Free Cash Flow, Earnings Management, Financial Performance: The Moderating Role of Institutional Ownership

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ABSTRACT

Financial performance reflects a firm’s ability to generate sustainable value and maintain operational stability. Prior studies suggest that free cash flow and earnings management are important factors influencing financial performance. Free cash flow positively influences financial performance. (Chairunnisa & Lestari, 2024), whereas other studies find no significant effect (Crecentia & Ardiansyah, 2020). Similarly, earnings management has been found to positively affect financial performance (Rosmery et al., 2023), while other evidence indicates a negative and significant relationship (Chofifah & Parasetya, 2024). To address the conflicting empirical results, institutional ownership is positioned as a moderating variable in the proposed model. Institutional ownership is positioned as a governance mechanism expected to discipline managerial opportunism and affect how free cash flow and earnings management relate to financial performance. This research is based on Agency Theory developed by Jensen and Meckling (1976), which highlights conflicts of interest between managers and shareholders due to information asymmetry. Within this framework, free cash flow and earnings management may reflect potential agency conflicts that affect corporate performance.

JEL Codes:

Keywords: *earnings management, financial performance, firm size, free cash flow, institutional ownership, leverage*