

## Determinants of Earnings Management on the Moderating Role of GCG: Empirical Evidence on the BEI Non-Financial Sector

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### ARTICLE INFO

*Keywords:* Free Cash Flow, Financial Leverage, Good Corporate Governance, Earnings Management

*Received :* 26, April

*Revised :* 28, May

*Accepted:* 30, June

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### ABSTRACT

This study investigates the impact of financial leverage (FL) and free cash flow (FCF) on earnings management, with good corporate governance (GCG) as a moderating factor. Using data from 352 non-financial firms listed on the Indonesia Stock Exchange (2020-2023) and analyzed with SPSS 25, the findings reveal that both FL and FCF have a significant positive effect on earnings management. The practical implications of this study suggest that company management should minimize earnings management practices and focus on achieving sustainable long-term goals through effective implementation of GCG. This study focuses on non-financial companies, considering that this sector is more dominant during the study period than the financial sector. In addition, non-financial companies are recorded as the largest dividend contributors, thus providing a relevant context for examining earnings management practices and the role of GCG.

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## INTRODUCTION

Profit is often the target or goal of management engineering to maximize the needs presented to investors or stock traders, which is known as profit management (Ayisi et al., 2021). Management usually uses certain standards to ensure that earnings are managed in a manner consistent with the company's internal factors (Watriani & Serly, 2022). Earnings management arises because there are differences in goals and priorities between agents and owners or investors (Hashemi & Kamali, 2020). Earnings management indicates that there are certain motivations that drive managers to organize the financial data they analyze (Kahloul et al., 2023). Earnings management actions have resulted in a number of accounting scandals (Watriani & Serly, 2022).

Numerous studies have demonstrated that earnings management can be influenced by several factors, including the level of free cash flow (Tavakolnia, 2017; Shadmehri et al., 2017; Hashemi & Kamali, 2020) and financial leverage (Anagnostopoulou & Tsekrekos, 2017; Tulcanaza-Prieto et al., 2020; Saputra & Zulfikar, 2023; Toumeh et al., 2020; Nobakht & Acar, 2021).

Free cash flow is beneficial to a business if its cash flow causes a large amount of debt. This shows that a business has good capital recovery capabilities, both debt and equity (Erawati & Jedaru, 2023). The presence of free cash flow encourages businesses to invest, borrow money, buy shares, or increase their liquidity. Free cash flow serves as an indicator of how effectively a company manages its financial activities and operational resources. In addition, free cash flow can cause problems if it is used for managerial purposes; for example, it is not used as a division, but is invested in projects that do not generate profits for the company (Muharromi et al., 2021).

Another factor that is considered to influence earnings management is *financial leverage* ( Saputra & Zulfikar, 2023; Tulcanaza-Prieto et al., 2020; Anagnostopoulou & Tsekrekos, 2017). Financial leverage is a source of debt funds used by a business to support its operations outside of the source of capital. Debt is the relationship between a business and its creditors as creditors and debtors. In managing its debt obligations, it is crucial for a company to maintain a positive assessment from creditors regarding its ability to meet repayment commitments. A higher financial leverage ratio typically indicates a greater level of debt carried by the company. Thus, a company with a high financial leverage ratio will have a higher proportion of debt compared to its active proportion, so it will be more likely to manipulate profit management. The goal is to inform violations (Siam, 2024). According to Chandra and Djashan (2018), Firnanti et al. (2019), and Pradipta (2019), financial leverage positively influences earnings management.

The findings of this study align with previous research, thus encouraging researchers to improve the moderate variable, namely successful business governance. Earnings management practices can be reduced by implementing business management strategies grounded in agency theory. Corporate governance is a mechanism that describes how the business world is understood in order to increase productivity by managing its own productivity and ensuring that management's responsibilities to investors are fulfilled based on applicable regulations.

