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# The Influence of Firm Size, Free Cash Flow, and Leverage Ratio on Earnings Management with Financial Performance as a Mediating Variable (An Empirical Study of Basic and Chemical Industry Companies Listed on the Indonesia Stock Exchange from 2015 to 2021)

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A R T I C L E I N F O

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A B S T R A C T

With financial performance acting as a mediating variable, this study attempts to examine how company size, free cash flow, and leverage ratio affect earnings management in basic and chemical industry companies listed on the Indonesia Stock Exchange (IDX). All 30 basic and chemical sector companies registered on the IDX are included in the study population. These companies were studied throughout a seven-year period, from 2015 to 2021, yielding 210 observations. The Partial Least Square (PLS) method of linear regression is used in inferential statistical analysis as part of a quantitative approach. Path analysis and statistical testing are done with the Eviews software. The results show that financial performance, leverage ratio, company size, and free cash flow all have a favorable impact on earnings management. Additionally, company size has a negative impact on earnings management when mediated by financial performance, whereas free cash flow and the leverage ratio have a positive impact through the mediating role of financial performance.

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## INTRODUCTION

Rapid technological advancements, high economic growth, and increasing complexity of consumer demands have driven the emergence of various types of industries and intensified competition in the business world. The current development of business encourages companies to actively seek sources of financing capable of providing substantial funds, whether for expansion or to meet other operational needs. The clear objective is for companies to survive, grow, and even dominate market share. One commonly pursued strategy is issuing securities or shares and then selling them to the public through the capital market or stock exchange.

In Indonesia, the Indonesia Stock Exchange (IDX) plays a crucial role in supporting these activities. The capital market provides opportunities for the public to invest and serves as a platform for companies to raise additional capital. In the business world, investors play a vital role as drivers of corporate progress. Investors here refer to individuals or groups who purchase shares with the goal of owning a portion of the company and expecting dividends or capital gains in the long term. There are also investors who buy shares with the intention of selling them when prices become favorable (Mahendra & Purwanto, 2024; Putro et al., 2024).

To achieve company objectives, earnings management is required to control company profits. Besides earnings management, financial performance is another important aspect for management to monitor company profitability. A company's activities can be considered effective, efficient, and economical in running business operations based on the results of financial performance. According to Ningsih dan Utami (2020); Hanifah (2021); Hastiwi dkk. (2022); Masfufah dan Kiptiah (2024), financial performance is an analysis or measurement to determine the extent to which a company implements financial reporting regulations properly and accurately. This measurement can generate decisions to be established by company management as well as investors.

Companies listed on the Indonesia Stock Exchange (IDX) have experienced growth, particularly in the basic and chemical industry sectors. According to CNatalia et al., (2020), the basic industry sector showed a growth of 2.77%, increasing from 524,422 to 538,952. This increase was followed by the financial sector with a growth rate of 2.67%, manufacturing sector at 2.6%, equipment and usage sector at 2.56%, and other industrial sectors at 2.52%. However, amidst this growth, several large companies in the basic industry sector experienced a decline in financial performance. In 2016, PT Semen Indonesia Tbk (SMGR) recorded an 8.4% decrease in net profit, from Rp3.54 trillion to Rp2.92 trillion. This profit decline was accompanied by a 0.16% decrease in operating revenue, from Rp19.08 trillion. A similar phenomenon occurred at PT Indocement Tunggal Prakarsa Tbk (INTP), which saw a 2.2% decrease in net profit to Rp2.14 trillion, alongside a 12% decline in revenue from Rp12.88 trillion to Rp11.34 trillion. Analysis suggests that the basic industry sector faced pressure due to capital outflows, meaning foreign funds exited this sector and shifted to other sectors. This condition also affected the stock price movements of issuers in the

basic industry sector. For example, the stock price of PT Surya Toto Indonesia Tbk (TOTO) dropped significantly, with its stock price at the end of 2016 recorded at Rp498 per share, drastically falling from Rp6,950 per share at the end of 2015. This stock price decline also reflected a 92.83% decrease in TOTO's market capitalization compared to the previous period, with a recorded market capitalization of Rp1.52 trillion.

