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# The Effect Of Institutional Ownership, Profitability, Leverage, And Free Cash Flow On Earnings Management In Banking Companies Listed On The Indonesian Stock Exchange (Idx) From 2018 To 2023

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Institutional Ownership, Profitability, Leverage Free Cash Flow, And Earnings Management.



## ABSTRACT

This study aims to examine the effect of institutional ownership, profitability, leverage, and free cash flow on earnings management in banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2018-2023. This study employs a quantitative method using secondary data, specifically financial statements of companies listed on the Indonesia Stock Exchange (IDX) obtained from the website www.idx.co.id or the companies' respective websites. The population in this study consists of banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023. The sample was selected using purposive sampling, resulting in 30 companies that met the criteria, yielding 180 observations. Data analysis was conducted using multiple linear regression analysis with the assistance of SPSS 26.The results of the study indicate that Institutional Ownership does not affect Profit Management, Profitability affects Profit Management, Leverage does not affect Profit Management, and Free Cash Flow affects Profit Management.

## INTRODUCTION

In today's modern economy, banking is essential as an intermediary between groups with excess funds and groups in need of funds. The existence of banking is very important for communities everywhere in terms of economic development, as it facilitates the business world. Banking is very attractive to investors because the daily activities of Indonesians today are inseparable from banking services (Devanka et al., 2022).

In general, the expectation of a banking company is that it will grow, generate profits or gains, and maintain its viability. To determine whether the company has met these expectations, one can refer to its financial statements, which contain information about the company's financial position, performance, and cash flow. This information is important for users of financial statements, such as management and investors, and is useful for decision-making (Angelita & Mungniyati, 2023).

After the COVID-19 pandemic ended, amid ongoing economic recovery, a number of major banks posted spectacular net profits. The performance of these banks stands in stark contrast to many business sectors that are still struggling and trying to recover from the impact of the COVID-19 pandemic (Yogatama, 2023).

Bank Mandiri recorded impressive financial performance in the third quarter of 2023, in line with Indonesia's solid economic conditions and comprehensive business transformation. The bank, listed under the ticker symbol BMRI, also set a record as the first bank in Indonesia to surpass Rp 2,007 trillion in consolidated total assets as of September 2023, representing a 9.11% increase compared to the same period last year (year-on-year or YoY). Bank Mandiri President Director Darmawan Junaidi stated that the increase in total assets was also driven by the growth rate of loans and third-party funds (DPK), which managed to grow positively. Notably, Bank Mandiri successfully disbursed consolidated loans totaling Rp 1,315.92 trillion as of September 2023, up from Rp 1,167.51 trillion in the previous year, representing a 12.71% YoY increase (Darmawan, 2023).

PT Bank Central Asia Tbk or BCA posted a net profit of Rp 24.2 trillion in the first half of 2023. This achievement was supported by an increase in credit volume, improved loan quality, and an increase in transaction and funding volumes. According to BCA's financial report for the January-June 2023 period, the 34% year-on-year growth in net profit was driven by total loan disbursements reaching Rp 735.9 trillion, up 9% year-on-year. Consumer loans, the segment with the highest loan growth, reached Rp 183.9 trillion, up 13.9% year-on-year (Primantoro, 2023)

An indicator that is often used to assess management performance is company profit, especially for banking companies. Profit is important not only for assessing management performance but also as a consideration in decision-making by investors or as a reference for determining the amount of tax to be paid by the company. It is no surprise that profit can be used as a target for corporate management engineering. Such actions can be carried out, for example, by selecting specific accounting policies that make it easier to manipulate company profits, whether by increasing, decreasing, or smoothing them out as desired. This management behavior is known as profit management (Pradnyawati et al., 2021)

According to Mukti (2018) institutional ownership has a significant positive effect on earnings management. This means that the more a company's ownership is dominated by institutional ownership, the more likely it is that management will engage in earnings management practices. However, according to research conducted by Lavenia et al. (2023) institutional ownership does not influence earnings management.

According to Kumalasari (2021) based on the results of tests conducted, profitability has a positive effect on earnings management in financial companies listed on the IDX. According to research (Yofi Prima, 2018) company size and profitability do not have a significant effect on earnings management in mining companies listed on the IDX.

