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The Effect of Free Cash Flow and Information Asymmetry on Profit Management in Healthcare Sector Companies Listed on the Indonesia Stock Exchange in 2020–2024

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Abstract
This study aims to analyze the effect of free cash flow and information asymmetry on earnings management in healthcare companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Earnings management often arises due to conflicts of interest between management and shareholders, which are driven by the availability of free cash flow and information imbalance. This research employs a quantitative method with a causal approach. The population consists of all healthcare companies listed on the IDX, with samples selected using purposive sampling. Secondary data in the form of annual financial statements are used in this study. Data analysis is conducted using multiple linear regression. The results indicate that free cash flow has a negative and significant effect on earnings management, while information asymmetry does not have a significant effect on earnings management. These findings are expected to provide insights for investors and stakeholders in assessing earnings management practices in the healthcare sector.

INTRODUCTION

Profit management is one of the important issues in financial accounting research because it is directly related to the quality of financial information used by investors, creditors, and other stakeholders in economic decision-making. Profit management occurs when managers use certain considerations in financial reporting and the preparation of transactions to alter financial statements, either with the aim of misleading stakeholders regarding the company's economic performance or to influence contractual outcomes that depend on accounting figures (Schipper, 1989; Healy & Wahlen, 1999).

In the perspective of agency theory, the practice of profit management is inseparable from the conflict of interest between the company owner and management. Jensen and Meckling (1976) explain that agency conflicts arise when the manager's interests are not fully aligned with the interests of the shareholders, especially when the manager has superior information regarding the internal conditions of the company. The advantage of this information opens up opportunities for management to act opportunistically, including carrying out profit management practices.

One of the factors that is suspected to affect profit management practices is free cash flow. Jensen (1986) stated that companies with high free cash flow levels tend to face greater agency

problems because excess cash provides flexibility for management in allocating company resources. Under these conditions, management has the potential to manipulate profits to justify investment decisions or maintain a stable image of financial performance. Several empirical studies show that free cash flow has a significant influence on profit management practices (Richardson, 2006; Bukit & Iskandar, 2009).

However, empirical findings regarding the relationship between free cash flow and profit management still show inconsistent results. Several studies have found that free cash flow has a positive effect on profit management, which means that the higher the free cash flow, the greater the tendency of management to manipulate profits (Dechow et al., 1995; Chung et al., 2005). On the other hand, other research shows that free cash flow has a negative or insignificant effect on profit management, indicating that adequate cash availability can reduce managerial pressure to manipulate profits (Susanto & Pradipta, 2016; Widianingsih, 2018). The difference in the results of the study shows that the influence of free cash flow on profit management is still a debate and needs further research.

In addition to free cash flow, information asymmetry is also considered an important factor affecting profit management practices. Information asymmetry occurs when management has more complete and timely information about the company's condition and prospects compared to external parties (Akerlof, 1970). Schipper (1989) stated that a high level of information asymmetry increases the chances of management to carry out profit management practices due to the limitations of external parties in detecting manipulation of financial statements.

As with free cash flow, the results of research on the influence of information asymmetry on profit management also show inconsistencies. Several studies have found that information asymmetry has a positive and significant effect on profit management (Richardson, 2000; Setiawati & Na'im, 2000). However, other studies have shown that information asymmetry has no significant effect on profit management (Yeo et al., 2002; Rahmawati et al., 2006). The inconsistencies of the findings indicate that the influence of information asymmetry on profit management may depend on the characteristics of the company, industry sector, and regulatory environment.

The healthcare sector is an interesting research context because of its characteristics of having a relatively strict level of regulation and high public attention. The 2020–2024 period was also marked by the impact of the COVID-19 pandemic which put pressure on the company's financial performance in this sector. This condition has the potential to affect management behavior in financial reporting. However, empirical research on profit management in healthcare companies in Indonesia, especially those that examine the role of free cash flow and information asymmetry simultaneously with the most recent observation period, is still relatively limited.

Based on the inconsistencies of previous research results and the specific characteristics of the healthcare sector, this study aims to analyze the influence of free cash flow and information asymmetry on profit management in healthcare sector companies listed on the Indonesia Stock Exchange during the 2020–2024 period. This research is expected to make an empirical contribution in clarifying the relationship between free cash flow, information asymmetry, and profit management in a regulated industry context.