Another phenomenon occurred during the COVID-19 pandemic, which had widespread impacts across Indonesia. With the emergence of COVID-19, the Indonesian government urged citizens to limit outdoor activities to prevent further spread of the virus. This also affected companies' financial performance in sustaining their business continuity (Firmansyah & Wulandari, 2024; Hidayati & Septiana, 2021; Muslim, 2020; Saragih et al., 2023).

Given these conditions, it is necessary to further analyze factors influencing the stability and performance of companies in the basic and chemical industry sectors, particularly concerning earnings management practices that can affect investor perceptions and financial performance. In this context, the variables firm size, free cash flow, and leverage ratio are important factors suspected to influence earnings management practices. Firm size is a crucial factor in managing earnings management because, as company size increases, operational complexity automatically rises, necessitating more meticulous earnings management. Febiola and Ekadjaja (2024), Rofiqotul dkk., (2023) Sutra and Mais, (2022) and Lase dkk., (2024) state that firm size affects earnings management, but the influence tends to be negative. This negative effect is attributed to larger companies having less motivation for earnings management because shareholders demand the preparation of accurate financial reports. However, Sha dan Steven (2022) assert that firm size positively influences earnings management. This conflicting evidence indicates that the direction of the effect is still unclear. Furthermore, Kristiana and Rita (2021) found no significant effect of firm size on earnings management. Therefore, further confirmation is needed regarding the effect of firm size on earnings management.

Watriani and Serly (2022) claim that free cash flow has a favorable impact on earnings management and that companies with higher free cash flow are more inclined to use these strategies. Faukha and Suwarno (2024), also stated that Free Cash Flow influences earnings management. However, Ilham et al., (2022) on the other hand, found no evidence of a substantial correlation between earnings management and free cash flow.

It's possible that leverage has little bearing on earnings management. This assertion is supported by Joe & Ginting (2022), who found a negative correlation between leverage and earnings management, support this viewpoint. Conversely, Febria (2020) on the other hand, discovered that leverage has a favorable effect on earnings management. Meanwhile, Nathaly & Yuniarwati (2022) came to the conclusion that leverage has little bearing on how earnings are managed.

Larger businesses are frequently subject to more scrutiny from external stakeholders, which may encourage them to manipulate earnings in order to

maintain their good name and show investors positive financial results. Similarly, pressure to meet debt obligations may be felt by highly leveraged companies, which could result in earnings manipulation. Furthermore, businesses that have a lot of free cash flow are free to use their financial resources anyway they see fit, including by employing earnings management techniques.

Based on the issues and inconsistent findings of previous studies, the researcher intends to further investigate the relationships among the variables in this study. The appropriate title for this research is "The Influence of Firm Size, Free Cash Flow, and Leverage Ratio on Earnings Management with Financial Performance as a Mediating Variable in Basic and Chemical Industry Companies Listed on the Indonesia Stock Exchange."

## LITERATURE REVIEW

### *Firm Size*

Firm size is one of the factors considered by companies in determining the scale of their financial structure to accommodate the magnitude of their assets. Additionally, companies with large assets tend to utilize available resources optimally to generate business profits, whereas companies with smaller assets will generate profits proportional to their smaller asset base (Annisa et al., 2022; Leonardo & Kharismar, 2021; Octaviany et al., 2021; Syah et al., 2023).

### *Free Cash Flow*

After paying for all necessary fixed asset and working capital expenditures to maintain regular business operations, a company's free cash flow (FCF) is the amount of money left over to distribute to its creditors and shareholders. (Chairunnisa & Lestari, 2024; Millennia et al., 2021). Free Cash Flow signals to investors that the company's stock is not merely a market avoidance strategy to increase company value. For high-cost companies, free cash flow clearly indicates which companies are expected to remain strong in the future. The market responds positively if free cash flow appears to be available that could enhance expected future performance.

