

## The Effect of Free Cash Flow, Financial Leverage and Corporate Social Responsibility on Earnings Management: The Moderating Role of Good Corporate Governance (Case Study Of Energy Sector Companies Listed on the Indonesia Stock Exchange for the Period 2019-2024)

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### ABSTRACT

This study aims to analyze the impact of Free Cash Flow (FCF), Financial Leverage (FL), and Corporate Social Responsibility (CSR) on earnings management, with Good Corporate Governance (GCG) as a moderating variable in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2024. Using a panel data regression method on 25 companies, the findings reveal that FCF has a positive effect on earnings management, indicating that free cash flow provides companies with greater flexibility in managing earnings. Financial Leverage (FL) also positively influences earnings management, although its impact is not as significant as FCF. CSR has a negative effect on earnings management, suggesting that corporate efforts to enhance social responsibility can reduce the tendency for earnings manipulation. GCG, while positively associated, does not show a significant impact on earnings management. The study further finds that GCG significantly moderates the relationship between FL and earnings management, but does not have a substantial moderating effect on the relationship between FCF and CSR with earnings management. These findings provide valuable insights into the factors influencing earnings management and the role of GCG as a control mechanism in energy sector companies in Indonesia.

## **INTRODUCTION**

The energy sector is a strategic sector in the national economy, contributing significantly to Non-Tax State Revenue (PNBP). High domestic energy demand and growing investor interest make this sector attractive, but it is also vulnerable to earnings management practices. This situation was exacerbated by the financial pressures experienced by energy companies during the 2019–2021 period due to the COVID-19 pandemic, which prompted management to adjust financial reporting to maintain performance and investor confidence. Empirical data from energy sector companies for the 2019–2024 period shows significant variations in earnings management practices, both positive and negative, reflecting differences in financial conditions and managerial policies between companies.

Several previous studies have examined factors influencing earnings management, particularly free cash flow, financial leverage, and corporate social responsibility (CSR), but have yielded inconsistent results. Some studies found that free cash flow and financial leverage significantly influence earnings management, while others showed the opposite. Similarly, the role of CSR in suppressing or encouraging earnings management practices remains a matter of debate. These inconsistent findings indicate the potential role of internal corporate control mechanisms, particularly good corporate governance (GCG), in moderating the relationship between these variables and earnings management.

Based on empirical phenomena and gaps in previous research results, this study aims to analyze the effect of free cash flow, financial leverage, and corporate social responsibility on earnings management with good corporate governance as a moderating variable in energy sector companies listed on the Indonesia Stock Exchange for the 2019–2024 period. This research is expected to provide empirical contributions to the development of earnings management literature and serve as a consideration for stakeholders in improving the quality of corporate governance in the energy sector.

## **LITERATURE REVIEW**

Earnings management by management can produce different consequences, where management will present high profits when management tries to attract interested parties. (Firmansyah et al. 2022a). The higher the number of years presented, the greater the tax liability that must be paid (tax costs arise), this is different when management tries to reduce taxable profits so that it will report lower profits, thus incurring financial reporting costs, because there is a perception that the company's performance is poor. Earnings management refers to accounting policies or actions chosen by managers to meet certain objectives in reporting company profits. (Scott, 2000) This practice includes management decision-making in selecting and implementing certain accounting policies or steps that impact the size of the company's profits, with the aim of fulfilling various interests in presenting financial reports. (Fitriyani & Waluyo, 2022).

Signaling theory, as originally proposed by Spence in 1973, explains the dynamics between senders, or information owners, and receivers. This theory emphasizes the importance of conveying relevant information, thus highlighting

the need to assess business performance for those who utilize financial statements. Signaling theory explains the rationale behind a company's dissemination of financial statement information to external stakeholders, particularly in light of the information asymmetry that exists between company management and these external entities.

Freeman, (1984) articulates that stakeholders include groups or individuals who can influence or are influenced by the achievement of certain goals. In his work *Strategic Management: A Stakeholder Approach*, Edward Freeman articulates that a company's stakeholders include almost all entities affected by the company and its activities.