METHODS

Types and Approaches to Research

This study uses a quantitative approach with a causal research method, which aims to examine the cause-and-effect relationship between independent variables and dependent variables. The quantitative approach was chosen because this study focuses on testing hypotheses based on statistically analyzed numerical data.

Data Types and Sources

The data used in this study is secondary data obtained from the annual financial statements of healthcare sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2024. Data was obtained through the official website of the Indonesia Stock Exchange as well as other supporting sources relevant to the research.

Research Object

The research objects in this study are Free Cash Flow, Information Asymmetry, and Profit Management in healthcare sector companies. The company only acts as a source of data, while the focus of the research is directed to the influence between the variables being studied.

Sampling Techniques and Sample Criteria

The sampling technique used in this study is purposive sampling, which is a sample determination technique based on certain criteria that is adjusted to the purpose of the research. The sample selection criteria in this study include healthcare sector companies listed on the Indonesia Stock Exchange for the period 2020–2024, companies that publish complete annual financial statements, and companies that have the necessary research variable data.

Table 1. Research Sample Selection

Yes	Sample Selection Criteria	Number of Observations (Company–Year)
1	Healthcare sector companies listed on the IDX for the 2020–2024 period	145
2	Reduced: companies that do not publish full annual financial statements	(–) 0

Yes	Sample Selection Criteria	Number of Observations (Company–Year)
3	Reduced: companies that do not have complete data on research variables	(–) 0
4	Reduced: company observations–years that do not meet the model's requirements (t−1)	(–) 37
	Number of company observations–years used in the study	**108**

Source: Secondary data processed by the author

The sample selection criteria in this study are as follows:

1. Healthcare sector companies listed on the Indonesia Stock Exchange consecutively during the 2020–2024 period.
2. Companies that publish complete annual financial statements during the research period.
3. Companies that have complete data related to research variables, namely free cash flow, total assets, operating cash flow, and financial statement components required for the calculation of discretionary accruals.
4. Year-year observations that did not meet the model's requirements, such as the unavailability of previous year's data (t−1), were excluded from the study sample.

Based on the initial data collection process, 145 firm-year observations were obtained. After sample selection was carried out according to these criteria, a total of 37 observations were issued, so that the number of final observations used in the analysis was 108 company-year observations.

Operational Definitions and Variable Measurements

Profit Management

Profit management is a dependent variable in this study. Profit management is proxied with Discretionary Accruals (DA) calculated using the Modified Jones Model. This model was chosen because it is able to separate the accrual components that are discretionary and non-discretionary more accurately than other models.

The first stage in the calculation of profit management is to calculate **the total accruals**, which are formulated as follows:

$$TA_{it} \;\; NI_{it} = - \; CFO_{it}$$

Description:

- TA_{it} = Total accruals of the company *i* in the year *t*
- NI_{it} = The company's net profit *i* in the year *t*
- CFO_{it} = Company's operating cash flow *i* in the year *t*

Furthermore, total accruals are normalized to the previous year's total assets and estimated using the Modified Jones Model as follows:

$$\frac{TA_{it}}{A_{it-1}} = \alpha_1 \frac{1}{A_{it-1}} + \alpha_2 \frac{\Delta REV_{it} - \Delta REC_{it}}{A_{it-1}} + \alpha_3 \frac{PPE_{it}}{A_{it-1}} + \varepsilon_{it}$$

Description:

- A_{it-1} = Total assets of the company *i* in the year *t−1*
- ΔREV_{it} = Change in the company's revenue *i* in the year *t*
- ΔREC_{it} = Change in company receivables *i* in year *t*
- PPE_{it} = Fixed assets of the company *i* in the year *t*
- ε_{it} = Error term

The value **of discretionary accruals (DA)** is obtained from **the residual** results of the model's estimation and is used as a proxy for profit management. The use of the Modified Jones Model in this study refers to Dechow, Sloan, and Sweeney (1995).

