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The Effect of Cash Flow on Financial Distress through Profit Management (Study on State-Owned Companies)

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ABSTRACT

Companies that experience financial stress often face a decline in the ability to generate cash flow. In this condition, management sometimes conducts profit management to improve the company's performance, which can affect the relationship between cash flow and the potential for financial distress. This study aims to examine the role of profit management as a variable that mediates the influence of operating cash flow and free cash flow on financial distress. The research used was qualitative with a comparative causal approach. State-owned companies listed on the IDX are used as research populations for the 2020-2023 period. The samples used amounted to 8 companies, then by using *purposive sampling* 32 samples were obtained that were ready to be observed. The research uses secondary data obtained from the annual financial statements of State-Owned Enterprises (SOEs) available through the official website of the Indonesia Stock Exchange. The findings of the study indicate that there is a direct influence of *operating cash flow* and *free cash flow* on *financial distress*. In addition, through profit management (intervening variables) there is an indirect influence between independent and dependent variables.

1. INTRODUCTION

The bankruptcy of a company in the business world often occurs, one of the reasons is financial distress. The financial distress faced by the company is a result of the company's inability to manage and maintain the stability of its financial performance. The company is said to be in a situation of financial distress when, experiencing financial pressure so that it is difficult to fulfill its obligations at the end of the payment period that has been given (Putri & Djuminah, 2017; Venusita & Wijayanti, 2019). The losses incurred by the company have implications for capital deficiency, caused by a decrease in retained earnings that should be allocated for dividend payments, thus having an impact on the overall decline in total equity (Fitiati et al., 2016). Financial distress terjadi ketika banyaknya perusahaan yang mengalami delisted. According to Platt (2002) in the (Fatmawati & Wahidahwati, 2017). Financial distress is an initial phase that reflects the situation of financial difficulties faced before the company reaches the point of bankruptcy. Side effects of financial distress are bankruptcy, failure or inability to pay debts. Financial problems faced by companies also have an impact on stakeholders and shareholders, not just the company. Therefore, it is important for investors to assess management performance by further analyzing the components in the financial statements. Among the available components are cash flow statements, in this case operating cash flow and free cash flow.

Operating cash flow is generated from normal business operations activities received by the company in the form of cash. Financial distress caused by high and low operating cash flow (Mas'ud. & Srengga, 2012). Studies developed by Fatmawati & Wahidahwati (2017), the result is that the operating cash flow variable has an influence on the financial distress variable, because investors tend to be interested in investing their money in companies with good operating cash flow so that the company can easily get funds to finance its operations. Research conducted Aminah (2015); Djongkang & Rita (2014), shows conflicting results where operating cash flow does not affect financial distress conditions. In addition to operating cash flow, another component of the cash flow statement that can help an investor to assess management performance is free cash flow.

The rest of the excess cash flow at the end of the financial period, after the company has fulfilled its payroll obligations, tax bills, and others is classified as free cash flow (Utami & Meiranto, 2017). In simple terms, free cash flow is the cash left in the company after the repayment or payment of all operating costs including paying dividends, and can also be used to make new investments. Research conducted by Johanna & Putri (2022), stated that free cash flow in the study showed an influence on the occurrence of financial disters. Meanwhile, another study developed by Christy & Natalylova (2023), found different results, where the free cash flow variable did not show any influence on the occurrence of financial disterss.

Conducting an analysis or prediction of a company's financial condition before making an investment is essential. Management, especially whose performance measures are judged from profit information, is aware of the tendency of investors and creditors to pay attention to profits, so that there is motivation for managers to make improvements or manage profits known as profit management practices (Nazalia & Triyanto, 2018). According to Healy & Wahlen (1999) in the Bukit & Nasution (2015), The power to manipulate profits in financial statements is owned by a manager, this is done to disguise the real condition of the company so that the readers of the financial statements will be deceived.

Based on previous research conducted Hanafie et al. (2022), Identifying the influence of earning management on financial distress, that profit management practices that are carried out repeatedly can reduce the quality and relevance of financial information, thereby reducing its usefulness for investors as a basis for decision-making. Based on agency theory, managers may undertake profit management to achieve short-term targets, which are often not sustainable in the long term. This can trigger financial distress because the practice often masks fundamental issues that eventually arise when the company is no longer able to maintain its reported profit performance.