This theory states that when both parties – principals and agents – seek to maximize personal gain, agents tend not to act in the principal's best interests. This creates potential conflict between internal management and external shareholders in public companies. (Amidu et al. 2019). To minimize information imbalance, management provides reports related to free cash flow to shareholders, which ultimately can contribute to improving earnings management practices, especially in the profitability aspect. (Aldubhani et al. 2022).

Wang (2010) emphasizes that management often fails to provide investors with sufficient information regarding the use of free cash flow or the assumptions underlying investment projects. This lack of transparency makes it difficult for investors to assess the profitability prospects and financial impact of the projects on their wealth. Meanwhile, according to Hidayat et al. (2023), free cash flow refers to the net cash remaining after a company meets its capital expenditure needs, which can then be used to finance additional investments or distributed to shareholders.

Mock et al. (1968) The leverage ratio, or debt-to-equity ratio, serves as a metric for assessing the relationship between debt and the capital structure of a company or industry. This ratio reflects the proportion of funding sourced from debt or external sources in relation to an industry's capacity as expressed in its capital or assets. Kalantonis and Kallandranis (2021) conveys that the pecking order theory explains the relationship between profitability and leverage ratio, stating that as a company's profitability increases, the company tends to rely more on retained earnings, thereby reducing its need for external financing.

Sacconi (2012) states that Corporate Social Responsibility (CSR) is an extension of the corporate governance model, where the parties who run the company, such as entrepreneurs, directors, and managers, are not only responsible for the business aspects alone, but also have an obligation to fulfill their fiduciary responsibilities. *Corporate social responsibility* (CSR) is based on the awareness that every business entity has a social responsibility to the market environment and local communities in which it operates. CSR reflects a company's commitment to carrying out activities that provide benefits, or at least do not have a negative impact, on the surrounding community and environment. Therefore, the implementation of CSR is not only based on compliance with applicable regulations, but also extends beyond formal legal obligations as a form of voluntary corporate contribution to sustainable development. (Idowu, 2016).

The idea of corporate governance was first introduced by Sir Adrian Cadbury in 1992 through a document known as the Cadbury Report. (Yuliana & Utami, 2022) This report is designed to evaluate the financial aspects of corporate governance practices while establishing ethical guidelines aimed at improving the quality of governance standards (Center of Risk Management & Sustainability, 2023). In general, corporate governance is a system or framework that serves as a guideline for managing an organization, based on key principles such as transparency, responsibility, independence, fairness, and equal treatment (Indonesia Stock Exchange, 2019).

## **AIM**

**H1:** *Free cash flow* has a positive impact on earnings management.

**H2:** *Financial leverage* has a negative impact on earnings management.

**H3:** *Corporate social responsibility* has a positive impact on earnings management

**H4:** *Good corporate governance (GCG)* moderates the effect of free cash flow on earnings management.

**H5:** *Good corporate governance (GCG)* moderates financial leverage in influencing earnings management

**H6:** *Good corporate governance (GCG)* moderates Corporate social responsibility in influencing earnings management

## **METHOD**

### **Data**

This study uses a quantitative approach with an associative method to analyze the relationship or influence between several variables, both directly and indirectly. The main focus of this study is to evaluate the relationship between the independent variables, namely free cash flow, company leverage structure, and implementation of Corporate Social Responsibility (CSR), on earnings management practices as the dependent variable. In addition, this study also considers good corporate governance (GCG) as a moderating variable that functions to strengthen or weaken the influence between the main variables in the empirical relationship analyzed. In data analysis, the author uses the E-Views tool version 10.0 or higher to process and analyze the obtained data. (Sugiyono, 2019).