According to research by Tan et al. (2023) leverage (DER) has a negative effect on profit management. Meanwhile, according to Kurnia Cahya Lestari (2019) leverage has no effect on profit management.

According to Fitri (2017) free cash flow has a significant effect on profit management, because free cash flow is an important determinant in determining company value. Meanwhile, according to Angel Manuela, (2022) free cash flow has not been proven to affect profit management. Based on the background and phenomena mentioned above, as well as the research gap from previous studies that have yielded differing results, the researcher is interested in conducting a study titled "The Influence of Institutional Ownership, Profitability, Leverage, and Free Cash Flow on Profit Management in Banking Companies Listed on the Indonesia Stock Exchange (IDX) for the Period 2018-2023."

## LITERATURE REVIEW

### Agency Theory

Agency theory is a cooperative relationship between principals (company owners) and agents (company management), whereby principals delegate authority to agents to manage the company and make decisions. According to agency theory, each individual will act in their own best interests. Therefore, this agency theory can give rise to conflicts of interest between shareholders as principals and managers as agents within the company. Managers are tasked with providing performance reports to shareholders. However, managers sometimes do not report the actual state of the company, as these performance reports are linked to the performance of the company's managers. Agency theory results in an asymmetrical relationship between owners and managers or agents (Devanka et al., 2022).

### Profit Management

Profit management is an internal strategy for managing information that is generally carried out by managers. This information management can take the form of adjusted profit presentation, either through decisions related to accounting policies or through accrual arrangements in the preparation of financial statements, with the expected goal of managers creating an overly positive perception of the company's business performance and financial position, generally carried out through certain accounting techniques. The flexibility that managers have in preparing financial statements can open up opportunities for earnings management to occur (Saferiya & Darwis, 2024).

Over the past few decades, research on earnings management has gained significant attention in the academic world. According to earnings management, or earning management, has become an interesting topic for research to date. The development of the Industry 4.0 era has led to the evolution of research on earnings management from topics based on the variables studied (Dharma Kesuma, 2024).

### Institutional Ownership

Institutional ownership refers to the ownership of shares by other institutions, namely companies or other organizations. Ownership of shares by institutional entities such as government institutions, private institutions, domestic institutions, and foreign institutions. Institutional ownership is a tool used to reduce agency conflict. Institutional ownership has the ability to control management through effective monitoring processes (Suparlan, S, 2019).

Institutional ownership can suppress management's tendency to use discretion in financial statements, thereby improving the quality of reported earnings. Institutional ownership has the ability to control management through effective monitoring processes, thereby reducing management's tendency to engage in earnings management. A certain percentage of shares owned by institutions can influence the financial statement preparation process, which does not rule out the possibility of accruals in accordance with management's interests (Suartana, 2014).

### Profitability

A company's ability to generate profits is the main focus for assessing its performance. Profits are an indicator of a company's ability to meet its obligations to creditors, investors, and even the government, and are part of the process of creating value for the company in relation to its future prospects. The more a company is able to generate high profits, the better its performance, which will attract investors to invest their capital and gain the trust of creditors (Nissa et al., 2025).

Profitability is a company's ability to generate profits over a certain period. Companies with high profitability generally use relatively little debt, because with high returns on investment, companies can finance themselves with dividends alone (Durrotun Nafisah & Farida,2023).

**Leverage**

Leverage is debt used by a company to finance its assets in order to carry out its operational activities. The leverage ratio measures the extent to which a company is financed by debt. A company's leverage reflects its ability to meet its long-term obligations, as long-term creditors face greater risk in debt repayment. One way to measure leverage is by calculating the Debt to Equity Ratio (DER), which assesses the balance between assets funded by creditors and those funded by the company's owners (Erawati & Siang, 2021).