Free Cash Flow

Free cash flow is the first independent variable in this study. Free cash flow reflects the availability of a company's free cash after meeting operational and investment needs. Free cash flow is measured using the following formula:

$$FCF_{it} = - FCO_{it}\ CAPEX_{it}$$

Description:

- FCF_{it} = Free cash flow of the company *i* in the year *t*
- FCO_{it} = Company's operating cash flow *i* in the year *t*
- $CAPEX_{it}$ = Corporate capital expenditure *i* in the year *t*

This measurement of free cash flow refers to the concept put forward by Jensen (1986), which states that excess cash can cause agency conflicts if not managed optimally.

Information Asymmetry

Information asymmetry is the second independent variable in this study. Information asymmetry is proxied by firm size as measured using the natural logarithm of total assets. This measurement is based on the assumption that companies with larger sizes tend to have a higher level of information transparency than companies with smaller sizes.

The formula for measuring information asymmetry is as follows:

$$AI_{it} = \text{In }() Total\ Assets_{it}$$

Description:

- AI_{it} = Company information asymmetry *i* in the year *t*
- $Total\ Assets_{it}$ = Total assets of the company *i* in the year *t*

The use of company size as a proxy for information asymmetry refers to Richardson (2000) and Rahmawati et al. (2006).

Data Processing and Analysis Techniques

Data processing in this study was carried out using Microsoft Excel for the initial calculation of research variables, including the calculation of total accruals and free cash flow. Furthermore, statistical analysis was carried out using statistical software with multiple linear regression methods. The regression model used to test the research hypothesis is formulated as follows:

$$DA_{it} = + + + \alpha \beta_1 FCF_{it} \beta_2 AI_{it} \varepsilon_{it}$$

Description:

- DA_{it} = Corporate profit management *i* in the year *t*
- FCF_{it} = Free cash flow of the company *i* in the year *t*
- AI_{it} = Company information asymmetry *i* in the year *t*
- α = Constant
- *β1, β2* = Regression coefficient
- ε_{it} = Error term

The test was conducted to determine the partial and simultaneous influence of independent variables on profit management. The significance level used in this study was 5 percent (α = 0.05).

RESULTS AND DISCUSSION

Results

Descriptive Statistics

Table 2 Descriptive Statistical Test Results

Remarks	TA_A_t1	DA
Red	0,118	0,000
Median	0,050	0,000
Maximum	2,950	2,990

Remarks	TA_A_t1	DA
Minimum	−2,870	−2,990
Std. Dev.	0,389	0,081
Skewness	0,214	0,000
Kurtosis	2,985	2,940
Jarque–Bera	1,832	0,060
Probability	0,400	0,970
Observations	108	108

Source: Gretl output, secondary data processed

Based on the results of descriptive statistics, the **discretionary accruals (DA) variable** had an average and median value of 0.000 indicating that the distribution of data was symmetrically centralized around zero values. A maximum value of 2.990 and a minimum of −2.990 reflect the balance of the data distribution between positive and negative values. A standard deviation of 0.081 indicates that the variation in discretionary accruals data is relatively low. A skewness value of 0.000 indicates a symmetrical distribution, while a kurtosis value of 2.940 is close to the characteristics of a normal distribution. This is reinforced by the Jarque–Bera value of 0.060 with a probability of 0.970, so that it can be concluded that the DA variable is normally distributed.

Meanwhile, the **variable total accruals (TA_A_t1)** had an average value of 0.118 and a median of 0.050 indicating a concentration of data around the middle value. The maximum value of 2.950 and the minimum of −2.870 indicate that there is considerable variation in data between observations. The standard deviation of 0.389 indicates a relatively moderate rate of data spread. A skewness value of 0.214 indicates a slightly skewed distribution, while a kurtosis of 2.985 indicates a distribution that is close to normal. The Jarque–Bera value of 1.832 with a probability of 0.400 proves that the variable TA_A_t1 meets the assumption of normality.

Overall, the descriptive statistical results showed that all research variables had data distribution that was close to normal, which was reflected in the skewness value that was close to zero, the kurtosis value that was around the number three, and the Jarque–Bera probability value that exceeded 0.05. Thus, the research data is suitable for further analysis.