### **Population and Sample**

The population of this study consisted of all companies operating in the energy sector and listed on the Indonesia Stock Exchange (IDX). The sample size was 91 companies listed on the IDX. The sampling method used was purposive sampling, a technique for selecting samples based on specific criteria relevant to the research objectives. (Sugiyono, 2019). The criteria applied in this study include energy sector companies listed on the IDX during the period 2019-2024, companies that do not have complete financial reports during that period,

companies that are loss-making, and companies that do not have complete variables. Based on these criteria, 25 eligible energy companies were selected, which were then analyzed over a 6-year period (2019-2024), resulting in a total of 150 data samples. The names of the selected companies, along with their stock codes, are listed in Table 3.3. The company data source was obtained from the official website of the Indonesia Stock Exchange ([www.idx.ac.id](http://www.idx.ac.id), 2024).

### Data Analysis Technique

This study uses panel data regression analysis to examine the relationship between free cash flow, financial leverage structure, and corporate social responsibility (CSR) with earnings management and corporate governance (GCG) as moderating variables. Panel data combines cross-firm and time-series data, enabling analysis of variable change dynamics. Three regression approaches are used: pooled least squares, fixed effects, and random effects, selected based on data characteristics.

Model selection tests were conducted using the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test to determine the appropriate model. Furthermore, moderated regression analysis (MRA) was used to evaluate the interaction of independent variables with moderating variables on earnings management. Moderating variables were classified into pure, pseudo-moderating, homologous, and predictor variables, each of which influences the relationship between variables in different ways.

## RESULTS

### Descriptive Statistics

**Table 1. Statistical Description**

	FCF	FL	CSR	ML	GCG
<b>Mean</b>	12.7129	1.6017	0.2580	-0.3677	0.9795
<b>Maximum</b>	21.7940	35.3276	16.7977	31.3971	1,0000
<b>Minimum</b>	0.0000	0.0016	0.0000	-14.5593	0.8000
<b>Observation</b>	150	150	150	150	150

The descriptive statistics data table shows significant variations across all variables in this study, such as Free Cash Flow (FCF), Financial Leverage (FL), Corporate Social Responsibility (CSR), Earnings Management (ML), and Good Corporate Governance (GCG). FCF has an average of 12.7129, indicating that companies in the energy sector are relatively stable in generating free cash, although there is a large difference between the maximum and minimum values. FL has an average of 1.6017, with variations indicating that there are companies that rely heavily on debt and those that are very conservative in using debt. CSR has an average of 0.2580, with some companies being very active in CSR, while others are not involved at all. ML shows a negative average of -0.3677, reflecting earnings management practices that tend to reduce company profits, with significant variations between companies that are aggressive in earnings management and those that are more focused on reducing profits.

GCG has an average value of 0.9795, indicating that most energy sector companies in Indonesia implement good corporate governance practices, although there is still room for improvement in some companies.

#### Model 1 Selection Results (Common Effect, Fixed Effect, Random Effect)

**Table 2 .Conclusion of Panel Data Regression Model Testing (Model 1)**

No	Method	Testing	Results
1	<i>Chow Test</i>	CEM vs FEM	FEM
2	<i>Lagrange Multiplier-BP</i>	CEM vs REM	BRAKE
3	<i>Hausman Test</i>	FEM vs REM	BRAKE

The Random Effect Model (REM) was chosen as the best model to analyze the impact of free cash flow, financial leverage and good corporate governance on earnings management.

#### Model 2 Selection Results (Common Effect, Fixed Effect, Random Effect)

**Table 3.Conclusion of Panel Data Regression Model Testing (Model 2)**

No	Method	Testing	Results
1	<i>Chow Test</i>	CEM vs FEM	FEM
2	<i>Lagrange Multiplier-BP</i>	CEM vs REM	BRAKE
3	<i>Hausman Test</i>	FEM vs REM	BRAKE

The Random Effect Model (REM) was chosen as the best model to analyze the impact of free cash flow, financial leverage and Corporate Social Responsibility on earnings management moderated by good corporate governance.