With the conflict between investors and managers, where managers are better able to understand the company's condition, this will encourage managers to provide information about the company's operations, evaluate them, and provide prices based on their own calculations (Shadmehri et al., 2017). The application of GCG is very important to protect shareholders in order to mitigate the conflict (Yusuf et al., 2022). Good corporate governance is a concept used to increase company productivity by maintaining management performance and to ensure that management is able to meet employee needs based on regulatory requirements (Saputra & Zulfikar, 2022).

This study illustrates how effective corporate governance can either amplify or mitigate the effects of free cash flow and financial leverage. Prior research has found a connection between accrual-based earnings management and free cash flow in successful companies (Herlambang et al., 2017; Setiawati, 2019). Meanwhile, a study by Widyaningrum et al. (2018) demonstrates that a well-implemented business model strengthens the link between financial leverage and accrual earnings management. This study examines how free cash flow (FCF) and financial leverage (FL) affect earnings management, with good corporate governance (GCG) as a moderator. It validates these relationships in non-financial firms listed on the Indonesia Stock Exchange from 2020 to 2023. The findings offer practical guidance for companies to curb earnings management through strong governance and provide valuable insights for researchers and managers to develop strategies against earnings manipulation.

## **LITERATURE REVIEW**

### ***Theoretical Framework***

Agency theory arises from the cooperation involving two parties, namely managers (agents) and investors (principals), in running company operations (Annither et al., 2020). This theory explains the effects arising from the contractual relationship between agents and principals. According to Jensen and Meckling (1976), the agency relationship involves the principal delegating authority to the agent to carry out certain tasks and make decisions on their behalf. However, the delegation of tasks and control of the company by the principal to the agent causes agency conflicts to arise. This is because decision-making by managers tends to be based on personal interests and not on the interests of shareholders (principals).

Another impact of delegating tasks from the principal to the agent is the emergence of information asymmetry, which occurs because agents sometimes do not convey the actual information or hide information from the principal (Heniwati & Essen, 2020; Revina et al., 2014). Managers (agents) as the party authorized to run the business certainly have an information advantage compared to shareholders (principals). Information asymmetry can be explained in the context of information harm selection and moral hazard. Adverse selection occurs when management (agents) possesses more information about the company and its future outlook than the shareholders (principals). Moral hazard is a condition in which the principal does not fully know what the agent has done, so there is potential for the agent to behave opportunistically (Amaliah, 2015).

### ***The Impact of FCF on EM***

Conflicts of interest between managers (*agents*) and shareholders (*principals*) lead to agency conflicts (Jensen, 1986). Agency theory explains that when management's goals do not align with those of shareholders, managers might be motivated to invest free cash flow in projects that yield returns below the cost of capital or to squander free cash flow because of organizational inefficiencies.

Tavakolnia (2019) found that auditor specialization weakens the relationship between free cash flow and earnings management in transactions involving related parties. Meanwhile, Shadmehri et al. (2019) reported a positive association between free cash flow and earnings management, with strong corporate governance especially in larger firms intensifying this link. Based on these findings, the study's hypothesis is formulated as follows:

H<sub>1</sub>: FCF has a Positive Effect on EM.

### ***The Influence of FL on EM***

Earnings management can damage the trustworthiness of financial statements, particularly when these statements are relied upon for making decisions. Such practices often stem from agency problems, which arise due to conflicting interests between management (*agents*) and shareholders (*principals*), each pursuing their own objectives (Jensen, 1986). The manager wants to obtain profits that continue to increase every year from good performance assessments, while shareholders want managers to be able to guarantee the interests of shareholders in the form of returns on capital that has been invested in the company.

Anagnostopoulou and Tsekrekos (2017) found that higher financial leverage mainly increases real earnings management, with little effect on accrual-based management. They also noted these two types often complement each other in highly leveraged firms. Similarly, Lazeem and Jilani (2018) and Saputra and Zulfikar (2022) confirmed that financial leverage encourages earnings manipulation. Based on this, the study proposes the following hypothesis:

H<sub>2</sub>: FL has a Positive Effect on EM.

