diana and Setiawati, 2017:151). This means that the owner of the asset or an investor will get a profit when the assets is sold for a greater value. This investment itself has various types, among others, by investing in metals, land, property, securities and foreign currency. In this case, the author will discuss investment in the form of securities, namely stocks.

Stock is one type of securities instrument traded on the capital market. The capital market is a meeting place between parties who have excess funds and those who need funds. The company uses the capital market as another alternative to obtain additional funds by issuing or selling its securities such as shares, bonds and others. An investor needs accurate and quality information before investing in the capital market. One source of information used by investors in conducting investment analysis is the financial statements issued by the company. The preparation of financial statements must be based on Financial Accounting Standards which state that management can choose and apply accounting policies in accordance with applicable standards or accounting standards established based on principles (principle based) to make management can use their own judgment in determining the accounting treatment of an economic event. The difference between regulations or standards that apply with practice often occurs within the company, this difference is used to modify financial statements, so that financial statements can present profits in accordance with the wishes of the company's management. Earnings management is the act or activity of modifying a company's financial statements in accordance with the wishes of management.

Earnings management events are nothing new in the business world. In Indonesia, one of the recent earnings management cases is the case of PT Garuda Indonesia Persero Tbk. The case experienced by one of the state-owned airlines began with the results of Garuda Indonesia's financial statements for fiscal year 2018. In the financial report, the Garuda Indonesia Group posted a net profit of USD 809.85 thousand or equivalent to Rp 11.33 billion (assuming exchange rates Rp 14,000 thousand per US dollar). This figure jumped sharply compared to 2017 which suffered a loss of USD 216.5 million (Hartono, 2018). The disclosure of the financial statements became polemic because two Garuda Indonesia commissioners namely Chairal Tanjung and Doni Oskaria, considered that the 2018 financial statements were not in accordance with the Statement of Financial Accounting Standards (PSAK). The disclosure of the earnings management case makes policy makers increasingly tighten regulations or policies to protect people who tend to look at the company's financial statements before investing.

In the business world, sometimes companies need additional funds to maintain or improve company performance. When companies need more funds, one way to do that is by seeking additional funds from other companies. One of the methods referred to here is through the mechanism of Seasoned Equity Offerings (SEO). Seasoned Equity Offerings (SEO) are additional shares offered by companies that are already listed on the capital market, excluding shares that have already been circulating in the community through an IPO or Initial Public Offerings (Megginson, 1997 in Sulistyanto and Wibisono, 2003). According to Sulistyanto (2008: 75), the definition of Seasoned Equity Offerings (SEO) is an offer of additional shares carried out by a public company that requires additional funds to finance its operational and investment activities. There are several ways that can be done with Seasoned Equity Offerings (SEO), including right issues, second offerings, third offerings and so on.

Several previous studies have proven that a manager conducts earnings management ahead of Seasoned Equity Offerings (SEO) so that stock performance after Seasoned Equity Offerings (SEO) is low. Research conducted by Rangan (1998) shows that the company's stock performance after Seasoned Equity Offerings (SEO) is low. Therefore companies that do earnings management before Seasoned Equity Offerings (SEO) will get a lower Stock Return compared to companies that do not do earnings management.

Research conducted by Sari (2013) shows that high earnings management causes low stock returns when considering investor intelligence factors. In other words, investor intelligence moderates (strengthens) the effect of earnings management on stock returns. This proves that the company's growth does not have a positive effect on Stock Return. High company growth will not necessarily provide high returns. This study refers to research conducted by Sari (2013) who examined the relationship between earnings management before SEO and Stock Return with investor intelligence as a moderating variable with a sample of manufacturing companies listed on the Stock Exchange in 2001-2011.

Based on previous research, the researcher is interested in conducting research with the title “The Effect Of Earnings Management On Stock Return With Investors Sophistication As a Moderating Variable. Study On Manufacturing Company Listed On Indonesia Stock Exchange in 2009-2018.

## LITERRATURE REVIEW

### Investment

Investment is an activity to invest a number of capital or funds at this time to get profit in the future. According to Frank J. Fabozzi in Fahmi (2014: 264) investment is a process of money management. Investment is one of several types of financial assets. Financial assets are assets in the form of cash, equity instruments issued by other entities, contractual rights to receive cash or financial assets or in the form of contracts to be settled using equity instruments issued by the entity (Diana and Setiawati, 2017: 151).