Previous research has tested several factors that affect the occurrence of financial distress. Several previous studies have also tested the influence of cash flow (operating cash flow and free cash flow) on financial dissertations, but the results were found to be inconsistent. It was found that research gaps between research results that used the same variables, so that researchers were encouraged to conduct research by adding profit management variables as intervening variables. In addition, the use of intervening variables in this study aims to explain the indirect mechanism between operating cash flow and free cash flow to financial distress, considering the role of profit management. This is based on agency theory and previous empirical findings that suggest that cash flow can prompt management to modify financial statements, ultimately impacting the company's financial condition.

The research focuses on SOEs because these companies have a fairly important role in the national economy, but it is not uncommon for SOEs to experience financial difficulties that can lead to financial distress. This condition can result in considerable losses for stakeholders, especially the government as shareholders, therefore this study is entitled "The Effect of Operating Cash Flow and Free Cash Flow on Financial Distress with Profit Management as an Intervening Variable (Study on SOEs on the IDX from 2020-2023)".

2. RESEARCH METHODS

Operational Definition

Table 1. Operational Definition

Variabel	Variable Name	Rumus	Source
Dependen	Financial Distress	$\mathbf{Z = 6{,}56\ X^1 + 3{,}26\ X^2 + 6{,}72X^3 + 1{,}05\ X^4}$	Modified Altman Z-Score Model
Independen	Operating Cash Flow	**Rasio *Operating cash flow*** $= \frac{\text{Operating Cash Flow}}{Kewajiban\ Lancar}$	Hery (2017)
	Free Cash Flow	***Free cash flow = Operating cash flow – Capital Expenditure***	(Pangesti & Chusnah, 2023)
Intervening	Profit Management	Determining the value *of Total Accruals* (TA) **TAt = NIt – CFOt**	Handayani (2014)

		Total accruals are measured using the OLS (*Ordinary Least Squares*) regression approach to produce an overall estimate of the accrual value. $\frac{TA_t}{A_{t-1}} = \beta_1 \frac{1}{A_{t-1}} + \beta_2 \frac{\Delta REV_t}{A_{t-1}} + \beta_3 \frac{PPE_t}{A_{t-1}} + \varepsilon$ Calculating the value *of non-discretionary assets* (NDAs) $NDA_t = \beta_1 \frac{1}{A_{t-1}} + \beta_2 \frac{\Delta REV_t}{A_{t-1}} - \frac{\Delta REC_t}{A_{t-1}} + \beta_3 \frac{PPE_t}{A_{t-1}}$ Calculating the value *of discretionary accruals* (DA) $DA_t = \frac{TA_t}{A_{t-1}} - NDA_t$	

Source: Research Data (2025)

Types and Locations of Research

The type of research conducted is quantitative research, where the purpose of quantitative research is to test the hypothesis that has been formulated. The location chosen by the study is a state-owned company listed on the IDX

Research Approach

The research approach is a comparative causal approach, which is a type of research where the researcher will find out about the causal relationship between free and bound variables.

Population and Sample

The population for this study is state-owned companies listed on the IDX. Where the population itself is all objects that will be researched by researchers. As for the sample of this study, the number of population included in the sample criteria determined by the researcher. Where the researcher uses the purposive sampling method. The number of research samples is 8 companies with 32 data that can be analyzed.

Data Types and Sources

The researcher used secondary data, by taking the data source using financial statements, and annual reports on sample companies.

Data Processing Techniques

Data processing and analysis techniques in the study using *Structure Equation Modeling* (SEM) are one of the analysis techniques used to conduct testing and

causal relationships by integrating path analysis and factor analysis. Experts say that there are two types of *Structure Equation Modeling* (SEM), namely *Comvariance Base Structure Equation Modeling* (CBSEM) and *Partial Least Square Path Modeling* (PLS).

The data processing technique applied in this study uses PLS (*Partial Least Square*) with the SEM (*Structural Equation Modeling*) method which is applied through two stages to assess the FIT Model of a study (Hamid & Anwar, 2019). *Partial Least Square Path Modeling* (PLS) (Hamid & Anwar, 2019) (Hamid & Anwar, 2019)*software Smart*PLS4.

Data analysis techniques using SmartPLS have several criteria used to assess the outer model or *measurement* model, namely: *convergent validity, discriminant validity,* and *consistency reliability* (Hair, 2010).

Hypothesis testing was carried out using *the Bootsrap resampling* method developed by Geisser & Stone. The application of the *resampling* method allows for freely distributed data and does not require normal distribution assumptions, and does not require a large sample (minimum sample of 30 is recommended). The basis used in hypothesis testing is the values found on *the output path coefficients*.