### ***The Role of GCG in Moderating the Effect of FCF on EM***

Agency theory describes how free cash flow influences earnings management, moderated by audit quality. It emphasizes that conflicts arising from the separation of ownership and control between managers and shareholders motivate managers to alter company performance. While directors have the discretion to select accounting methods that best reflect the company's economic situation to improve financial reporting, this discretion also creates opportunities for profit manipulation. Managers may intentionally take actions within the boundaries of generally accepted accounting principles to adjust reported earnings closer to targeted levels (Salehi et al., 2020).

Herlambang (2017) found free cash flow negatively but insignificantly affects earnings management, while financial leverage has a significant impact; good corporate governance weakens both effects. Conversely, Setiawati et al. (2019) reported free cash flow significantly influences earnings management, financial leverage has no effect, and good corporate governance reduces free cash flow's impact. Based on these mixed results, the following hypotheses are proposed:

H<sub>3</sub>: GCG Weakens the Relationship Between FCF and EM.

### ***The Role of GCG in Moderating the Effect of FL on EM***

Agency theory describes the behavior of parties involved in a company, where agents and principals have differing interests that lead to agency conflict. The principal aims to maximize returns or dividends, whereas the agent seeks to obtain the highest possible compensation. This divergence can lead *the agent* to make decisions that are not in the best interest of the principal, particularly if the agent acts opportunistically (Jensen & Meckling, 1976).

Putri and Setiawati (2021) found that financial leverage negatively affects earnings management. Moreover, components of good corporate governance such as an independent board of commissioners, institutional ownership, and high audit quality help mitigate this relationship. In contrast, Sanusi et al. (2023) demonstrated that financial leverage has a strong positive effect on earnings management, while sales growth shows no significant influence. Their findings also indicate that good corporate governance moderates the relationship by reducing the effect of financial leverage, but it may also diminish the impact of sales growth on earnings management. Based on these findings, the following hypotheses are proposed:

H<sub>4</sub>: GCG Weakens the Relationship Between FL and EM.

## **METHODOLOGY**

### ***Research Sample***

This causal study investigates the effects of free cash flow and financial leverage on earnings management, with good corporate governance as a moderating variable. It employs secondary quantitative data, with samples selected through purposive sampling based on specific criteria.

**Table 1. Determination of Population Size**

Criteria	Amount
Non-financial companies listed on the Indonesia Stock Exchange (IDX) prior to 2021 and that remained listed through 2023	828
Companies with a financial year that does not close on December 31, 2023	(27)
Companies whose financial reports are not stated in rupiah	(78)
Total	723

Source: Indonesia Stock Exchange (Period 1 August 2024)

The following is the Slovin formula used in this study:

$$n = \frac{N}{1 + Ne^2}$$

Information:

n : Sample size

N : Population size

e : Percentage allowance for inaccuracy due to sampling error

To determine the appropriate sample size for a large population, this study applies the Slovin formula with a margin of error (e) set at 10% (0.1). Thus, the sample range that can be collected using the Slovin technique is between 10 and 20% of the Firdaus (2021: 20) research population. The sample size is calculated using the Slovin formula, as shown below:

$$n = 723 / (1 + 723 * (0.1)^2)$$

Simplifying the equation:

$$n = 723 / (1 + 723 * 0.01)$$

$$n = 723 / (1 + 7.23)$$

$$n = 723 / 8.23$$

$$n = 87.85$$

If rounded to the nearest whole number, the recommended sample size is 88. The total number of observations in this study covers a four-year period, namely 2020 to 2023. Thus, the number of observations is as many as  $88 \times 4 = 352$ .

**Variable Measurement and Data Analysis Techniques**

Measurement of variables in each variable in this study is described in Table 2.