Etymologically, the term market is used for the words exchange, exchange and market. As for the term capital often used the words securities, securities and stock. Sunyoto and Susanti (2015: 56) define the capital market as a market where long-term funds in the form of debt and equity are traded. The long-term traded funds are realized in securities. Types of securities traded on the capital market have a maturity of more than one year and some do not have a maturity date. Long-term funds in the form of traded debt are usually bonds (bonds), while long-term funds which constitute their own capital in the form of shares (common stock) and preferred shares (preferred stock). The capital market in the narrow sense is an organized place (in the physical sense) where securities (securities) are traded, which are then called stock exchanges.

The capital market is a market that trades various financial instruments. The capital market is a means of funding for companies and other institutions (for example the government) and as a means for investment activities (Dewi and Vijaya, 2018: 14). For example, a company issues and sells shares with the aim of finding fresh funds. Another example is that the government issues bonds to obtain additional funds. Funds obtained from the capital market can be used to expand business expansion, increase working capital and others.

On the other hand, the capital market is also a means for people to invest in financial instruments, such as stocks, bonds, mutual funds and others. Investors who buy shares also benefit from the investment returns they obtain, either through rising stock prices (capital gains) or through dividend distribution. Investors who buy bonds benefit from the acquisition of coupon (interest) bonds and capital gains if the bond is good. Investors who buy mutual funds benefit if the value of mutual funds goes up. Thus, the capital market facilitates various facilities and infrastructure of buying and selling activities and other related activities.

### Stock

Stock is one of the securities instruments traded on the capital market. Stocks are proof of an investor's ownership of a company. According to Dewi and Vijaya (2018: 48) shares are a sign of ownership or ownership of a person or entity in a company or limited liability company. The shares are in the form of a paper which proves that the owner of the paper is the owner of the company that issued the securities. In Dutch, shares are called andeel, which means shares, sero, or equity participation in a company (Umam and Sutanto, 2017: 175). According to Brigham (2006: 58) shares can be defined as securities as evidence of the inclusion or ownership of individuals or institutions in the company.

Shares are proof of company ownership that clearly states the nominal funds of investors and their rights and obligations in the company. There are two types of shares traded on the capital market, namely common stock and preferred stock. Common stock (common stock) is securities sold by companies and clearly explains the nominal value in the form of rupiah, dollar, yen and others. Whereas preferred stock is preferred stock which is hybrid in nature, which means it has characteristics as shares and has properties such as bonds. Common stock has more advantages compared to preferred stock, so common stock tends to have more interested people in the capital market compared to preferred stock.

## Stock Price IndexInvestment

Trade activities continue to progress very rapidly. This has resulted in an increase in the needs of investors and potential investors for capital market information. One of the information needed by investors and potential investors is the Stock Price Index which is a reflection of stock price movements. The Indonesia Stock Exchange has several stock price indexes that are continuously disseminated through print and electronic media which serve as guidelines for investors to invest in the capital market.

The types of stock indices on the Indonesia Stock Exchange are:

1. Individual Stock Price Index (IHSI)
2. Composite Stock Price Index (CSPI)
3. Sectoral Index
4. LQ45 index
5. Sharia Index (Jakarta Islamic Index)
6. Main Board Index and Development Board Index

## Financial Statements

According to Darsono and Ashari (2005: 4) financial statements are the result of an accounting process called the accounting cycle. The condition of a company's resources during one period can be seen in the financial statements. Financial statements can also show the company's financial performance through the company's ability to generate profits with the resources owned by the company.

Darsono and Ashari (2005: 4) mentioned in Law NO.1 / 1995 concerning Limited Liability Companies (PT) it is clear that the financial statements are an instrument of corporate management accountability by company management (Directors and Commissioners). Financial statements must be reported to the owner of the company as a form of accountability.

Information in financial statements can reduce differences in information by reducing:

a. Transferring personal information from a manager to information consumed by the public is called adverse selection. Adverse selection is a form of manager or investor uncertainty because more information is received by one party than another party so that it can benefit certain parties.

b. The behavior of a manager who does not do his job as he should or does not carry out ideal conditions is called moral hazard.

## Earnings Management

The desire to obtain maximum benefits in a short time for individuals or groups, make certain parties take action by utilizing the existing conditions without regard to the interests of other parties. This action is known as earnings management which is the act of changing various types of financial information that will be disseminated to the public.