3. RESULTS AND DISCUSSION

a. Testing Data Quality Through Outer Model Assessment (*Measurement Model*)

Convergent validity

The initial step taken is a measurement that functions to find out the extent to which the size correlates positively with the alternative size in the same construct. The assessment can be carried out using the processed data through the loading factor. According to (Hamid & Anwar, 2019) To conduct research at the initial stage, the development of a loading value measurement scale of 0.70. After setting a loading factor limit of 0.70, an analysis of the data that has been processed using SmartPLS can be seen as follows.

Table 2. Results Data *Outer loading* (*Measurement Model*)

	Financial Distress	Free Cash Flow	Profit Management	Operating Cash flow
X1				1.000
X2		1.000		
Y	1.000			
Z			1.000	

Source: SmartPLS4 output (2025)

Based on table 2. It can be seen that the results of several indicators meet the significance value requirements of 7% and the indicators have a loading factor value above 0.70. Thus, the construct is said to be valid and has met the validity requirements because *the loading factor is* above 0.7.

This study uses one indicator (*single-item construct)* for each variable. According to Hair et al., (2017), There is no need to thoroughly test *the outer model* , as there is only one indicator that represents the construct.

Structural Model Testing (*Inner Model*)

Testing of research data using Structural Model (*Inner Model*) was carried out to determine the relationship between constructs, significance values and *R-square* and research models. This model will be evaluated using *R-square* for dependent constructs. T test and significance of the coefficient of structural path parameters. The use of the research model assessment process using the PLS method begins with looking *at the R-square* for each dependent latent variable. The following table is the result of *the R-square* estimation using the PLS method.

Table 3. *R-Square Results Data*

	R-square
Financial Distress	0.544
Profit Management	0.379

Source: SmartPLS4 output (2025)

Table 3. shows the *R-Square* value for *financial distress* obtained a value of 0.544. These results show that 54.4% of *financial distress* variables can be influenced by *operating cash flow, free cash flow,* and profit management, while 45.6% are influenced by other variables outside of the study. Meanwhile, profit management obtained a value of 0.379. These results show that 37.9% of profit management variables can be influenced by *operating cash flow* and *free cash flow*, while 62.1% are influenced by other variables outside of the study.

Testing hypothesis

Table 4. Hypothesis Testing Results Data

	Original sample (O)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values	Hipotesis
Operating Cash Flow -> Profit Management	-0.304	0.152	2.000	0.046	**Accepted**
Free Cash Flow -> Profit Management	0.422	0.211	2.000	0.046	**Accepted**
Operating Cash Flow -> Financial Distress	-0.189	0.024	7.875	0.000	**Accepted**
Free Cash Flow -> Financial Distress	-0.164	0.078	2.103	0.036	**Accepted**
Profit Management -> Financial Distress	0.231	0.105	2.200	0.028	**Accepted**
Operating Cash Flow -> Profit Management -> Financial Distress	-0.121	0.059	2.050	0.040	**Accepted**

Free Cash Flow -> Profit Management -> Financial Distress	0.087	0.043	2.010	0.045	**Accepted**

Source: SmartPLS4 data processing, 2025

Based on table 4. test results using the SEM-PLS method, it was obtained that:

1. *Operating Cash Flow* has a significant negative effect on Profit Management, with a coefficient of -0.304 and *a p-value* of 0.046. This means that the larger the company's operating cash flow, the lower the tendency of management to carry out profit management practices. Therefore, **H1 is accepted.**
2. *Free Cash Flow* has a significant positive effect on Profit Management, with a coefficient value of 0.422 and *a p-value* of 0.046. This indicates that the larger the free cash flow that management has, the greater the opportunity for profit management practices in the preparation of financial statements. H2 **is therefore accepted**.
3. *Operating Cash Flow* had a significant negative effect on *Financial Distress* with a coefficient value of -0.189 and a significance value (*p-value*) of 0.000 (< 0.05). This shows that the greater the operating cash flow that a company generates, the lower the likelihood that the company will experience financial difficulties. Therefore, **H3 is accepted.**
4. *Free Cash Flow* has a significant negative effect on *Financial Distress* with a coefficient of -0.164 and *a p-value* of 0.036. This indicates that companies that have large *free cash flows*, tend to have a lower risk *of financial distress*. Therefore, **H4 was accepted**.
5. Profit Management has a significant positive effect on *Financial Distress*, as shown by a coefficient of 0.231 and *a p-value* of 0.028. This means that the profit management practices carried out can actually increase the likelihood of companies experiencing *financial distress*. Therefore, **H5 is accepted.**
6. The results of the indirect influence test showed that *Operating Cash Flow* had a significant negative effect on *Financial Distress* through Profit Management, with an influence value of -0.121 and a p-value of 0.040. This means that *operating cash flow* can indirectly reduce the risk of *financial distress* by suppressing profit management practices. Therefore, **H6 was accepted.**
7. *Free Cash Flow* has a significant positive effect on *Financial Distress* through Profit Management, with a coefficient value of 0.087 and a p-value of 0.045. This shows that *free cash flow* can encourage profit management which then has an impact on increasing the potential for financial distress of the company. Therefore, **H7 is accepted.**