**Table 2. Variable Measurement**

Research Variables	Indicator	Reference
Dependent Variable:	$DACit = (TACit / Ait-1) - NDAit$	
Earnings Management (Y)	Information: DA=Discretionary accruals of company i in year t TACit=Total accruals of company i in year t Ait-1=Total assets of company i in year t-1 NDAit=Nondiscretionary accruals of company i in year t	Anagnostopoulou & Tsekrekos (2017), Lazeem & Jilani (2018), Shadmehri et al., (2019)
Moderating Variables:	$KM = \frac{SM}{SB}$	
Good Corporate Governance (M)	Information: KM: Managerial ownership SM: Total shares owned by management SB: Number of company shares	Wijaya & Hendriyeni (2021), Justin & Tanusdjaja (2024)
Independent Variables	$Free\ Cash\ Flow = \frac{AKO - PM - NWC}{Total\ Aset}$	
Free Cash Flow (X1)	Information: AKO = Company's operating cash flow PM = Company's net capital expenditure NWC = Net working capital of the company	Hashemi & Kamali (2021), Nobakht & Melek (2021), Toumeh et al., (2023)
Independent Variables	$Financial\ Leverage = \frac{Total\ Utang}{Total\ Aset}$	
Financial leverage (X2)		Tulcanaza-Prieto et al., (2020), Al-Shattarat (2024)

The data analysis method used in the research is multiple linear regression analysis using SPSS software (*Statistica l Product and Service Solutions*) version 22. The following equation represents the multiple regression model applied in this research:

$$Y = a + b_1 X_1 + b_2 X_2 + e$$

Note:

- Y = Earnings Management
- $X_1$  = Free Cash Flow
- $X_2$  = *Financial leverage*
- a = Constant
- b = Parameter Regression
- e = Error Term

This study applies Moderated Regression Analysis (MRA) to evaluate how good corporate governance influences the link between financial leverage and earnings management, along with its impact on firm performance. The data comes from non-financial companies listed on the Indonesia Stock Exchange between 2020 and 2023. The regression equation used is as follows:

Regression Equation:

$$(1) Y_a = b_0 + b_1 X_1 + b_2 M + b_3 X_1 M + e$$

$$(2) Y_b = b_0 + b_1 X_2 + b_2 M + b_3 X_2 M + e$$

Note:

- Y = Dependent Variable (Profit Management)
- $X_1$  = Independent Variable (Free Cash Flow)
- $X_2$  = Independent Variable (*Financial leverage*)
- M = Moderation Variable (*Good Corporate Governance*)
- $b_{1,2}$  = Regression coefficient of each independent variable
- $b_0$  = Intercept or constant

## RESEARCH RESULT

### *Descriptive Statistics*

Descriptive statistics for each variable in this study are described in Table 3 below:

**Table 3. Descriptive Statistics**

Variables	N	Minimum	Maximum	Mean	Std. Deviation
GCG	352	0.0110	0.0430	0.020776	0.0059541
Profit Management	352	-0.0891	0.1184	-0.004339	0.0516287
Free Cash Flow	352	0.4760	0.7500	0.658378	0.0777173
<i>Financial leverage</i>	352	0.2560	0.4400	0.335832	0.0453381
Valid N (listwise)	352				

Based on Table 3, it can be observed that the mean value of free cash flow exceeds its standard deviation, indicating a high degree of variability in the free cash flow data used in this study. In contrast, financial leverage also has a mean value greater than its standard deviation; however, the smaller difference suggests that the data related to financial leverage is less varied.

Data Analysis

Table 4 below presents the testing of all hypotheses in this study which are described as follows:

**Table 4. Result Hypothesis Testing**

Model	Unstandardize		Standardiz	t	Sig.
	d Coefficients	ed			
	B	Std. Erro	Beta		
(Constant)	1.282	.840		1.526	.128
Free cash flow	.352	.185	.492	2.901	.048
<i>Financial leverage</i>	.041	.259	.043	2.157	.005
GCG	.435	.223	.542	1.947	.053
AKB.GCG	-.051	.049	-.483	-1.044	.008
<i>Financial leverage.GCG</i>	-.041	.064	-.340	-.644	.020
F-statistic	109,408				
Sig. (F-statistic)	0.000				
R-squared	0.654				
Adjusted R-squared	0.648				

Note: The testing period starts in 2020 and ends in 2022. Non-financial firm value is the dependent variable. All significance values in this study use the approach at the 5% level.