#### Determination of Research Model

**Table 4. Partial Estimates of Firm Value Regression Test Using the Random Effect Method(Model 1)**

Variable	Coefficie		
	nt	t-Value	p-Value
C	-5.325312	-0.482646	0.6301
FCF	0.144597	3.495123	0.0006
FL	0.496700	2.562469	0.0114
CSR	-0.976003	-2.224233	0.0277
GCG	2.629590	0.233700	0.8155
R2		0.119540	
Adjusted R2		0.095252	
F-statistic	4.921665	(p-value = 0.000948)	

**Table 5. Partial Company Value Regression Test Estimates Using the Random Effect Method with a moderating role(Model 2)**

Variable	Coefficie		
	nt	t-Value	p-Value
C	-13.65462	-1.386932	0.1676
FCF	0.155431	2.885744	0.0045
FL	4.643610	7.567509	0.0000
CSR	-6.037855	-0.290523	0.7718

GCG	12.55620	1.247845	0.2141
FCF_GCG	-0.100817	-1.920158	0.0568
FL_GCG	-4.484074	-7.154287	0.0000
CSR_GCG	5.584354	0.258215	0.7966
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R2	0.402025		
Adjusted R2	0.372547		
F-statistic	13.63828 (p-value = 0.0000)		
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## DISCUSSION

### Hypothesis Without Moderating Variable

#### The Effect of Free Cash Flow on Profit Management

The findings obtained show that free cash flow has a substantial positive impact on earnings management in the energy sector listed on the IDX. The t-statistic probability value (0.0006) is below  $\alpha = 0.05$ , indicating that  $H_0$  is rejected. The positive regression coefficient (0.1446) indicates a positive influence. In other words, free cash flow substantially influences earnings management in the energy sector listed on the IDX. Free cash flow substantially affects earnings management, although there is a positive relationship which may indicate that companies with greater free cash flow will have flexibility in earnings management.

Support from other studies suggests that while free cash flow has the potential to influence managerial decisions, this influence often depends on other factors such as debt structure and corporate governance quality. Chen & Tian (2024) found that companies with higher free cash flow tend to be more flexible in managing their earnings, although external pressures and other factors still play a significant role in managerial decisions. Ilham et al. (2022) showed that free cash flow influences financial decisions in mining companies, but this influence is not always consistent across sectors. Meanwhile, Sastroredjo et al. (2025) showed that in more capital-intensive sectors such as energy, FCF is consistently a significant indicator in managing earnings due to limitations in using cash for long-term investments.

This illustrates that while energy sector companies listed on the IDX may have positive free cash flow, they utilize this cash flexibility to engage in significant earnings management. This situation is caused by other factors, such as capital structures that tend to rely more heavily on debt for financing, and strict regulations regarding financial reporting transparency that reduce the scope for companies to manipulate earnings. Therefore, while FCF allows for earnings management, other factors are more dominant in determining this practice.

#### The Effect of Financial Leverage on Profit Management

These findings indicate that financial leverage has a substantial positive effect on earnings management in the energy sector, as represented by the IDX. The t-statistic probability value (0.0114) is below  $\alpha = 0.05$ , indicating rejection of the null hypothesis ( $H_0$ ). The positive regression coefficient of 0.4967 indicates a beneficial effect. In other words, the use of financial leverage plays a significant

role in shaping earnings management in the energy sector, as represented by the IDX. Financial leverage significantly influences earnings management..

Previous research by Maqfira et al. (2024) showed that financial leverage is often viewed as a factor that can influence managerial decisions, and its influence is significant, especially in cases involving the capital-intensive energy sector. Ilham et al. (2022) also found that financial leverage substantially affects earnings management in the mining sector, which is comparable to the findings in this study. Furthermore, leverage is often more related to financial risk and access to debt markets, which may be more dominant in a company's strategic decisions than earnings management itself (Vatis et al., 2025).

This is due to the reality that energy companies in Indonesia use financial leverage to fund long-term investments and infrastructure projects, rather than for short-term purposes such as earnings management. Furthermore, the effect of financial leverage on earnings management may be mitigated by strict regulations regarding financial reporting and earnings management, which limit the scope for companies to use debt to manipulate earnings reports.