b. Discussion

Operating cash flow has a significant negative effect on profit management

The first hypothesis of the study shows that *operating cash flow* has a significant negative influence on profit management, so the H1 hypothesis is acceptable. The findings indicate that the high cash flow from operating activities has a low potential to encourage management to carry out profit management practices to disguise the company's financial condition to appear in accordance with the expected targets. In the context of this study, high *operating cash flow* in financial statements is seen as a good sign for management. This happens because management considers high *operating cash flow* as a sign that the company has sufficient *financial* ability to finance its operational activities.

This research is not in line with the theory of agency, where management does not always manipulate accounting for personal interests (Aburisheh et al., 2022). Manipulation is carried out mainly in situations where the company's financial condition is not healthy, so that financial statements can be made to appear better than the actual situation (Hetami & Wahyudi, 2021).

This research is in line with the findings of the Gumanti (2014); Jang & Kim (2017); Sibarani et al. (2015). However, the results obtained are not entirely consistent with the study conducted by Satyawati (2007).

Free cash flow has a significant positive effect on profit management

The second hypothesis shows that *free cash flow* has a significant positive effect on profit management, so the H2 hypothesis is acceptable. The findings of the study indicate that the large *amount of free cash flow* owned by the company has the potential to be one of the driving factors for management to carry out profit management practices. In the context of this study, *free cash flow* is considered a financial component that provides flexibility for management in making decisions on the use of funds, including decisions that are not always in the interests of shareholders (Watriani & Serly, 2021).

In the context of agency theory, the phenomenon that occurs can be explained as a form of conflict of interest between the manager (*agent*) and the owner of the company (*principal*). Managers, who have the advantage of being informed about the company's internal conditions, can abuse the position by leveraging *free cash flow* for personal purposes, such as earning additional compensation or maintaining a reputation for performance (Watriani & Serly, 2021). Such information inequality allows managers to make less productive investments and disguises the actual performance of the company through profit management practices (Li et al., 2020).

The findings are consistent with the research conducted by Hastuti et al. (2018); Irawan & Apriwenni (2021). However, these results are contrary to the findings Pangesti & Chusnah (2023). These differences in results reflect that the relationship between *free cash flow* and profit management may vary depending on the company's internal conditions and the effectiveness of the governance mechanisms implemented.

Operating cash flow has a significant negative effect on *financial distress*

The third hypothesis shows that *operating cash flow* has a significant negative effect on *financial distress*, so the H3 hypothesis is acceptable. These findings show that the higher the cash flow from the company's operating activities, the less likely the company is to experience serious financial pressure. *Strong operating cash flow* reflects the company's ability to generate funds from its core activities, which can be used to meet short-term obligations such as debt repayment, dividend payments, and maintain operational continuity (Ramadhani & Khairunnisa, 2019). On the other hand, when the company experiences a continuous decline *in operating cash flow* and is not accompanied

by an effective recovery strategy, the risk of *financial distress* will increase. Therefore, the level of health *of operating cash flow* can be used as an initial indicator to identify potential financial crises in the company (Amarilla et al., 2018).

In the context of *signaling theory*, *operating cash flow* plays an important role as an external signal that reflects the company's financial condition. A company that is able to maintain *a stable and positive operating cash flow* will give a positive signal to investors, creditors, and other stakeholders that the company is in a healthy financial condition and has a low risk of *financial distress* (Setiawan et al., 2017). Conversely, fluctuating or negative *operating cash flow* can give rise to market perception that the company is experiencing financial difficulties or has an unstable performance outlook.

The results of the study are in line with the findings of the Amarilla et al. (2018); Fatmawati & Wahidahwati (2017); Setiawan et al. (2017). However, these findings are contrary to the results of a study conducted by Aminah (2015); Djongkang & Rita (2014), These differences in results suggest that other factors such as industry, company size, and financial management strategies may influence the relationship.