Based on the results presented in Table 4, the linear regression model including the moderating variables is formulated as follows.

$$ML_{it} = 1.282 + 0.352 AKB_{it} + 0.041 Lev_{it} + 0.435 GCG_{it} - 0.051 AKB_{it} * GCG_{it} - 0.041 Lev_{it} * GCG_{it} + \epsilon_{it}$$

Table 4 indicates that free cash flow has a statistically significant positive impact on earnings management ( $t_{value} > t_{table} = 2.901 > 1.97$ ,  $\beta_1 = 0.352$ , Sig. = 0.048 < 0.05). *Financial leverage* also has a significant positive effect on earnings management ( $t_{value} > t_{table} = 2.157 > 1.97$ ,  $\beta_2 = 0.041$  Sig. = 0.005 < 0.05).

The moderated regression analysis in Table 4 highlights the significant role of good corporate governance in influencing the relationship between free cash flow, financial leverage, and earnings management. The Beta coefficient for the interaction term (AKB\*GCG) is -0.051 with a significance level of 0.008, which is below the 0.05 threshold, indicating a statistically significant moderating effect. This result suggests that good corporate governance weakens the positive relationship between free cash flow and earnings management. The negative Beta value confirms that as the quality of corporate governance improves, the tendency of firms to engage in earnings management driven by excess free cash flow decreases.

The interaction between financial leverage and good corporate governance (LEV\*GCG) produces a Beta coefficient of -0.041 with a significance level of 0.020, which falls below the 0.05 threshold, indicating a significant moderating effect. This finding confirms that good corporate governance significantly moderates the relationship between financial leverage and earnings management. The negative Beta value suggests that effective corporate governance mitigates the adverse impact of financial leverage on earnings management.

## DISCUSSION

### *The Effect of Free Cash Flow on Earnings Management*

The empirical findings in Table 4 show that free cash flow positively impacts earnings management in non-financial companies listed on the Indonesia Stock Exchange from 2020 to 2023. This implies that greater free cash flow enhances managerial discretion in managing earnings. These findings align with Nazalia and Triyanto (2018), who identified free cash flow, financial distress, and employee differentiation as significant drivers of earnings management. Similarly, Tavakolnia (2019) found a positive association between free cash flow and earnings management via related party transactions, though this effect is moderated by auditor industry specialization.

Shadmehri et al. (2019) found a significant link between earnings management and excess free cash flow. Their research also showed that good corporate governance strengthens this relationship, particularly in large companies where effective governance increases the impact of free cash flow surplus on earnings management. Hashemi & Kamali (2021) expanded on earlier studies by demonstrating that free cash flow and company growth influence managers' opportunistic behavior, which increases earnings management. Nobakht & Melek (2021) also found that free cash flow significantly and positively affects both real and accrual-based earnings management. In contrast, Toumeh et al. (2023) discovered that free cash flow and stock market segmentation negatively impact earnings management in financial firms on the Jordan Stock Exchange, with the independent audit committee moderating this relationship.

Agency theory suggests that when managers' goals differ from those of shareholders, free cash flow can lead to earnings management. Managers might invest this cash in projects yielding returns below the company's cost of capital or waste it due to organizational inefficiencies. Instead of using free cash flow for intended purposes such as acquisitions, growth-oriented capital expenditures, debt repayments, or dividend distributions, managers might divert these funds for personal gain. Consequently, this behavior can lead to slower company growth. Without effective oversight or disciplinary measures from independent shareholders, managers may conceal their actions by providing minimal disclosure or manipulating financial statements.

Investors, as shareholders, often have limited access to detailed information. Managers may withhold adequate disclosures regarding cash flow investments or the assumptions behind the choice and execution of these projects. Due to this lack of transparency, investors remain unaware of the potential benefits or drawbacks of such projects and how they might impact their wealth.