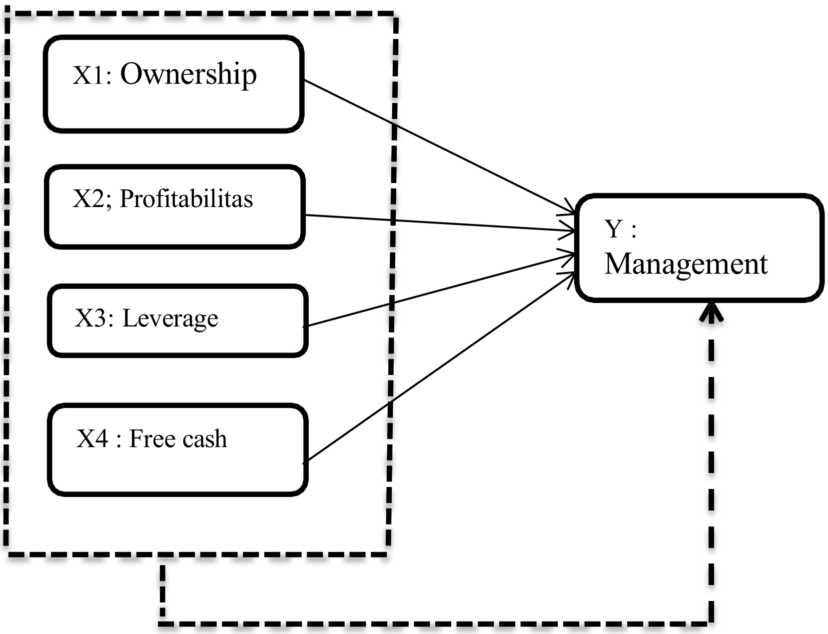
Leverage is a term used to describe debt used as a source of funding or company assets outside of capital or equity funding. Companies can apply greater leverage, thereby increasing profits (Devi & Kartika, 2023). This study uses the Debt to Assets Ratio (DAR). The Debt to Assets Ratio (DAR) is a ratio used to measure the ratio between total debt and total assets.

**Free Cash Flow**

Free cash flow is cash available in a company that can be used for various activities/operations. The greater the free cash flow available in a company, the healthier the company is because it has cash available for growth, debt repayment, and dividends. This can also be interpreted to mean that the smaller the free cash flow a company has, the less healthy the company is because it does not have cash available for growth, debt repayment, and dividends (Abdullah, 2022).

Free cash flow refers to cash flow that is actually available to be paid to all investors after the company has invested all of its capital in fixed assets, new products, and working capital needed to maintain ongoing operations. The issue with free cash flow is that an increase in free cash flow may lead to an increase in debt policies. Therefore, companies must monitor their free cash flow to reduce debt. Debt can also be used to control excessive use of free cash flow by managers. Management will operate more efficiently to avoid financial failure, thereby reducing agency costs associated with free cash flow (Durrotun, Farida, 2023).

**Figure 1 Conceptual Framework**




Partially ;
Simultaneously ;

**The Influence of Institutional Ownership on Earnings Management**

Institutional ownership can influence earnings management in various ways. Some studies show that institutional ownership has a positive or negative effect on earnings management, depending on the context and characteristics of the company.

Profit management is largely determined by the motivation of company managers. Different motivations will result in different levels of profit management, such as between managers who are also shareholders and managers who are not shareholders. These two factors influence profit management, as a manager's ownership stake helps determine the policies and decisions made by the company they manage. Generally, it can be said that a certain percentage of stock ownership by management tends to influence profit management actions (Shierly Pricilia, 2017). Based on the above discussion, the hypothesis that can be concluded is

H1: Institutional Ownership Affects Earnings Management The Effect Of Profitability On Earnings Management

Profitability is a company's ability to generate profits over a certain period of time. The level of profitability is a reference for investors or company owners in assessing the company's performance. In other words, if a company's profitability is high, it is better at generating profits or gains for the company. In relation to earnings management, profitability can influence managers in conducting earnings management (Anisya et al., 2023). Several studies indicate that profitability affects profit management, both partially and simultaneously.

H2: Profitability Affects Profit Management The Effect Of Leverage On Earnings Management

The leverage ratio is a ratio that measures the extent to which a company is financed by liabilities or external parties with the company's capabilities as described by equity. Any use of debt by a company will affect the ratio and returns. This ratio can be used to see how risky a company is financially. Leverage is also referred to as one of the causes of earnings management (Tan et al., 2023).