Free cash flow* has a significant negative effect on *financial distress

The fourth hypothesis shows that *free cash flow* has a negative effect on *financial distress*, so the H4 hypothesis is accepted. The findings show that the greater *the free cash flow* a company has, the lower the potential for the company to experience financial pressure. *Free cash flow* represents a company's ability to generate funds after meeting working capital and investment needs, which can then be used for various strategic purposes such as expansion, debt payments, or dividend distribution. (Meryana et el., 2021). Thus, *free cash flow* is one of the indicators of the company's internal strength in maintaining its financial stability. On the other hand, if the company has a low *free cash flow* value and this condition continues in a sustainable manner, then the company is at high risk of experiencing *financial distress*. This reflects the limited resources available to support operational activities and meet financial obligations. In this kind of situation, the company will have difficulty in maintaining the continuity of its business, which ultimately has an impact on declining investor and creditor confidence.

Signaling theory becomes relevant in explaining this relationship. According to this theory, company management tends to signal to investors regarding the company's prospects and financial condition through the financial decisions taken (Restianti et al., 2018). *Positive and stable free cash flow* can be interpreted as a signal that the company is in a healthy financial condition and has the ability to generate long-term added value. Conversely, weak or unstable *free cash flow* can lead to a negative perception of the company's prospects, which can increase risk perception of possible *financial distress*.

The findings in the study are supported by studies that have previously been conducted by (Dirman, (2020); Meryana et el., (2021); Suwarno & Putri, (2022). However, these results are not in line with the research Christy & Natalylova, (2023), This difference in results indicates that the influence of *free cash flow* on the company's financial pressure can also be influenced by other factors, such as the efficiency of the use of funds, the internal supervisory structure, and the characteristics of the industrial sector in which the company operates.

Profit management has a significant positive effect on *financial distress*

The fifth hypothesis shows that profit management has a positive and significant influence on *financial distress*, so the H5 hypothesis is accepted. The findings indicate that the higher the intensity of the company's profit management practices, the more likely it is that the company will face serious financial pressure. Manipulative profit management

practices tend to lower the quality of the profit information presented and make financial statements not reflect the company's actual financial situation (Widyawati & Anggraita, 2013). If such practices are exposed, this could undermine investor and creditors' trust in the company. This decline in confidence can have an impact on declining stock prices, increasing risks to market perception, and difficulties for companies in obtaining access to external funding. In the long run, this condition can drag the company into *financial distress*, especially if profit management practices are used to cover declining financial performance (Saputri & Achmad, 2017).

In the context of agency *theory*, this relationship can be explained as a form of conflict of interest between the manager (agent) and the owner (principal). Managers, who have exclusive access to the company's internal information, have the potential to manipulate profits to achieve short-term targets or maintain an image of performance. However, these actions are generally unsustainable and only hide the real financial problems. When external pressures increase and the company is no longer able to sustain these manipulative practices, the impact can appear drastically in the form of *financial distress*.

The research is in line with the results developed by Hanafie et al. (2022); Saputri & Achmad, (2017). However, these results contradict the findings of the Fitriyani et al. (2012). The differences that occur may be due to differences in industry characteristics, profit management measurement methods, or variations in the quality of corporate governance in each research object.

***Operating cash flow* has a significant negative influence on *financial distress* through Profit Management**

The sixth hypothesis shows that profit management acts as a mediating variable in the relationship between *operating cash flow* and *financial distress*, so H6 is accepted. This result provides an understanding that *high operating cash flow* basically reflects the company's ability to generate cash from its main operational activities, which should be able to reduce the potential for *financial distress*. *Operating cash flow* is an important indicator that reflects the smooth running of the company's operational activities, such as receipts from customers and payments against short-term liabilities (Amarilla et al. 2018). Therefore, *operating cash flow* information is often used as the main reference by investors and financial analysts in assessing whether a company is in a healthy financial condition.

If *the operating cash flow* is positive and stable, the company is considered able to carry out its business activities in a sustainable manner(Amarilla et al. 2018). On the other hand, *a negative operating cash flow* indicates an imbalance between income and operating expenses, which can be an early signal of financial stress or potential *financial distress*. Nevertheless, in conditions of low *operating cash flow*, management has an impulse to undertake profit management in response to the pressure to maintain the company's performance image.