### ***The Influence of Financial Leverage on Earnings Management***

The results in Table 4 reveal that financial leverage positively influences earnings management among non-financial firms listed on the Indonesia Stock Exchange from 2020 to 2023, indicating that greater leverage motivates managers to engage more in earnings management.

Previous studies suggest that higher financial leverage raises the likelihood of earnings management. For instance, Lazeem & Jilani (2018) found that increased financial leverage motivates managers to manipulate earnings. Saputra and Zulfikar (2022) found that financial leverage significantly affects earnings management, while good corporate governance measured by the board of directors reduces such practices. However, other governance proxies like the board of commissioners, audit committee, company size, and performance showed no significant effect on earnings management. Management entrenchment did not influence the relationships between financial leverage or company performance and earnings management, but it did strengthen the impact of governance proxies, including the board of commissioners, board of directors, audit committee, and company size, on earnings management.

Al-Shattarat (2024) found that high financial leverage significantly reduces real earnings management but not accrual-based earnings management, indicating improved earnings quality due to lender restrictions. Similarly, Tulcanaza-Prieto et al. (2020) reported a negative relationship between financial leverage and real earnings management. Earnings management can compromise the reliability of financial reports used for decision-making. It often results from agency problems, where conflicts of interest exist between management (agents) and shareholders (principals), each with differing objectives. The manager wants to obtain profits that continue to increase every year from good performance assessments, while shareholders want managers to be able to guarantee the interests of shareholders in the form of returns on capital that has been invested in the company.

### ***GCG Moderates the Effect of Free Cash Flow on Earnings Management***

Based on the moderation regression analysis, it can be concluded that good corporate governance weakens the effect of free cash flow on earnings management. In other words, although higher free cash flow tends to increase earnings management, strong corporate governance reduces this influence. Several studies highlight the role of good corporate governance in reducing earnings management. Herlambang (2017) found that while free cash flow had no significant effect, financial leverage increased earnings management, and governance weakened both effects significantly for leverage. Setiawati et al. (2019) reported that only free cash flow significantly influenced earnings management, which was mitigated by governance. Likewise, Wijaya and Hendriyeni (2021) concluded that free cash flow reduced earnings management, financial leverage had no impact, and governance effectively moderated both relationships.

*Agency* theory explains the effect of free cash flow on earnings management, moderated by audit quality, by highlighting the relationship between managers and shareholders. According to this theory, the motivation to distort company performance arises from conflicts of interest due to the separation of ownership and control. To enhance financial reporting, directors may choose accounting methods that fit the company's economic conditions; however, this also creates opportunities for profit manipulation. Managers often take deliberate actions within generally accepted accounting principles to align reported earnings with target levels (Salehi et al., 2020). Since financial statements represent both company performance and managerial ability, managers are inclined to manipulate income within regulatory limits to present themselves favorably. Such aggressive accounting tends to increase when managers have strong incentives, such as maximizing rewards, gaining recognition, minimizing tax obligations, influencing employment terms, lowering agency costs, and enhancing regulatory advantages (Ajina and Habib, 2017).

### ***GCG Moderates the Effect of Financial Leverage on Earnings Management***

The moderation regression results show that good corporate governance weakens the effect of financial leverage on earnings management. Although higher financial leverage generally increases earnings management, strong corporate governance reduces this influence.

Several studies emphasize the moderating role of good corporate governance in earnings management. Putri and Setiawati (2021) found that financial leverage reduces earnings management, and governance proxies such as independent commissioners, institutional ownership, and audit quality further weaken this effect. In contrast, Sanusi et al. (2023) reported that financial leverage increases earnings management, while sales growth has no significant impact; governance still moderates both relationships. Meanwhile, Justin and Tanusdjaja (2024) showed that company size and financial distress drive earnings management, though financial leverage has no effect. Governance in their study weakens the impact of financial leverage but not that of company size or financial distress.