According to Fahmi (2014: 519) earnings management (earnings management) is an action that regulates earnings in accordance with what is desired by certain parties or especially by company management. Actions on earnings management are actually based on various goals and purposes contained therein. This means that earnings management actions carried out contain certain motivations. This is not strange because the level of profit or profit obtained is often associated with management achievements in addition it is indeed common that the size of the bonus to be received by managers depends on the size of the profits obtained.

In accounting, earnings management is measured using discretionary accruals. Where discreationary accruals are obtained by total acruals minus non-discrectionary accruals. Total accruals are obtained by operating cash flow minus investment cash flow.

Another factor that causes the emergence of earnings management is the existence of an asymetric information relationship that was initially based on the conflicty of interest between the agent and partial. Agent is a company management (internal) and partial is a company commissioner (external). Partial parties here are not only company commissioners, but also include creditors, the government and others.

## Stock Return

In carrying out stock investment activities, Stock Return is the strongest factor that motivates an investor in investing. Stock Return is a reward from the courage of an investor to bear various risks for their investment. According to Umam and Sutanto (2017: 182) Stock Return is defined as the profit enjoyed by investors on the investment of shares it does. Stock Return has 2 main components, namely current income and capital gains. Current income gains from periodic payments in the form of dividends as a result of the company's fundamental performance. Capital gains are received from the difference between the selling price and the purchase price of the shares. A positive stock is determined by the amount of capital gain if the selling price of shares owned is higher than the purchase price.

Returns are divided into two types, namely realized returns and expected returns. According to Jones et al (2009) in Istiqomah and Adhariani (2017) realized returns are actual returns obtained by investors in certain investment periods, while expected returns are expected returns by investors in the future for their investments. Expected returns are calculated using the mean adjusted model, market model and market adjusted model approaches.

Information submitted by the company both financial information in financial statements and other information can trigger market reactions through changes in the company's stock price in question. The reaction is measured through returns as the value of price changes or by using abnormal returns. Abnormal return is the difference between actual return and normal return. Normal return is the return desired by the investor or expected return. The sum of abnormal returns is called Cumulative Abnormal Return (CAR).

## Investor Sophistication

Jogiyanto (2005) states that savvy investors are able to analyze further information to determine whether information provides a valid and trustworthy signal, while non-intelligent investors will receive information without further analysis. This statement is supported by the theory of decision-making market efficiency, which explains that an efficient market not only considers the availability of information but also considers the sophistication of market participants in processing information for decision making. Sophisticated market players will not be easily fooled (fooded) by the issuer, he will analyze further information to determine whether the information received is a valid and reliable signal. If it turns out that the signal received is an invalid signal and because investors are not sophisticated, their positive reaction to the information it receives is an incorrect reaction so that the market is not yet decision efficient, because investors make wrong decisions. Conversely, sophisticated investors will be able to know that the signals from the information they receive are incorrect, so they will react negatively to that information.

Bartov et al (2000) in Sari (2013) defines smart investors as investors who are able to collect and process public information, while investors who are not smart are investors who only use press and institutional financial information and do not conduct financial analysis properly.

In general, some previous literature uses institutional ownership as a proxy for investor intelligence. The greater the proportion of shares owned by institutional investors, the smaller the error in determining the price of these shares (Marfuah and Kusuma, 2003) in Sari (2013). Institutional ownership is suitable as a proxy for investor intelligence because investors from institutions have a lot of confidential information and have a team of analysts who are more experienced in analyzing information than individual investors. In addition to these reasons, there are other reasons that institutional investors are always willing to carry out large amounts of information.

## Signaling Theory

Signal theory (signaling theory) is a theory that discusses the ups and downs of prices in the market such as the prices of shares, bonds and so on, so that it will influence the investors' decisions (Fahmi, 2014: 21). Investor responses to positive and negative signals greatly affect market conditions. Investors will respond in various ways to the signal. For example, by hunting for shares that are sold or not reacting at all like "wait and see" or wait and see the developments there and then take action. The wait and see decision is not something that is not good or wrong but is seen as a reaction of investors to avoid the emergence of greater risk due to market factors that have not been profitable or sided with it.