### *Leverage*

Kristiani et al., (2021) and Nugraha et al., (2024) state that in the income tax scenario, companies with leverage tend to have a higher value compared to companies without leverage. The increase in company value occurs because the interest paid on debt is tax-deductible, which consequently raises operating profits available to investors.

### *Earnings Management*

Earnings management can be conducted in various ways to manipulate profits to appear favorable. It results in earnings that do not reflect the current economic reality (Wijayanti, 2025). Consequently, the reported earnings are of poor quality and do not represent economic reality. However, management often engages in earnings management to portray improved performance. Earnings

management can be categorized into three types: accounting fraud, asset income management, and real income management.

***Financial Performance***

A company's financial status during a specific period of time is reflected in its financial performance. As a vital tool for directing investment decisions, investors require accurate and consistent financial performance data. Analyzing and interpreting financial data, carrying out computations and measurements, and providing opinions or solutions about the company's financial situation within the allotted time frame are all part of evaluating financial performance. (Kosali, 2022; Masfufah & Kiptiah, 2024; Sukmawati & Susilo, 2023). Performance measures can be used to suppress inappropriate behavior and to encourage and enforce appropriate behavior. In order to accomplish shared objectives, it is anticipated that all organizational components would be inspired and motivated to perform more productively and efficiently. This motivation comes from both an internal understanding of the significance of each person's contribution to the organization's performance as a whole and from external forces like market competition or client expectations. Each division of the company is required to use its available resources, optimize work procedures, and make faster, more accurate judgments by cultivating an environment that encourages teamwork, open communication, and performance recognition.

Based on the explanations above, the conceptual framework in this study is as follows:

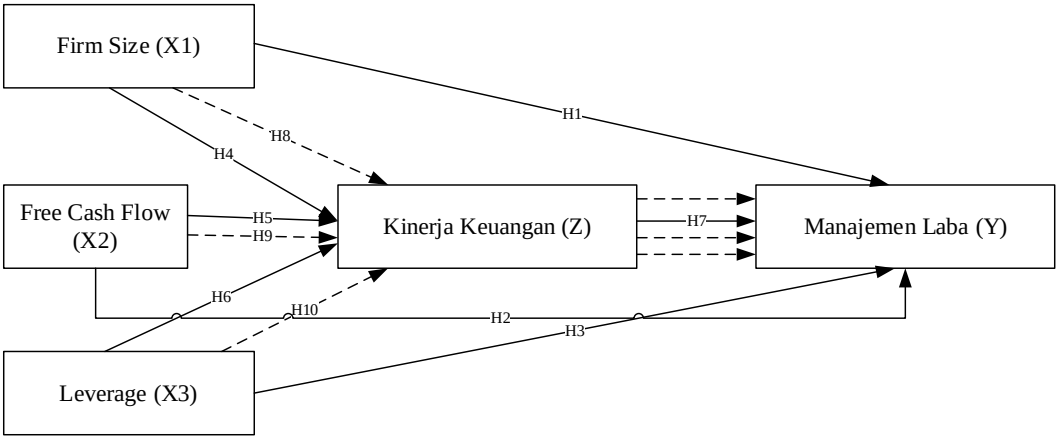


Figure 1. Conceptual Framework

## METHODOLOGY

This study uses a quantitative methodology. Companies in the basic and chemical industries that are listed on the Indonesia Stock Exchange (IDX) between 2015 and 2021 are the main subject of the analysis. Over a seven-year period, 30 companies from the basic and chemical sectors listed on the IDX make up the study population, yielding 210 data observations.

The study makes use of secondary data that was obtained from these companies' yearly financial statements for the given time frame. For data analysis, an inferential statistical approach is used, namely linear regression with

the Partial Least Square (PLS) technique. While Eviews software is used for path analysis and statistical testing, Microsoft Excel is used for data organization, table creation, and chart generation.