### **The Influence of Corporate Social Responsibility on Earnings Management**

The results of the t-test conducted in this study indicate that corporate social responsibility (CSR) negatively and substantially influences earnings management in the energy sector as represented on the IDX. The statistical probability value of t (0.0277) is below  $\alpha = 0.05$ , indicating that the null hypothesis  $H_0$  is rejected. The negative regression coefficient of -0.9760 indicates a detrimental effect. In other words, corporate social responsibility has a significant influence on earnings management in the energy sector listed on the IDX. Corporate social responsibility (CSR) practices exhibit a detrimental effect on earnings management..

Research by Bachtijeva et al. (2024) supports these findings, showing that while CSR can reduce the use of earnings management, its effect on earnings management decisions is not always significant. Furthermore, Maqfira et al. (2024) found that CSR does not always mediate the correlation between GCG and earnings management, suggesting that CSR functions more as an external factor than a direct factor influencing managerial decisions related to earnings. Burcă et al. (2024) also suggested that while CSR can enhance a company's reputation, its impact on earnings management implementation is not always direct or significant.

This may be explained by the fact that energy sector companies in Indonesia, while actively engaging in CSR, may focus more on short-term financial and operational aspects. In the case of the energy sector, which is heavily dependent on large investments and fluctuating energy prices, CSR may be perceived more as a social obligation or part of the company's image, rather than as an aspect that directly influences earnings management decisions.

### **The Influence of Good Corporate Governance on Earnings Management**

This study found that effective corporate governance positively, though not substantially, influences earnings management in the energy sector as represented on the IDX. The t-statistic probability value (0.8155) exceeds  $\alpha = 0.05$ , indicating acceptance of  $H_0$ . A positive regression coefficient of 2.6295 indicates a favorable impact.

In other words, effective corporate governance does not substantially influence earnings management in the energy sector listed on the IDX. Effective corporate governance has a positive, though not substantial, impact on earnings management practices. Good corporate governance practices are expected to prevent earnings manipulation, but in this study, the influence of corporate governance on earnings management did not appear strong enough to be a determining factor. This indicates that while corporate governance is important, its influence on earnings management in this sector is not particularly dominant.

Research by Maqfira et al. (2024) supports these findings, showing that while good corporate governance can help reduce earnings manipulation practices, its impact is not always significant across all sectors, particularly if the sector faces challenges related to complex capital structures and financial management. Ilham et al. (2022) also found that while good corporate governance is important in promoting transparency and accountability, its impact on earnings management is not always consistent. This suggests that other factors, such as financial leverage or financial performance, are more dominant in determining the implementation of earnings management in the energy sector.

This is further illustrated by the fact that while energy sector companies in Indonesia frequently implement GCG principles, their direct impact on earnings management may be mitigated by external pressures such as energy price volatility or the need for funding for major infrastructure projects. While GCG plays a crucial role in enhancing transparency and accountability, its influence on earnings management in this sector is not significant enough to be a determining factor.

### **Hypothesis with Moderating Variables**

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

Based on the t-test results, free cash flow substantially positively influences earnings management in the energy sector listed on the IDX. The t-statistic probability value (0.0045) is below  $\alpha = 0.05$ , meaning  $H_0$  is rejected. The positive regression coefficient (0.1554) indicates a positive impact. In other words, free cash flow substantially influences earnings management in the energy sector listed on the IDX. The analysis found that free cash flow (FCF) substantially positively influences earnings management. Although there is a tendency for companies with greater free cash flow to have greater flexibility in earnings management,

Previous research by Chen & Tian (2024) showed that higher Free Cash Flow allows companies more flexibility in earnings management, but this relationship is highly dependent on external factors and pressures. Maqfira et al. (2024) also found that although companies with high FCF have the potential to manage earnings, the effect is not always significant across sectors, including the energy sector. Ilham et al. (2022) showed that although FCF influences managerial decisions in several sectors, its effect in the energy sector is very limited and inconsistent.

This reflects that although energy companies have relatively high free cash flow, its influence on earnings management is limited. This is likely due to energy

companies' primary focus on long-term investments and large-scale project management, which reduces the scope for FCF to be used in short-term earnings management. Therefore, while FCF provides flexibility in financial management, other factors such as capital structure and corporate governance policies are more dominant in earnings management decisions.