In signaling theory, it implies earnings management. It is explained that if the company's performance deteriorates, a manager will give a signal by decreasing accounting profit. But on the contrary if the company's performance improves, then the management will increase accounting profits. In signaling theory it is also explained that before making a decision to invest, a rational investor first analyzes the information that will serve as a signal to assess the company's future prospects. This shows that smart investors are investors who first analyze the information received before making an investment. Therefore institutional ownership is suitable as a proxy for investor intelligence because investors from institutions have a lot of confidential information and have a team of analysts who are more experienced in analyzing information than individual investors.

## Institutional Ownership

Institutional ownership is ownership of company shares owned by institutions or institutions such as insurance companies, banks, investment companies and other institutional ownership (Tarjo, 2005) in (Ferdiansyah and Purnamasari, 2012). Institutional ownership has the ability to control management through an effective monitoring process so as to reduce earnings management. To reduce agency problems, institutional investors have an important role as a supervisor. With an institutional investor, the company's performance will increase. The number of shares owned by institutional investors influences the process of preparing financial statements which generally does not rule out the possibility of accrualization in accordance with management's interests. Therefore, the large number of institutional ownership investors will have the right to supervise or monitor the performance and behavior of management in the company. The percentage of the number of shares owned by an institution from the total amount of share capital outstanding is an indicator in measuring the ownership of an institution.

There are two types of institutional investors, namely passive investors and active investors. A passive investor does not really want to be involved in making managerial decisions, whereas active investors tend to be more willing to participate in managerial decision making. With an active investor in the company, it is expected to be an effective monitoring tool for the company. Institutional investors are sophisticated investors who can use the information of the current period in predicting future earnings (Siregar and Siddharta, 2006) in (Ahmad, 2011).

## Seasoned Equity Offerings (SEO)

Seasoned Equity Offerings (SEO) are offers of additional securities (seasoned securities) made by issuers as companies going public to the public through the capital market. This offer was made because the company which had gone public needed additional funds to finance its operational activities (Megginson, 1997) in Prabandari (2012). In addition to financing operational activities, the company's goal of conducting SEO is to obtain additional funds from investors or the public for the purposes of expansion, restructuring and others (Darmadji and Fakhruddin, 2001) in Prabandari (2012).

According to Brealey, et all (2001) in Prabandari (2012), Seasoned Equity Offerings (SEO) can be done in two ways, namely:

1. Selling the right (right) to the old shareholders to buy new shares at a certain price, usually the price of the stock is cheaper, or better known as the rights issue;
2. Sell to every investor who wants to buy new securities through second offerings, third offerings and so on. Unlike the second offerings or third offerings which are offers of additional securities directly to the public, without giving privileges to old shareholders. In SEO, an investor has guidelines in determining the price of the new security, which is the market price of the company's securities that have been circulating in the community. These new securities will be valued at least at the market price of the outstanding securities.

## Assymetry Theory Of Information

According Jogiyanto (2010: 387) information asymmetry is a condition that shows that some investors have information and others do not. Asymmetry of information is where management as a party who has more control over information than investors or creditors (Suwarjono, 2014: 584). According to Hanafi (2014: 217), said that the concept of signaling and information asymmetry is closely related, the asymmetry theory says that the parties associated with the company do not have the same information about the prospects and risks of the company, certain parties have better information compared to outsiders . From some of these opinions it can be concluded that information asymmetry is a condition where the company management knows better the prospects or performance of the company compared to investors.

## Efficient Market Theory

Market efficient (market efficient) is a condition where information about all prices can be obtained openly and quickly without any specific obstacles, Weston and Copeland (1995: 107) in Fahmi (2017: 260). According to Fama (1970) in Jogiyanto (2008: 503) defines an efficient market is a security market said to be efficient if the prices of securities fully reflect the information available (Fahmi, 2017: 260). In an efficient market, all information that is known not only refers to past information, but also the current information received by the public (such as financial statements, dividends and shares).

The efficient market hypothesis is a theory which states that in a free market, with competition for profit, all knowledge information and forecasts are accurately reflected in market prices.

In forming an efficient market is not an easy thing, because in principle it takes a synergy of efforts from various parties, namely:

a. Governments such as the finance department, BAPEPAM-LK and capital market managers;
b. Investor;
c. Public;
d. Companies registered in the capital market;
e. The DPR, in its task of overseeing the course of the economy and governance, is transparent and accountable.

## METHODOLOGY

The data obtained in this research is to use the documentary method. Data is taken from the annual financial statements of companies listed on the Indonesia Stock Exchange and accessed through the official website www.idx.co.id and to find out the type of company taken from ICMD as well as daily stock prices and stock price indexes published by the Indonesia Stock Exchange (IDX) . This research was conducted in 2019. The time of observation in this study is around the last 10 years, starting from 2009-2018. The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange that did SEO in 2009-2018.