## RESEARCH RESULTS

### *Chow Test*

Table 1. Hasil Uji Chow

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 0.948536 | (29,175) | 0.5465 |
| Cross-section Chi-square | 30.512149 | 29 | 0.3888 |

The common effect model should be applied when the p-value is greater than 0.05. On the other hand, the fixed effect model ought to be selected if the p-value is less than 0.05. The probability values for the chi-square statistic (0.3888) and the cross-section F (0.5465) are both greater than the 0.05 significance level, per the Chow test findings shown in the above table.

### *Hausman Test*

Table 2. Hausman Test Results

Correlated Random Effects - Hausman Test
Equation: Untitled
Test cross-section random effects

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|---|---|---|---|
| Cross-section random | 0.237700 | 4 | 0.9935 |

The random effect model is considered appropriate when the p-value is higher than 0.05. On the other hand, the fixed effect model is recommended if the p-value is less than 0.05. The p-value of 0.9935 in this instance is higher than the 0.05 cutoff. Thus, the random effect model is the best option for this analysis based on the Hausman test.

***LM Test (Lagrange Multiplier Test)***

Table 3. LM Test Results

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

| | Test Hypothesis | | |
|---|---|---|---|
| | Cross-section | Time | Both |
| Breusch-Pagan | 0.053286 (0.8174) | 0.060585 (0.8056) | 0.113871 (0.7358) |
| Honda | -0.230837 (0.5913) | -0.246141 (0.5972) | -0.337274 (0.6320) |
| King-Wu | -0.230837 (0.5913) | -0.246141 (0.5972) | -0.319628 (0.6254) |
| Standardized Honda | 0.103084 (0.4589) | 0.004342 (0.4983) | -4.612782 (1.0000) |
| Standardized King-Wu | 0.103084 (0.4589) | 0.004342 (0.4983) | -3.732828 (0.9999) |
| Gourieroux, et al. | -- | -- | 0.000000 (1.0000) |

The common effect model (CEM) is chosen if the Breusch-Pagan probability value is larger than 0.05, and the random effect model (REM) is chosen if the probability is less than 0.05. Since the Breusch-Pagan probability in this study is 0.8174, above 0.05, the common effect model is the best option.

*Classical Assumption Test*

Classical assumption tests, such as checks for heteroscedasticity and multicollinearity, must be carried out because the common effect model (CEM) was chosen.

*1. Multicollinearity Test*

a. X1

Table 4. Multicollinearity Test Results for Variable X1

| | LOG(FIRMS... | Z | X1Z |
|---|---|---|---|
| LOG(F... | 1.000000 | -0.025730 | 0.003336 |
| Z | -0.025730 | 1.000000 | 0.774487 |
| X1Z | 0.003336 | 0.774487 | 1.000000 |

The correlation coefficients are below the 0.85 criterion and are 0.025730 between X1 and Z, 0.003336 between X and X1Z, and 0.774487 between Z and X1Z. The variables successfully pass the multicollinearity test, according to these results, which show that there is no multicollinearity problem.

b. X2

Table 5. Multicollinearity Test Results for Variable X2

| | LOG(FCF X2) | Z | X2Z |
|---|---|---|---|
| LOG(... | 1.000000 | -0.124355 | 0.393395 |
| Z | -0.124355 | 1.000000 | 0.063192 |
| X2Z | 0.393395 | 0.063192 | 1.000000 |

The correlation coefficient between X2 and Z is 0.124355 (< 0.85), between X and X2Z is 0.393395 (< 0.85), and between Z and X2Z is 0.063192 (< 0.85). These results indicate no multicollinearity problem.

c. X3

Table 6. Multicollinearity Test Results for Variable X3

| | LOG(DER_X3) | Z | X3Z |
|---|---|---|---|
| LOG(... | 1.000000 | -0.117819 | 0.416591 |
| Z | -0.117819 | 1.000000 | 0.052273 |
| X3Z | 0.416591 | 0.052273 | 1.000000 |

The correlation coefficient between X3 and Z is 0.117819 (< 0.85), between X and X3Z is 0.416591 (< 0.85), and between Z and X3Z is 0.052273 (< 0.85). This confirms no multicollinearity issue.