Additionally, profit management can demonstrate good performance for the company and its managers, both in the eyes of the public and shareholders. This is done because a high leverage ratio makes it difficult to obtain additional funds from external parties, as external parties may perceive the company as being at risk of defaulting on its debt (Anisya et al., 2023). The hypothesis that can be concluded is

H3: Leverage Affects Profit Management The Effect Of Free Cash Flow On Earnings Management

Research related to earnings management has been conducted based on previous studies. Free cash flow is one of the factors that can be used as an indicator of profit management. Free cash flow is defined as the cash flow that is actually available to be paid to investors after the company has made investments in fixed assets required to maintain ongoing operations. The study also analyzes the significant positive influence of free cash flow on profit management (Watriani, 2021).

Free cash flow (FCF) can influence earnings management by providing companies with more flexibility in managing earnings. Research shows that high FCF is often associated with more aggressive earnings management practices, both positive and negative, depending on the company's context. From the above discussion, it can be concluded that:

H4: Free Cash Flow Affects Profit Management The Influence Of Institutional Ownership, Profitability, Leverage, And Free Cash Flow On Earnings Management

Institutional ownership can influence earnings management in various ways. Some studies show that institutional ownership has a positive or negative effect on earnings management, depending on the context and characteristics of the company (Shierly Pricilia, 2017).

Profitability is the level of net profit a company earns during its operations. Too low profitability will affect the assessment of managers' performance in increasing the profit reported in financial statements, while excessively high profitability makes managers tend to reduce reported profits by adjusting the amount of bonuses received, thus profitability affects profit management (Erawati & Siang, 2021).

Leverage is a company's ability to meet its short-term and long-term financial obligations, or it can also be used as a measure of the extent to which a company is financed by debt. Leverage affects profit management, with research showing that an increase in leverage can have a negative impact on profit management. This shows that companies with high levels of debt tend to engage in more aggressive profit management (Hakim, 2023)

Free cash flow (FCF) can influence earnings management by giving companies more flexibility in managing earnings. Research shows that high FCF is often associated with more aggressive earnings management practices, both positive and negative, depending on the Context Of The Company (Watriani, 2021)

H5: Institutional Ownership, Profitability, Leverage, And Free Cash Flow Affect Earnings Management.

## METHODS

This study was conducted on banking sector companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023 by downloading the financial reports of these banking companies and downloading data from the Indonesia Stock Exchange (IDX) website www.idx.co.id.

The research method used is quantitative research, which examines the explanation of the influence of institutional ownership (X1), profitability (X2), leverage (X3), and free cash flow (F4) on profit management in banking companies listed on the Indonesia Stock Exchange (IDX). This research uses a quantitative approach, which is a method that uses empirical data and facts obtained from secondary data sources from the Indonesia Stock Exchange (IDX). The objects of this research are banking companies listed on the Indonesia Stock Exchange from 2018 to 2023.

The population in this study was all banking companies listed on the www.idx.co.id from 2018 to 2023, totaling 47 companies. The sampling technique used in this study was purpose sampling, which used three specific criteria determined by the researcher, including:

1. Banking companies listed on the Indonesia Stock Exchange from 2018 to 2023.
2. Banking companies that published financial reports consecutively on the Indonesia Stock Exchange from 2018 to 2023.
3. Banking companies that earned profits consecutively from 2018 to 2023.

## RESULTS

The research variables used in this study are Institutional Ownership (X1), Profitability (X2), Leverage (X3), Free Cash Flow (X4), and Earnings Management (Y).

### Descriptive Statistical Analysis

**Table 1 Results of descriptive statistical analysis**

| Descriptive Statistics | | | | | |
|---|---|---|---|---|---|
| | N | Minimum | Maximum | Mean | Std.Deviation |
| INSTITUTIONAL OWNERSHIP | 180 | .000 | 1.000 | .66300 | .294713 |
| PROFITABILITAS | 180 | .00111 | .25951 | .0788017 | .05744823 |
| LEVERAGE | 180 | .12771 | .97887 | .7773662 | .16579789 |
| FREE CASH FLOW | 180 | -.22957 | .33469 | .0236370 | .08466655 |
| PROFIT MANAGEMENT | 180 | -.37489 | .41030 | .0034424 | .12776344 |
| Valid N (listwise) | 180 | | | | |

Source: Data processed in 2025

The results of the descriptive statistical analysis in Table 4.1 can be interpreted as follows:

1. The variable Y in this study is Profit Management, with a minimum value of - 0.37489 held by PT Bank Multiarta Sentosa Tbk, while the maximum value of 0.41030 is held by PT Bank Ganesha Tbk. The average value of Profit Management is 0.0034424, indicating that the companies' Profit Management is at a low level. The standard deviation of Profit Management is 0.12776344, indicating a relatively low level of Profit Management.
2. Variable X1 in this study is Institutional Ownership, with a minimum value of 0.000 owned by PT Bank Pembangunan Daerah Jawa Barat Tbk and PT Bank Pembangunan Daerah Jawa Timur Tbk, while the maximum value of 1.000 is owned by PT Bank Multiarta Sentosa Tbk. The average value of Institutional Ownership is 0.66300, indicating that the level of Institutional Ownership of the company is moderate. The standard deviation of Institutional Ownership is 0.294713, indicating a low level of Institutional Ownership.
3. Variable X2 in this study is Profitability, with a minimum value of 0.00111 held by PT Bank Sinarmas Tbk, while the maximum value of 0.25951 is held by PT Bank BTPN Syariah Tbk. The average Profitability value of 0.0788017 indicates that the company's Profitability is at a low level. The standard deviation of Profitability is 0.05744823, indicating a relatively low level of Profitability.
4. Variable X3 in this study is Leverage, with a minimum value of 0.12771 held by PT Bank BTPN Syariah Tbk, while the maximum value of 0.97887 is held by PT Bank Pembangunan Daerah Jawa Barat Tbk. The average Leverage value of 0.7773662 indicates that the companies' Leverage is at a high level. The standard deviation of Leverage is 0.16579789, indicating a relatively low level of Leverage.
5. Variable X4 in this study is free cash flow, with a minimum value of -0.22957 owned by PT Bank Capital Indonesia Tbk, while the maximum value of 0.33469 is owned by PT Bank Multiarta Sentosa Tbk. The average free cash flow value of 0.0236370 indicates that the company's free cash flow is at a low level. The standard deviation of free cash flow is 0.8466655, indicating a fairly large level of free cash flow.

**Test Normality Test**

**Table 2 Normality Test Results**

One-Sample Kolmogorov-Smirnov Test

| | | Unstandardized Residual |
|---|---|---|
| N | | 180 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | .08274286 |
| Most Extreme Differences | Absolute | .075 |
| | Positive | .067 |
| | Negative | -.075 |
| Test Statistic | | .075 |
| Asymp. Sig. (2-tailed) | | .015[c] |
| a. Test distribution is Normal. | | |
| b. Calculated from data. | | |
| c. Lilliefors Significance Correction. | | |

Source: Data processed in 2025.

Table 2 shows that the normality test results obtained a sig value of 0.015, which is less than 0.05, meaning that the data is not normally distributed. Therefore, the researcher corrected the data using Casewise Diagnostics, which involves eliminating outlier data. The following is the casewise diagnostics data.

**Table 3 Casewise Diagnostics[a]**

| Casewise Diagnostics[a] | | | | |
|---|---|---|---|---|
| Case Number | Std. Residual | Profit Management | Predicted Value | Residual |
| 12 | -3.200 | -.16159 | .1061731 | -.26776152 |
| 53 | 2.944 | .41030 | .1639537 | .24634888 |
| 59 | 2.872 | .27330 | .0329779 | .24031767 |
| 136 | 3.811 | .30666 | -.0122497 | .31891131 |
| a. Dependent Variable: Earnings Management | | | | |

Source: Data processed in 2025

After using Casewise Diagnostics, four outlier data points were detected, and the results of the data normality test were normal. The following are the results of the normality test after eliminating the detected outlier data.

**Table 4 Normality Test Results After elimination of outlier data**

| One-Sample Kolmogorov-Smirnov Test | | |
|---|---|---|
| | | Unstandardi zed Residual |
| N | | 176 |
| Normal Parameters[a,b] | Mean | .0000000 |
| | Std. Deviation | .07295724 |
| Most Extreme Differences | Absolute | .064 |
| | Positive | .058 |
| | Negative | -.064 |
| Test Statistic | | .064 |
| Asymp. Sig. (2-tailed) | | .078[c] |
| a. Test distribution is Normal. | | |
| b. Calculated from data. | | |
| c. Lilliefors Significance Correction. | | |

Source: Data processed in 2025

Based on Table 4, it shows that the normality test results obtained a sig value of 0.078, which is greater than 0.05, meaning that the data is normally distributed.