In this study, the source of the data used in the financial statements is one year before SEO (t-1) to determine the amount of difference with the financial statements at the time of SEO in accordance with the formula used as well as with companies that have institutional ownership% 40%. Other data used in this study are the daily stock price and the Composite Stock Price Index (CSPI) to calculate individual company returns and market returns for seven days after the company announced the rights issue. The data obtained is taken from data of companies listed on the Indonesia Stock Exchange, Indonesian Capital Market Directory (ICMD) and IDX Statistics.

In this study the independent variable or the independent variable is earnings management. Earnings management is measured through discretionary accruals with Jones model modification methods.

$$\mathrm{DA} = \frac{\mathrm{TA_{it}}}{\mathrm{A_{it-1}}} - \mathrm{NDA_{it}}$$

The dependent variable uses Cumulative Abnormal Return (CAR) which is calculated using the Market Adjusted Model approach. The Cumulative Abnormal Return (CAR) formula used is:

CARi, t = Σ ARDPt

ARDPt = RETHt - RETPBNt

The moderating variable in this research is investor intelligence. Institutional ownership is used as a proxy for investor intelligence and a cutoff of 40% or more that shows smart investors.

## Data Analysis Technique And Results

This research uses data analysis techniques which include descriptive statistics, normality test, classic assumption test and hypothesis test.

### The First Model of Simple Regression

### 1. Descriptive Statistics

**Tabel 1**
**Descriptive Statistics**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Earnings Management | 59 | -.0001103 | .0006039 | .000030505 | .0000929498 |
| Investor Sophistication | 59 | 44.98 | 98.54 | 71.1749 | 15.10201 |
| Stock Return | 59 | 50.00 | 9756.24 | 1760.8638 | 2162.35798 |
| Valid N (listwise) | 59 | | | | |

Source : Output SPSS 25, 2020

The table above presents descriptive statistics for the variables in the research model. The minimum value of earnings management is -0,0001 while the maximum value represents a value of 0,0006. The average value obtained from earnings management shows a value of 0.00003 with a standard deviation value of 0.00009

The table above presents the descriptive statistical results for the variables in the research model. The average earnings management proxied by discretionary accruals in manufacturing companies on the Indonesia Stock Exchange from 2009 to 2018 under study was 0.000030505 and a standard deviation of 0.0000929498 with a minimum value of -0.0001103 and a maximum value of 0.0006039. This data shows that the average manufacturing company on the Indonesia Stock Exchange in 2009-2018 is 0.000030505.

The investor sophistication variable shows an average value of 71.1749 with a standard deviation of 15.10201. With a minimum value of 44.98 and a maximum value of 98.54. This shows that manufacturing companies listed on the Indonesia Stock Exchange in 2009-2018 have institutional investors with an average ownership level of 71.1749 or 71%.

From the results of these descriptive statistics, it can be concluded that the average stock return of manufacturing companies listed on the Indonesia Stock Exchange in 2009-2018 is 17680.8638 and a standard deviation of 2162.35798 with a minimum number of 50.00 and a maximum value. amounted to 9756.24. The greater the number shown by the stock return, the more interested investors will be to invest in a company, on the other hand, if the stock return is low, investors will not invest.

### 2. Classical Assumption Testing

### Normality Test

Based on the SPSS 25 statistical output, the plot points in the first simple regression equation follow the diagonal line, so it can be concluded that the data used in the first simple regression equation meets the requirements of the normality test.

### Heteroscedasticity Test

**Coefficients[a]**

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. |
|---|---|---|---|---|---|---|
| 1 | (Constant) | 736.703 | 73.529 | | 10.019 | .000 |
| | Earnings Management | -428775.682 | 620842.806 | -.116 | -.691 | .494 |

a. Dependent Variable: RES2

## REGRESSION ANALYSIS

### Regression Analysis Before Interacting With Moderation Variables

| Variabel Independen | Koefisien | T | Sig. | Keterangan |
|---|---|---|---|---|
| (Constanta) | 1356.845 | | | |
| Manajemen Laba (X) | -2780517.763 | -2.138 | 0.040 | Signifikan |
| α= 5%= 0.05<br>R square=0.116 | | | | |

Based on the results of the regression test above, a mathematical equation can be drawn up as follows:

**Y = 1356,845 – 2780517,763X + et . . . . . . (1)**

Based on this equation, it can be seen that the coefficient value for the independent variable is negative. This indicates that the effect of the independent variable, namely earnings management, is inversely proportional to the stock return. The table also shows that earnings management variables have a significant effect on stock returns. This can be seen from the probability value of the earnings management variable of 0.040 which is smaller than 0.05, so partially the earnings management variable has a significant effect on stock return.