2. *Heteroscedasticity Test*

Table 7. Heteroscedasticity Test Results

Dependent Variable: ABS(RESID)
Method: Panel Least Squares
Date: 05/15/25 Time: 17:03
Sample: 2015 2021
Periods included: 7
Cross-sections included: 30
Total panel (balanced) observations: 210

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | -12.36038 | 15.32026 | -0.806800 | 0.4207 |
| FIRMSIZE_X1 | 0.617376 | 0.567715 | 1.087476 | 0.2781 |
| FCF_X2 | -4.57E-10 | 9.70E-10 | -0.471560 | 0.6378 |
| DER_X3 | 0.008430 | 0.319091 | 0.026418 | 0.9790 |
| Z | -33.27545 | 113.1534 | -0.294074 | 0.7690 |
| X1Z | 1.324259 | 4.392692 | 0.301469 | 0.7634 |
| X2Z | 7.60E-10 | 1.52E-08 | 0.049896 | 0.9603 |
| X3Z | -0.156189 | 4.278209 | -0.036508 | 0.9709 |

| | | | |
|---|---|---|---|
| R-squared | 0.009968 | Mean dependent var | 4.345452 |
| Adjusted R-squared | -0.024510 | S.D. dependent var | 25.23463 |
| S.E. of regression | 25.54201 | Akaike info criterion | 9.356052 |
| Sum squared resid | 131131.3 | Schwarz criterion | 9.483968 |
| Log likelihood | -969.7074 | Hannan-Quinn criter. | 9.407777 |
| F-statistic | 0.289113 | Durbin-Watson stat | 2.346395 |
| Prob(F-statistic) | 0.957673 | | |

Based on the data, the probability values for X1 (0.2781), X2 (0.6378), X3 (0.9790), and interaction terms X1Z (0.7634), X2Z (0.9603), and X3Z (0.9709) are all greater than 0.05, indicating that the model passes the heteroscedasticity test.

***Hypothesis Testing***

1. T-Test

Table 8. T-Test Results

Dependent Variable: DAC_Y
Method: Panel Least Squares
Date: 05/15/25 Time: 17:05
Sample: 2015 2021
Periods included: 7
Cross-sections included: 30
Total panel (balanced) observations: 210

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 13.30799 | 15.62489 | 0.851717 | 0.0954 |
| FIRMSIZE_X1 | 0.557458 | 0.579003 | 2.962789 | 0.0368 |
| FCF_X2 | 3.14E-10 | 9.89E-10 | 2.317066 | 0.0415 |
| DER_X3 | 0.009561 | 0.325436 | 2.029380 | 0.0266 |
| Z | 24.24957 | 115.4034 | 2.310129 | 0.0338 |
| X1Z | 0.983337 | 4.480039 | 1.219493 | 0.6265 |
| X2Z | 7.44E-10 | 1.55E-08 | 2.047891 | 0.0419 |
| X3Z | 0.139805 | 4.363279 | 1.032041 | 0.8345 |

a. Firm Size (X1) has a calculated t-value of 2.962789, which is greater than the table t-value of 1.971435, with a significance of 0.0368 (< 0.05), indicating that firm size significantly affects Y.
b. Free Cash Flow (X2) has a calculated t-value of 2.317066 > 1.971435, with significance 0.0415 (< 0.05), showing a significant effect on Y.
c. Debt to Equity Ratio (DER, X3) has a t-value of 2.029380 > 1.971435 and significance 0.0368 (< 0.05), indicating a significant effect on Y.
d. Interaction Firm Size * Z (X1Z) shows a t-value of 1.219493 < 1.971435 and significance 0.6265 (> 0.05), indicating that firm size's effect on Y is not mediated by Z.
e. Interaction Free Cash Flow * Z (X2Z) has a t-value of 2.047891 > 1.971435 with significance 0.0419 (< 0.05), indicating that free cash flow affects Y with Z as a moderating variable.
f. Interaction DER * Z (X3Z) shows a t-value of 1.032041 < 1.971435 and significance 0.8345 (> 0.05), indicating that DER's effect on Y is not mediated by Z.
g. Variable Z has a t-value of 2.310129 > 1.971435 and significance 0.0338 (< 0.05), showing a significant effect on Y.