**Multicollinearity Test**
**Table 5 Multicollinearity Test Results**

| Coefficients[a] | | | |
|---|---|---|---|
| Model | | Collinearity Statistics | |
| | | Tolerance | VIF |
| | (Constant) | | |
| | Institutional Ownership | .768 | 1.303 |
| | Profitabilitas | .750 | 1.333 |
| | Leverage | .848 | 1.179 |
| | Free Cash Flow | .997 | 1.003 |
| a. Dependent Variable: Earnings Management | | | |

Source: Data processed in 2025

Table 5 shows that the results of the multicollinearity test for all variables obtained a tolerance value >0.1 and a VIF value <10, indicating that there was no multicollinearity problem.

**Autocorrelation Test**

**Table 6 Autocorrelation Test Results**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1 | .798[a] | .636 | .628 | .07380561 | 2.083 |
| a. Predictors: (Constant), Free Cash Flow, Institutional Ownership, Leverage, Profitabilitas | | | | | |
| b. Dependent Variable: Earnings Management | | | | | |

Source: Data processed in 2025

Based on the table above, we can see that the Durbin-Watson value is 2.083. Therefore, there is no autocorrelation because the value of dU = 1.8121 < d = 2.083 < 4 – dU = 2.1879.

**Heteroscedasticity Test**

**Table 7 Heteroscedasticity Test Results**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardi zed Coefficients | t | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .048 | .026 | | 1.884 | .061 |
| | Institutional Ownership | .018 | .013 | .114 | 1.325 | .187 |
| | Profitabilitas | -.075 | .070 | -.093 | -1.068 | .287 |
| | Leverage | .004 | .023 | .014 | .173 | .863 |
| | Free Cash Flow | -.040 | .042 | -.072 | -.964 | .336 |
| a. Dependent Variable: ABS_RES | | | | | | |

Source: Data processed in 2025

Based on Table 7 in the regression model above, the results of the heteroscedasticity test using the glacier test show that the regression model does not have a heteroscedasticity problem, because all variables have significance values above 0.05. The Institutional Ownership variable has a significance value of 0.181, the Profitability variable has a significance value of 0.287, the Leverage variable has a significance value of 0.863, and the Free Cash Flow variable has a significance value of 0.336.

**Hypothesis Testing**

**Testing the Coefficient of Determination R**

**Table 8 R Test Results**

| Model Summary[b] | | | | | |
|---|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error Of The Estimate | Durbin-Watson |
| 1 | .798[a] | .636 | .628 | .07380561 | 2.083 |
| A. Predictors: (Constant), Free Cash Flow, Institutional Ownership, Leverage, Profitabilitas | | | | | |
| B. Dependent Variable: Earnings Management | | | | | |

Source: Data processed in 2025

Based on Table 8, the percentage value of the multiple coefficient of determination shown in the Adjusted R Square value is 0.628 x 100% = 62.8%, and the remainder is 100% - 62.8% = 37.2%. This means that Profit Management is influenced by the variables Institutional Ownership (X1), Profitability (X2), Leverage (X3), and Free Cash Flow (X4) to the extent of 62.8%. The remaining 37.2% is influenced by other variables not examined in this study.

**Simultaneous Test (F)**

**Table 9 Simultaneous Test (F) Results**

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 1.629 | 4 | .407 | 74.768 | .000[b] |
| | Residual | .931 | 171 | .005 | | |
| | Total | 2.561 | 175 | | | |
| a. Dependent Variable: Manajemen Laba | | | | | | |
| b. Predictors: (Constant), Free Cash Flow, Institutional Ownership, Leverage, Profitabilitas | | | | | | |

Source: Data processed in 2025

Based on Table 9, it can be seen that the calculated F value is 74.768 with a significance level of 0.000 or less than 0.05. This means that the independent variables—Institutional Ownership, Profitability, Leverage, and Free Cash Flow—simultaneously have a significant influence on the dependent variable, Profit Management.