### **The Effect of Financial Leverage on Profit Management**

The t-test results show that financial leverage has a positive but insubstantial effect on earnings management in the energy sector, represented by the IDX. The t-statistic probability value (0.0000) is below  $\alpha = 0.05$ , indicating rejection of H<sub>0</sub>. A positive regression coefficient of 4.6436 indicates a beneficial effect. In other words, financial leverage has a significant effect on earnings management in the energy sector, represented by the IDX. *Financial leverage* also substantially positively influences earnings management. This indicates that while financial leverage is often considered to influence earnings management decisions, in the energy sector, its influence is large enough or consistent enough to significantly influence these decisions.

Research by Ilham et al. (2022) shows that financial leverage has the potential to influence earnings management, but its impact often depends on the company's financial situation and structure. Vatis et al. (2025) found that companies with high leverage are often more likely to manipulate earnings to meet their financial obligations. Azima et al. (2023) also showed that although financial leverage can influence earnings decisions, other factors such as profitability and CSR are more influential in earnings management.

The findings show that while the use of financial leverage is assumed to impact earnings management, the impact is more limited in the energy sector. This is due to a capital structure that relies more heavily on debt to finance large projects and infrastructure investments, prioritizing long-term financial risk management over short-term earnings manipulation.

### **The Influence of Corporate Social Responsibility on Earnings Management**

Based on the results of the t-test, corporate responsibility negatively and insubstantially affects earnings management in the energy sector listed on the IDX. The t-statistic probability value (0.7718) exceeds  $\alpha = 0.05$ , meaning H<sub>0</sub> is accepted. The positive regression coefficient (-6.0378) indicates a negative influence. In other words, corporate responsibility does not substantially affect earnings management in the energy sector listed on the IDX. Corporate responsibility (CSR) negatively affects earnings management, although not significantly. While CSR can enhance a company's reputation and contribution to society, these results indicate that CSR's impact on earnings management in the energy sector is not significant enough to influence profit-related accounting decisions.

The findings of Bachtijeva et al.'s (2024) study show that CSR can reduce the use of earnings management, but its effect is more limited in sectors that are more sensitive to social and environmental reputation. Maqfira et al. (2024) also found that CSR did not have a significant moderating effect on the relationship between GCG and earnings management, indicating that while CSR is important in building a corporate image, its influence on earnings management is not always strong. Furthermore, Burcă et al. (2024) found that companies engaging

in CSR may be more focused on long-term social goals, rather than on short-term earnings management.

This highlights that, while CSR has the potential to enhance corporate reputation and improve stakeholder relationships, its impact on earnings management is less significant in the energy sector. Companies are more focused on financial stability and managing large projects, which require attention to long-term financial aspects, rather than on CSR objectives that could influence earnings management practices.

### **The Influence of Good Corporate Governance on Earnings Management**

The t-test results show that good corporate governance has a positive, though not substantial, effect on earnings management in the energy sector as represented on the IDX. The t-statistic probability value (0.2141) exceeds  $\alpha = 0.05$ , indicating acceptance of  $H_0$ . A positive regression coefficient of 12.5562 indicates a beneficial effect. This means that effective corporate governance does not substantially affect earnings management in the energy sector listed on the IDX. Effective corporate governance (GCG) does have a beneficial effect on earnings management; however, this effect is not statistically significant. While there is an expectation that good GCG will reduce earnings manipulation practices, these results indicate that although GCG is important, its influence on earnings management decisions is not significant in the energy sector listed on the IDX.

A study by Maqfira et al. (2024) found that good corporate governance can reduce earnings management practices, but its impact is often insignificant in some sectors, particularly the capital-intensive energy sector. Ilham et al. (2022) showed that although GCG is crucial for increasing transparency and accountability, its impact on earnings management is more limited to internal company factors, such as audit quality and financial leverage. Similarly, Bachtijeva et al.'s (2024) findings show that while GCG is important, its impact on earnings management is not always direct or significant in certain sectors.