Dependent Variable: Z
Method: Panel Least Squares
Date: 05/15/25 Time: 17:59
Sample: 2015 2021
Periods included: 7
Cross-sections included: 30
Total panel (balanced) observations: 210

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.129349 | 0.133277 | 0.970526 | 0.3329 |
| FIRMSIZE_X1 | -0.002282 | 0.004885 | -0.467190 | 0.6409 |

Additionally, the t-value for Firm Size (X1) with respect to Z is 0.467190 < 1.971435 and significance 0.6409 (> 0.05), indicating no significant effect of firm size on Z.

2. F-Test

Table 9. F-Test Results

| | |
|---|---|
| R-squared | 0.857179 |
| Adjusted R-squared | 0.827397 |
| S.E. of regression | 26.04991 |
| Sum squared resid | 136398.1 |
| Log likelihood | 973.8225 |
| F-statistic | 32.20763 |
| Prob(F-statistic) | 0.043460 |

At a significance level of 0.043460 (less than 0.05), the computed F-value of 32.20763 is greater than the crucial F-value of 2.055134. This suggests that Y is

significantly impacted by company size, free cash flow, DER, and their interaction variables taken together.

3. Coefficient of Determination ($R^2$)

Table 10. R-Square Test Results

| | |
|---|---|
| R-squared | 0.857179 |
| Adjusted R-squared | 0.827397 |
| S.E. of regression | 26.04991 |
| Sum squared resid | 136398.1 |
| Log likelihood | 973.8225 |
| F-statistic | 32.20763 |
| Prob(F-statistic) | 0.043460 |

The R-squared corrected value is 82.74%, or 0.827397. This indicates that the independent variables company size, free cash flow, DER, and their interactions account for 82.74% of the variation in Y, with additional factors not included in the model accounting for the remaining 17.26%.

## DISCUSSION

### *The Effect of Firm Size on Earnings Management*

The hypothesis test results indicate that the firm size variable has a positive effect on earnings management, with a t-value of 2.962789 greater than the table t-value of 1.971435 and a significance value of 0.0368 (< 0.05), thus supporting hypothesis H1. This finding aligns with Wiyogo et al., (2021), who stated that firm size significantly and positively influences earnings management. This means that as a company grows in size, earnings management also increases; conversely, if firm size decreases, earnings management tends to decrease as well.

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

With a significance level of 0.0415 (less than 0.05) and a t-value of 2.317066 over the critical value of 1.971435, The availability of free cash flow raises the possibility of disputes between owners and managers, which could promote profits management practices, according to agency theory. Reported similar results and came to the same conclusion: free cash flow has a good impact on earnings management. (Maharani & Latifah, 2025). However, Wiyogo et al., (2021) on the other hand, claimed that businesses with extremely high free cash flow typically do better overall and found no discernible influence.

### *The Effect of Leverage on Earnings Management*

With a t-value of 2.029380 higher than 1.971435 and a significance value of 0.0368 (below 0.05), the hypothesis test demonstrates a positive link between leverage and earnings management, confirming hypothesis H3. High-leverage companies are under more pressure to pay down their debt. According to the debt covenant hypothesis, managers of these companies are more inclined to manipulate earnings in order to satisfy debt obligations and preserve the trust of creditors. These findings are consistent with those of Maharani & Latifah (2025)

and Marvellyn & Susanto (2024), who also discovered that leverage had a favorable impact on earnings management. However, Nuriyah & Amir (2023) leverage has no bearing on earnings management.