The coefficient of determination R square on the test results shows a value of 0.116 or 11.6%, which indicates that the Earnings Management variable affects Stock Return. While the remaining 88.4% is influenced by other variables outside the independent variables examined in this study.

### Regression Analysis After Interacting With Moderation Variables

| Variabel Independen | Koefisien | t | Sig. | Keterangan |
|---|---|---|---|---|
| (Constanta) | 1361.505 | | | |
| Manajemen Laba (X1) | 97.877 | | | |
| Kecerdasan Investor (X2) | 309.586 | | | |
| Modereting ∣X1-X2∣ | -351.630 | -2.218 | 0.031 | Signifikan |
| α= 5%= 0.05<br>R square=0.122 | | | | |



Source: Data processed (2019)

Based on the results of the regression test above, a mathematical equation can be drawn up as follows:

**Y = 1361,505 + 97,877X1 + 309,586X2 – 351,631 |X1 – X2| + e . . . . . (2)**

The coefficient of determination R Square on the test results shows a value of 0.122 or 12.2%. This indicates that after the moderating variable, investor intelligence interacts with earnings management, it can affect the stock return. While the remaining 87.8% is influenced by other variables outside the independent variables studied in this study.

From the results of data processing in table 5.5 above, it can also be seen that after the earnings management variable interacts with the investor intelligence variable as a moderating variable it has a probability value of 0.031 which is below the standard significant value of 0.05. This indicates that investor intelligence is able to moderate the effect of earnings management on stock returns.

## HYPOTHESIS TESTING

In this study, there are two hypotheses tested, namely:

1. The effect of earnings management on stock returns

Based on the results of regression analysis, the relationship between earnings management and stock returns has a probability value of 0.040. This shows that the relationship between earnings management and stock returns has a significant or significant effect. In addition, the coefficient value for the earnings management variable has a value of -2780517.763 which indicates that the direction of the relationship between earnings management and stock returns is negative. This matter This means that the higher the earnings management performed by the company before SEO, the lower the stock return will be.

From the results of this analysis it can be concluded that earnings management has a negative effect on stock returns. Therefore, the first hypothesis which states that "The higher the earnings management performed by the company before the Seasoned Equity Offerings (SEO), the lower the stock return" is accepted.

2. The Effect of Earnings Management on Stock Return with Investor Intelligence as a Moderation Variable

Based on the results of the regression analysis for the interaction between earnings management and investor intelligence, it has a t-value of -2.218 and a significance value of 0.031, this means that there is a significant negative effect of the moderating variable on stock return. This means that earnings management has a negative effect on stock returns when considering investor intelligence. In other words, when investors are smart, the effect of earnings management on stock returns is strong.

From the results of the analysis that has been done, it can be concluded that investors' intelligence, which is proxied by institutional ownership, can moderate earnings management with stock returns. Thus, the second hypothesis which states that "The higher the earnings management, the lower the stock return obtained when considering the factor of investor intelligence as a moderating variable" is accepted.

## DISCUSSION

From the results of the calculation of simple regression analysis, it can be seen that earnings management which is proxied by discretionary accruals has a significant negative effect on stock returns which is proxied by abnormal returns in a group of manufacturing companies listed on the Indonesia Stock Exchange in 2009-2018. This means that the higher the earnings management performed by the company, the lower the stock return will be received by investors.

Based on the results of the multiple linear regression analysis that has been carried out, the moderating variable, namely investor intelligence, has a t-count of -2.218 and a significance of 0.031, this means that the moderating variable has a significant negative effect on the stock return. This means that earnings management has a negative effect on stock returns when considering the investor intelligence factor. In other words, if an investor is smart, the effect of earnings management on stock returns is strong. If the investor is smart, then all information about the company, whether it is past, present or information in the form of opinions and opinions circulating in the market, is directly analyzed to determine whether the information truly describes the real condition of the company or not.

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