Agency theory describes the behavior of parties within a company, where differing interests between agents and principals lead to agency conflicts. Principals have a desire to maximize returns or dividends, while agents have a desire to get the best compensation so that it can cause *agents* to be inappropriate in making the right decisions for the benefit of the principal, especially if the agent is an opportunist (Jensen & Meckling, 1976). The existence of different interests between the principal and agent causes *agency problems*. Agency relationship is a contract between agent and principal (Jensen & Meckling, 1976). The principal is the party that hires the agent to carry out tasks on their behalf, while the agent is the party responsible for acting in the principal's best interests.

## CONCLUSIONS AND RECOMMENDATIONS

Positive free cash flow serves as a means of growth, debt repayment, and distribution, while negative cash flow refers to insufficient internal funding sources to meet the investment needs of the business. Companies with high free cash flow often engage in earnings management by inflating profits to offset inefficient management practices and enhance business value.

Additionally, financial leverage positively influences earnings management. It facilitates real earnings management practices, which ultimately diminish the quality of reported accounting earnings.

Corporate governance effectively moderates the impact of free cash in relation to earnings management. Free cash flow usually creates conflict between managers and shareholders when managers want to reinvest in profitable projects over the past period. The implementation of corporate governance is a mechanism used to reduce regulatory conflicts related to corporate governance. Even though a company has good governance, it is not always able to minimize the cost of earnings management. Corporate management that effectively moderates the impact of financial leverage on business management will be a challenge to overcome. This encourages management to carry out income management activities to increase work productivity among investors and the general public. This is a result of the hesitant GCG approach. Conflicts arise between agents and customers because agents are unable to meet customer demands. GCG is a research technique used to identify the conflict in question.

## ADVANCED RESEARCH

Although this study provides valuable empirical evidence regarding the influence of free cash flow (FCF) and financial leverage (FL) on earnings management (EM) with good corporate governance (GCG) as a moderating variable, there are several limitations that should be acknowledged:

1. **Sample Scope Limitation:** This research only focuses on non-financial sector companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2023 period. Consequently, the generalizability of these findings to other sectors, such as the financial industry or companies outside Indonesia, remains limited.

2. **Moderating Variable Limitation:** The study only considers GCG, proxied by managerial ownership, as the moderating variable. Other dimensions of GCG, such as board independence, audit committee effectiveness, institutional ownership, or board diversity, were not explored, even though these may significantly influence the relationship between FCF, FL, and EM.
3. **Measurement Constraints:** Earnings management in this study is measured using discretionary accruals (DAC) based on the modified Jones model. While widely used, this method does not fully capture real earnings management practices or other forms of income manipulation beyond accrual-based approaches.
4. **Data Period Limitation:** The research period of four years (2020–2023) provides a relatively short timeframe, especially considering the potential for external economic shocks such as the COVID-19 pandemic to distort company financial behavior. A longer or segmented period may provide more robust insights.
5. **Potential Omitted Variables:** Other relevant variables that could influence earnings management, such as company size, profitability, ownership structure, market competition, and macroeconomic conditions, were not incorporated into the research model.

#### **ADVANCED RESEARCH**

In light of these limitations, the following directions are recommended for future research:

1. Expand the scope to include companies from the financial sector or other industries to enhance the generalizability of the findings across different economic contexts.
2. Explore additional dimensions of GCG, such as board independence, institutional ownership, audit committee effectiveness, and gender diversity, to provide a more comprehensive understanding of GCG's moderating role.
3. Utilize alternative or complementary measures of earnings management, such as real earnings management (REM) indicators, to capture a broader spectrum of manipulation practices.
4. Conduct longitudinal studies with longer timeframes or different sub-period analyses to observe the consistency of relationships across different economic cycles or regulatory changes.
5. Incorporate additional control variables, including company size, profitability, firm age, market competition, and external macroeconomic factors, to improve model accuracy and robustness.
6. Consider using qualitative methods, like interviews or case studies, to gain a deeper understanding of the managerial motivations driving earnings management practices, especially within the Indonesian context.

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