***The Effect of Financial Performance Mediating Firm Size on Earnings Management***

The t-value of 1.219493, which is less than the critical t-value of 1.971435, and the significance level of 0.6265, which is greater than 0.05, show that firm size does not have a positive effect on earnings management through the mediation of financial performance, according to the hypothesis test results. Consequently, hypothesis H4 is disproved. The hypothesis test results show that the firm size variable does not have a positive effect on earnings management mediated by financial performance, with a t-value of 1.219493 < the table t-value of 1.971435 and a significance value of 0.6265 > 0.05, thus rejecting hypothesis H4. This finding contradicts the studies of Nathaly & Yuniarwati (2022) and Luckieta et al., (2021), who contended that firm size does affect earnings management through financial performance. According to their research, businesses frequently support earnings management strategies, therefore financial success acts as a moderator between company size and earnings management.

***The Effect of Free Cash Flow on Financial Performance***

The findings of the hypothesis test show that, when mediated by financial performance, free cash flow has a positive effect on earnings management (t-value of 2.047891 > 1.971435, significance level of 0.0419 < 0.05). Hypothesis H5 is thus approved. This is consistent with the findings of Maharani & Latifah (2025) and Zanetty & Efendi (2022), who discovered that free cash flow has an impact on financial performance, which in turn influences how much a company manages its earnings to maintain its reputation for financial performance.

***The Effect of Financial Performance Mediating Leverage on Earnings Management***

With a significance value of 0.8345, which is less than 0.05, and a t-value of 1.032041, which is less than 1.971435, the findings of the hypothesis test show that leverage has a beneficial impact on earnings management through the mediation of financial performance, supporting hypothesis H6. This aligns with the findings of Aden & Idayati (2023), Maharani & Latifah (2025) and Marvellyn & Susanto (2024), which indicates that leverage affects financial performance because of the pressure it puts on finances, which can lead management to manipulate earning

***The Effect of Financial Performance on Earnings Management***

A t-value of 2.029380 surpassing 1.971435 and a significance level of 0.0368 below 0.05 further support hypothesis H7 by demonstrating that financial performance has a beneficial impact on earnings management. When financial performance is weak or falling, managers may be tempted to falsify earnings in

order to safeguard their pay or improve the company's reputation with investors. On the other hand, companies that are doing well financially are less likely to manipulate their earnings. These results align with the findings of (Joe & Ginting, 2022), who also discovered that earnings management is positively impacted by financial performance.

## CONCLUSION AND RECOMMENDATIONS

The following are the conclusions drawn from the research findings: A significance level of 0.0368 (< 0.05) and a t-value of 2.962789, which is higher than the crucial value of 1.971435, show that firm size significantly improves earnings management. With a significance level of 0.0415 (< 0.05) and a t-value of 2.317066 > 1.971435, free cash flow also has a favorable impact on earnings management. With a significance level of 0.0368 (< 0.05) and a t-value of 2.029380 > 1.971435, leverage has a favorable impact on earnings management. However, a t-value of 1.219493 < 1.971435 and a significance value of 0.6265 (> 0.05) indicate that, when mediated by financial performance, business size has no positive effect on earnings management. Through financial performance mediation, free cash flow has a favorable impact on earnings management (t-value 2.047891 > 1.971435, significance 0.0419 (< 0.05). With a t-value of 1.032041 < 1.971435 and a significance level of 0.8345 (> 0.05), the impact of leverage on earnings management as mediated by financial performance is not statistically significant. Finally, a significance level of 0.0338 (< 0.05) and a t-value of 2.310129 > 1.971435 indicate that financial success has a favorable impact on earnings management.

## ADVANCED RESEARCH

Future studies are recommended to examine additional variables that may influence earnings management and financial performance. This can be achieved by expanding the scope of the research in terms of data sources (literature), respondent characteristics, and research backgrounds. Such expansion aims to obtain more optimal results and a more diverse range of research objects.

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