H5: The hypothesis regarding the variables Institutional Ownership, Profitability, Leverage, and Free Cash Flow is accepted because they have been proven to influence Profit Management.

**Parameter Significance Test (t-test)**

**Table 10 t-test Result**

| Coefficients[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Unstandardized Coefficients | | Standardi zed Coefficients | T | Sig. |
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .058 | .041 | | 1.426 | .156 |
| | Institutional Ownership | -.010 | .021 | -.024 | -.457 | .648 |
| | Profitabilitas | .272 | .112 | .130 | 2.434 | .016 |
| | Leverage | -.059 | .036 | -.081 | -1.625 | .106 |
| | Free Cash Flow | -1.127 | .066 | -.787 | -17.027 | .000 |
| A. Dependent Variable: PROFIT MANAGEMENT | | | | | | |

Source: Data analysis 2025

1. Based on the results of the regression analysis above for the Institutional Ownership variable, the results show that the calculated t-value is -0.457 < t-table 1.9739 and sig-t 0.649 > 0.05. Thus, the First Hypothesis (H1), which states that Institutional Ownership has an effect on Profit Management, is not proven.
2. The results of the regression analysis for the Profitability variable show that the calculated t-value is 2.434 > the critical t-value of 1.9739 and the p-value is 0.016 <
3. 0.05. Therefore, the Second Hypothesis (H2), which states that Profitability has an effect on Profit Management, is supported.
4. The results of the regression analysis for the Leverage variable show that the t-value of -

1.625 is less than the critical t-value of 1.9739, and the p-value of 0.106 is greater than 0.05. Therefore, Hypothesis Three (H3), which states that Leverage has an effect on Profit Management, is not supported.

5. The results of the regression analysis for the Free Cash Flow variable show that the t-value is -17.027 < t-table 1.9739 and sig-t 0.000 < 0.05. Thus, the fourth hypothesis (H4), which states that Free Cash Flow has an effect on Profit Management, is proven.

**Multiple Regression Analysis**

**Table 11 Multiple Regression Analysis Results**

| Coefficients[a] | | | |
|---|---|---|---|
| Model | | Unstandardized Coefficients | |
| | | B | Std. Error |
| | (Constant) | .058 | .041 |
| | Institutional Ownership | -.010 | .021 |
| | Profitabilitas | .272 | .112 |
| | Leverage | -.059 | .036 |
| | Free Cash Flow | -1.127 | .066 |
| a. Dependent Variable: Earnings Management | | | |

Source: Data processed in 2025

Based on Table 11 above, the multiple linear regression equation can be formulated as follows:

$$Y = 0{,}058 + (-0{,}010)X1 + 0{,}272X2 + (-0{,}059)X3 + (-1{,}127)X4$$

1. The constant value is positive at 0.058, indicating that if institutional ownership, profitability, leverage, and free cash flow are considered constant or unchanged, the value of earnings management in the company will remain at 0.058.
2. The regression coefficient for the Institutional Ownership variable is positive at -
3. 0.010. This means that if the Institutional Ownership variable is considered constant, then the value of Earnings Management in the company increases by 0.010 for every increase in Institutional Ownership.
4. The regression coefficient for the Profitability variable is positive at 0.272. This means that if the Profitability variable is considered constant, the value of earnings management in the company decreases by 0.272 for every increase in Profitability.
5. The regression coefficient for the leverage variable is negative at -0.059. This means that if the leverage variable is considered constant, the value of profit management in the company decreases by 0.059 for every increase in leverage.
6. The regression coefficient for the Free Cash Flow variable is negative at -1.127. This means that if the Free Cash Flow variable is considered constant, the value of profit management in the company decreases by 1.127 for every increase in Free Cash Flow.

## DISCUSSION

### The Effect of Institutional Ownership on Earnings Management

Based on the regression analysis results, it was found that the Institutional Ownership variable had a significance value greater than 0.05, namely 0.648. This indicates that Institutional Ownership does not affect earnings management. Although institutions hold large shares, they may not always be actively involved in supervising company management. Some institutions may focus more on short-term performance than on supervising profit management in the long term, and institutions may also lack the resources to monitor and supervise profit management effectively.