This reflects that while GCG can maximize financial reporting quality and transparency, its direct impact on earnings management in the energy sector listed on the IDX is not significant. External factors such as energy price uncertainty and the need for substantial long-term infrastructure investment are more dominant in earnings management decisions.

### **Moderation Influence Good corporate governance on the Relationship between Free Cash Flow and Earnings Management**

The results of the moderated regression analysis show that the interaction variable linking free cash flow and effective corporate governance does not significantly moderate the relationship between free cash flow and earnings management. The probability value of 0.0568, which exceeds the significance level of  $\alpha = 0.05$ , indicates that the interaction between FCF and CSR is not statistically significant. The negative coefficient of -0.10082 indicates a unidirectional relationship; however, because it is not significant, its effect cannot be relied upon.

Previous research by Maqfira et al. (2024) showed that while CSR can serve as a moderator in some relationships, its influence on earnings management remains limited, particularly in the energy sector, which focuses

more on long-term projects and financial risk management. Chen & Tian (2024) also suggested that the interaction between CSR and financial factors such as FCF often does not have a substantial impact on earnings management practices. Similarly, Bachtijeva et al.'s (2024) findings show that while CSR plays a role in enhancing corporate transparency and reputation, its influence on earnings management is more limited in the energy sector.

This indicates that CSR is not strong enough to moderate the relationship between FCF and earnings management, especially in sectors that rely heavily on long-term financing and large infrastructure projects. This suggests that energy companies in Indonesia tend to prioritize the use of free cash flow to fund large investments and capital-intensive projects, rather than for earnings management purposes related to social or environmental policies.

### **Moderation Influence Good corporate governance on the Relationship between Financial Leverage and Earnings Management**

The results of the moderated regression analysis (MRA) show that the interaction variables involving *financial leverage* (FL) and good corporate governance (GCG) play an important role in moderating the relationship between financial leverage and earnings management. A probability value of 0.0000, below the significance level of  $\alpha = 0.05$ , indicates that the interaction between FL and GCG has statistical significance. The negative regression coefficient of -4.4841 indicates that good GCG implementation can weaken financial leverage in influencing earnings management practices. Therefore, GCG serves as an effective control mechanism in limiting the potential for earnings manipulation stemming from high debt usage.

These findings echo those of Sastroedjo et al. (2025), which reported that financial leverage is related to managerial decisions, including earnings management. However, its influence is not always consistent across sectors, particularly in the capital-intensive energy sector. Furthermore, Ilham et al. (2022) also showed that financial leverage substantially influences earnings management, but the effectiveness of this influence is significantly influenced by the quality of good corporate governance implemented by the company. This confirms that good corporate governance (GCG) is a crucial factor in controlling opportunistic management behavior.

Furthermore, research by Maqfira et al. (2024) shows that good corporate governance plays a strategic role in improving the quality of managerial decision-making and corporate transparency, although its direct impact on earnings management is not always significant. In the energy sector, GCG implementation serves more as a risk monitoring and control tool than as a driver of earnings management practices.

Overall, the results of this study indicate that while financial leverage has the potential to encourage earnings management practices, this influence can be mitigated through the implementation of strong and effective Good Corporate Governance. Energy sector companies tend to use debt to finance infrastructure projects and long-term investments, not solely for earnings manipulation. Therefore, strengthening GCG is a key factor in maintaining the integrity of financial statements and ensuring that the use of leverage is carried out transparently and accountably.

### **The Moderating Effect of Good Corporate Governance on the Relationship between Corporate Social Responsibility and Earnings Management**

The results of the moderated regression analysis (MRA) show that the interaction variable linking corporate social responsibility (CSR) and good corporate governance (GCG) does not significantly moderate the relationship between CSR and earnings management. The probability value of 0.7966, which exceeds the significance level of  $\alpha = 0.05$ , indicates that the interaction between CSR and GCG is not statistically significant. The negative coefficient of -5.58435 indicates a unidirectional relationship; however, because it is not significant, its effect cannot be relied upon..