Based on the perspective of agency theory, this condition indicates a conflict of interest between the management (*agent*) and the owner (*principal*), where the manager, who has an information advantage, may choose to manipulate the financial statements to give the impression that the company is in better condition than it is in reality (Hamza & Kortas, 2019). Such profit management practices, while they may be effective in the short term, risk worsening the company's financial condition in the long run because the information presented to the public does not reflect the actual financial reality (Alhadab & Al-Own, 2019). In other words, low *operating cash flow* encourages the tendency of managers to do *earnings management*, and this practice indirectly increases the

likelihood of companies experiencing *financial distress*. The findings reinforce the view that *operating cash flow* not only has a direct impact on the company's financial health, but can also trigger a strategic response from management that actually obscures financial reality, which ultimately increases the risk of a company's financial crisis in the future.

***Free cash flow* memiliki pengaruh positif signifikan terhadap *financial distress* melalui Manajemen Laba.**

The seventh hypothesis shows that profit management acts as a mediating variable in the relationship between *free cash flow* and *financial distress*, so that H7 is declared acceptable. The findings indicate that companies with high *free cash flow* levels are not necessarily free from the risk of financial difficulties. In fact, in some cases, the loose availability of funds can open up opportunities for management to carry out aggressive profit management practices. This condition reflects that the flexibility in managing *free cash flow* can be abused by management to manipulate financial statements, without worrying about short-term cash shortfalls. For example, managers can take advantage of that excess cash flow to fund complex accounting transactions, delay expense recognition, or speed up revenue recording to increase reported profit (Ghazali, 2015). While not directly reflecting a cash loss, this kind of practice has the potential to distort the financial information presented and mask the company's actual financial condition (Habib (2013),.

In the framework of agency theory, this condition describes the existence of an inherent conflict of interest in the relationship between *the principal* (owner) and *agent* (manager). When managers have control over the use of *free cash flow* without strict supervision, profit management practices become more likely. When this manipulation is no longer tenable and finally exposed, the trust of owners and investors in management will decrease drastically. This decline in trust can have an impact on a decline in the company's market value, obstacles in obtaining external funding, and an increased risk of *financial distress*. Furthermore, the inefficient use of *free cash flow*, especially for investments that are not productive or not in line with long-term business strategies, can cause the phenomenon of *over-investment* (Zhao, 2016). This not only burdens the company financially, but also increases the risk of business failure if market conditions are not favorable or the project financed does not produce the expected returns.

Thus, the results of the study confirm that although *free cash flow* is an indicator of a company's financial ability, under certain conditions and without strong governance, excess cash can actually be a factor that triggers *financial distress* through unhealthy profit management channels. Therefore, supervision of the use of *free cash flow* and transparency in financial reporting are very important to minimize the risk of financial failure in the future.

4. CONCLUSIONS AND SUGGESTIONS

Based on the results of data processing using the SPSS application and the analysis that has been carried out, the following conclusions are obtained: 1) Operating cash flow has a significant negative effect on profit management. These findings indicate that good operating cash flow conditions have a low potential to be utilized by management to carry out profit management practices. 2) Free cash flow has a significant positive effect on profit management. These results show that companies with a large amount of free cash flow tend to have higher flexibility to manage profits. 3) Operating cash flow has a significant negative effect on financial distress. These findings indicate that the higher the operating cash flow that the company has, the less likely the company is to experience

financial distress. 4) Free cash flow has a significant negative effect on financial distress. The results of this study show that low free cash flow can increase the risk of companies experiencing financial distress, especially if it is sustainable. 5) Profit management has a significant positive effect on financial distress. Aggressive profit management practices have been proven to reduce the quality of financial information. If this is revealed, investor confidence will decline, and the company risks serious financial difficulties. 6) Operating cash flow has an indirect negative effect on financial distress through profit management. These findings show that low operating cash flow can encourage management to carry out profit management practices as a form of effort to improve the company's financial image. However, this action can actually increase the risk of financial distress in the long run. 7) Free cash flow has a positive indirect effect on financial distress through profit management. These results indicate that companies with high free cash flow have a tendency to perform profit management, which can ultimately lead to distortion of financial information and increase the risk of financial distress.

The suggestions from the researcher include: 1) For company management, it is recommended to increase transparency and accountability in the presentation of financial statements. Management should avoid manipulative practices such as profit management, because while it provides a positive image in the short term, it can be detrimental to the company in the long run. 2) For investors and creditors, it is advisable to conduct an in-depth analysis of the cash flow component and look for indications of profit management practices in financial statements before making investment or credit decisions. Monitoring of cash flow trends and earning quality needs to be strengthened. 3) For the next study, it is recommended to expand the variables used by including external factors such as corporate governance, managerial ownership, or economic crisis as moderation variables.

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