This is inconsistent with Agency Theory, which states that the greater the institutional ownership, the smaller the agency conflict because oversight of managers is stronger.The results of this study are supported by the findings of Lavenia et al. (2023), who stated that institutional ownership does not influence earnings management.

**The Effect of Profitability on Earnings Management**

Based on the results of the regression analysis, it was found that the Profitability variable had a significance value of less than 0.05, namely 0.016. It can be concluded that political connections have an effect on earnings management. Companies with high profitability have an incentive to further increase profits through profit management, thereby meeting profit targets and enhancing the company's reputation. Companies with high profitability have greater flexibility in profit management, enabling them to use profit management to achieve desired profit targets.

This is consistent with Agency Theory, which states that management has the motivation to increase company profits to increase their bonuses or compensation. If a company's profitability is high, management has an incentive to maintain or increase those profits through profit management.

The results of this study are reinforced by the results of research conducted by Kumalasari (2021) based on the results of her testing, which found that profitability has a positive effect on profit management.

**The Effect of Leverage on Profit Management**

Based on the results of the regression analysis, it was found that the Leverage variable had a significance value greater than 0.05, namely 0.106. This indicates that Leverage does not affect profit management. Companies with high leverage have high debt costs, so they focus more on reducing costs and improving efficiency rather than engaging in profit management. They also have limited flexibility in profit management because they must meet significant debt obligations.

This is not in line with Agency Theory, which states that management (agents) may have different interests from shareholders (principals). However, if management has no incentive to engage in earnings management, then leverage has no effect on earnings management. The results of this study are reinforced by research by Kurnia Cahya Lestari (2019), which states that leverage has no effect on earnings management.

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

Based on the results of the regression analysis, it was found that the Free Cash Flow variable had a significance value of less than 0.05, namely 0.000. The greater the free cash flow, the lower the ability to develop future investments because funds are tied up in cash. Companies with large FCF use these resources for opportunistic purposes, such as profit management to enhance the company's reputation or attract investors. Previous research has shown that companies with large FCF are more likely to engage in profit management, especially if they have incentives to increase profits to enhance management compensation or maintain their position.

This aligns with Agency Theory, which states that if a company has a large free cash flow, management may have incentives to engage in profit management for their personal benefit rather than for the benefit of shareholders.

The findings of this study are supported by Fitri (2017), who found that free cash flow significantly influences profit management, as free cash flow is an important determinant in determining a company's value.

**The Effect of Institutional Ownership, Profitability, Leverage, and Free Cash Flow on Earnings Management**

Based on the regression analysis results, the calculated F value was 74.768 with a significance level of 0.000 or less than 0.05. This means that institutional ownership, profitability, leverage, and free cash flow simultaneously have a significant effect on the dependent variable, namely earnings management.

This aligns with Agency Theory, which states that institutional ownership, profitability, leverage, and free cash flow are simultaneously related to earnings management through conflicts of interest in agency theory. Managers may engage in profit management due to pressure from profitability, leverage, and free cash flow, but institutional ownership acts as a control mechanism that can minimize managers' opportunistic behavior.

## CONCLUSION

Based on the above discussion, the following conclusions can be drawn:

1. Institutional ownership has no effect on earnings management in banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023.
2. Profitability affects profit management in banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023.
3. Leverage does not affect profit management in banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023.
4. Free cash flow affects profit management in banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023.
5. Concurrently, the independent variables, namely institutional ownership, profitability, leverage, and free cash flow, affect profit management in banking companies listed on the Indonesia Stock Exchange (IDX) from 2018 to 2023.

### RECOMMENDATIONS

1. Companies should pay close attention to free cash flow (FCF) management, as high FCF can increase the likelihood of earnings management. Companies should also pay attention to profitability, as high profitability can increase the likelihood of earnings management.
2. For investors, it is recommended to consider a company's FCF and profitability before making investment decisions, as these two variables can influence earnings management. Investors should also pay attention to the quality of the company's financial statements and conduct a more in-depth analysis to detect the possibility of earnings management.
3. Future research should consider other variables that can influence earnings management, such as ownership structure, audit quality, and company characteristics, as well as use more accurate measurement methods to detect earnings management and improve the validity of research results.

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