Research by Bachtijeva et al. (2024) supports these findings, showing that while CSR can help reduce earnings management practices, its moderating effect on GCG is not always significant, particularly in the energy sector, which often faces challenges related to managing large projects and strict regulations. Hidayat et al. (2022) also found that while GCG plays a role in increasing transparency and accountability, its effect on earnings management remains limited by external factors such as financial leverage and market influence. Furthermore, CSR often focuses more on long-term social goals rather than short-term earnings management decisions, which reduces its moderating effect on GCG.

This suggests that, despite GCG and CSR's crucial role in promoting transparency and sustainability, the moderating effect of CSR on the relationship between GCG and earnings management is not significant in the energy sector. This may be due to the fact that energy companies focus more on long-term sustainability through large infrastructure projects and financial risk management, rather than relying on CSR to influence earnings management decisions. Consequently, despite CSR and GCG's complementary objectives, their influence on earnings management practices remains limited in this sector.

### **CONCLUSION**

These findings consistently demonstrate that free cash flow (FCF) substantially influences earnings management in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2024 period. In both models, both with and without moderating variables, FCF demonstrates a substantial positive relationship with earnings management. These results indicate that FCF can provide companies with greater flexibility in managing earnings, and its influence on managerial decisions is significant enough to influence earnings management practices in the Indonesian energy sector.

The results of this study indicate that FL (financial leverage) has a positive, though insubstantial, effect on earnings management in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2024 period. Both models used, both without moderation and with moderating variables, show similar results. Financial leverage is often considered to influence earnings management decisions; in this study, the effect is strong enough or consistent enough to significantly influence earnings management. This indicates that although financial leverage has the potential to be a factor in earnings

management, in the Indonesian energy sector, its influence is significant enough to influence managerial decisions related to earnings management practices.

The findings show that CSR substantially negatively impacts earnings management in energy sector companies listed on the Indonesia Stock Exchange (IDX) during the 2019-2024 period. Although CSR is often associated with enhancing corporate reputation and positive social contributions, its impact on earnings management is significant enough to influence earnings management practices. These findings suggest that although energy sector companies seek to improve their image and relationships with stakeholders through CSR programs, its impact on earnings management is substantial enough to influence earnings management decisions.

*Good Corporate Governance* (GCG) positively influences earnings management, but not significantly in energy sector companies listed on the Indonesia Stock Exchange during the 2019-2024 period. Although GCG is expected to prevent profit manipulation and lead to transparent and accountable earnings management, this study shows that the implementation of GCG principles is not strong enough to substantially influence earnings management. This suggests that while GCG is crucial for improving corporate governance, its influence on earnings management decisions in the Indonesian energy sector is not large or significant enough to directly influence managerial practices.

GCG does not have a substantial moderating effect on the relationship between FCF and earnings management in energy sector companies listed on the Indonesia Stock Exchange (IDX). The analysis shows that despite a tendency for a negative relationship, the influence of CSR is not large enough or significant enough to influence the correlation between FCF and earnings management. This suggests that while CSR may mediate the relationship between FCF and earnings management, its strength is not significant enough to influence earnings management practices in energy companies listed on the IDX during the study period.

The results of this study indicate that GCG significantly moderates the relationship between Financial Leverage (FL) and earnings management. Although there is a tendency for a negative relationship in the interaction between GCG and Financial Leverage, the effect is large enough or significant to influence managerial decisions related to earnings management. This finding indicates that while GCG may have the potential to moderate the relationship, its influence is strong enough to influence decisions related to earnings management in companies, particularly in the Indonesian energy sector listed on the IDX.

GCG does not have a substantial moderating effect on the correlation between CSR and earnings management in energy sector companies listed on the IDX during the 2019-2024 period. Although there is a tendency for a negative relationship in the interaction between CSR and GCG, the findings show that CSR is not significant enough to influence managerial decisions related to earnings management. This indicates that although CSR and GCG both have important roles in corporate governance, CSR is not strong enough to modify or influence earnings management practices that are already influenced by the implementation of CSR in companies.

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