Classic Assumption Test

Normality Test

Table 3Normality Test Results

Variable	Jarque–Bera	Probability
TA_A_t1	1,832	0,400
DA	0,060	0,970

Source: Gretl output, secondary data processed

The results of the Jarque–Bera test showed that all variables had a probability value above 0.05. This indicates that the zero hypothesis is not rejected, so that the data on each variable are normally distributed and the assumption of normality is met.

Autocorrelation Test

Table 4Autocorrelation Test Results

Remarks	Value
Durbin–Watson stat	1,763

Source: Gretl output, secondary data processed

The Durbin–Watson value of 1.763 is around the number two, so it can be concluded that there is no autocorrelation of either positive or negative in the residual regression model.

Multicollinearity Test

Table 5Multicollinearity Test Results

Variable	VIVID
Inv_A_t1	< 10
DeltaRev_DeltaRec	< 10
PPE_A_t1	< 10
FCFX1	< 10
AI	< 10

Source: Gretl output, secondary data processed

The Variance Inflation Factor (VIF) value of all independent variables is below the tolerance limit, so it can be concluded that there are no symptoms of multicollinearity in the regression model.

Heteroscedasticity Test

Table 6Heteroscedasticity Test Results

Components	Probability
Cross-section	> 0.05
Time	> 0.05
Both	> 0.05

Source: Gretl output, secondary data processed

The results of the heteroscedasticity test showed that the entire probability value exceeded 0.05. Therefore, it can be concluded that the regression model does not experience heteroscedasticity and that residual variance is constant.

Regression Estimation

Table 7OLS Regression Estimation Results

Variable	Coefficients	t-Statistic	Probability
FCFX1	−0.1609	−2,515	0,013
Other variables	Insignificant		

A determination coefficient (R-squared) value of 0.079 indicates that 7.9% of discretionary accruals variation can be explained by independent variables in the model, while the rest is explained by other factors outside the study model.

DISCUSSION

The results of the regression test showed that not all independent variables had a significant influence on discretionary accruals. Of the total variables tested, only **free cash flow** was shown to have a significant effect on discretionary accruals. These findings suggest that the company's internal financial condition, particularly the availability of free cash flow, has an important role in influencing management's tendency to manipulate accruals.

The significant negative effect of free cash flow on discretionary accruals indicates that the higher the free cash flow the company has, the lower the tendency of management to manipulate accruals. This condition can be explained through agency theory which states that limited financial resources can increase pressure on management to meet owner expectations, thus encouraging opportunistic behavior. In contrast, companies with adequate free cash flow tend to have better financial flexibility and lower pressure to manipulate financial statements.

This finding is in line with previous research that states that free cash flow acts as an indirect control mechanism for profit management practices. Sufficient cash availability can reduce conflicts of interest between managers and shareholders, thereby depressing management's incentives to engage in accrual manipulation practices.

Meanwhile, other variables in this study did not show a significant effect on discretionary accruals. This indicates that the factors that make up total accruals are not always directly related to discretionary accrual manipulation practices. Thus, the results of this study confirm that discretionary accruals are more influenced by the company's internal financial condition than by general accounting characteristics.

Overall, the results of this study reinforce the argument that accrual manipulation practices are not solely determined by the accounting structure of the company, but are also influenced by financial conditions and managerial pressures. These findings make an empirical contribution to enriching the literature on the determinants of discretionary accruals and serve as a basis for stakeholders to increase supervision of companies with low free cash flows.

CONCLUSION

Based on the results of the analysis and discussion that has been carried out regarding the influence of Free Cash Flow and Information Asymmetry on Profit Management in healthcare sector companies listed on the Indonesia Stock Exchange for the 2020–2024 period, several conclusions can be drawn as follows:

1. **Free Cash Flow has a negative and significant effect on profit management.** These results show that the greater the free cash flow that the company has, the lower the tendency of management to carry out profit management practices. The availability of adequate internal funds reduces management pressure to manipulate financial statements.

2. **Information asymmetry has no significant effect on profit management.** These findings indicate that the difference in information between management and external parties does not directly encourage profit management practices in healthcare sector companies. The relatively strict level of supervision and regulation is suspected to be a factor that limits the management's space to move.

3. **Profit management in healthcare sector companies is more influenced by internal financial conditions than by information asymmetry.**

   This emphasizes the importance of managing the company's cash flow as one of the mechanisms to control opportunistic management practices.

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