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DETERMINANTS OF EARNINGS PERSISTENCE IN MANUFACTURING COMPANIES: EVIDENCE FROM THE FOOD AND BEVERAGE SUBSECTOR OF THE JAKARTA ISLAMIC INDEX

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Abstract. This study investigates the determinants of earnings persistence in food and beverage manufacturing companies listed in the Jakarta Islamic Index. The analysis covers five firms over the 2019-2024 period, producing 30 firm-year observations. Secondary data were obtained from annual reports and evaluated using pooled multiple linear regression. To maintain consistency between the thesis appendices and the article, the firm-year ratios were re-estimated before the inferential analysis. The model is statistically significant ($F = 32.51$; $p < 0.001$) and explains 87.1% of the variation in earnings persistence, with an adjusted R-squared of 0.845. Cash-flow volatility, leverage, firm size, and sales-volatility proxies show positive and significant coefficients, whereas the proportion of independent commissioners used as the Good Corporate Governance proxy is not significant. Diagnostic tests indicate normally distributed residuals, no evidence of heteroskedasticity, and variance inflation factors below the conventional threshold. The findings suggest that operational cash generation, financing structure, scale, and sales activity are more closely associated with persistent earnings than the selected board-composition proxy. The results should be interpreted with attention to the small sample and the measurement of volatility variables.

Keywords: Earnings Persistence, Good Corporate Governance, Cash-Flow Volatility, Leverage, Firm Size, Sales Volatility

I. INTRODUCTION

Earnings are central to financial reporting because investors, creditors, and other stakeholders use them to assess performance and estimate future cash flows. The usefulness of reported earnings, however, depends not only on their magnitude but also on their ability to recur. Earnings generated by core operations and sustained across periods offer a stronger basis for valuation than transitory gains arising from one-off transactions or accounting adjustments. This recurring quality is commonly described as earnings persistence (Fanani, 2010; Dang & Vu, 2022).

For manufacturing companies, persistence is closely connected to the stability of production, cash collection, financing, and sales. The food and beverage subsector is particularly relevant because demand may be relatively resilient, while input costs, distribution conditions, and competitive pressure remain volatile. Companies operating in this subsector must therefore maintain the credibility of reported performance while managing operational fluctuations. The issue becomes more important for companies included in the Jakarta Islamic Index, where investors also expect governance and financial practices to remain consistent with principles of accountability and responsible business conduct.

Corporate governance can affect earnings quality by limiting managerial discretion and strengthening supervision. Independent commissioners are expected to monitor financial reporting and reduce opportunistic behavior. Evidence from prior studies nevertheless remains mixed. Some studies associate stronger governance with better earnings quality, while others find that formal governance structures do not automatically improve persistence when monitoring is largely procedural or when ownership remains concentrated (Asogwa et al., 2019; Choi et al., 2020; Sari & Afriyenti, 2021).

Operational cash flow is another important consideration. Earnings supported by cash from operations are generally considered more sustainable than earnings dominated by accruals. At the same time, unstable cash flows can make future performance difficult to forecast. Empirical findings show that cash-flow characteristics are related to the persistence and predictive value of earnings, although the direction of the association may depend on the proxy used and the operating environment of the firm (Naoum & Papanastasopoulos, 2021; Almomani et al., 2023).

Leverage, firm size, and sales volatility may also shape earnings persistence. Debt can impose discipline because managers must maintain sufficient performance to meet contractual obligations, but excessive debt can expose firms to financial pressure. Larger companies usually possess broader resources, more established internal controls, and more diversified markets. Sales conditions influence the continuity of operating income, yet empirical results differ across sectors and periods (Nahak et al., 2021; Dasuki et al., 2023; Pereira et al., 2023).

The thesis on which this article is based brings these factors together in a single model. Its appendices provide firm-year ratios for five companies over six years. Because several summary values in the narrative and output tables were not fully aligned, this article uses the underlying appendix data and re-estimates the regression. The objective is to examine whether Good Corporate Governance, cash-flow volatility, leverage, firm size, and sales volatility explain earnings persistence among food and beverage manufacturing companies listed in the Jakarta Islamic Index during 2019-2024.

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Earnings Persistence

Earnings persistence refers to the extent to which current earnings continue into future periods. Persistent earnings are dominated by recurring components and are therefore more useful for forecasting and valuation. Low persistence indicates that a large share of current earnings is temporary, making it less reliable as an indicator of future performance. Research in emerging markets shows that persistence is influenced by firm fundamentals, reporting quality, and the stability of business operations (Dang & Vu, 2022; Jia & Li, 2022).

Good Corporate Governance

Agency theory explains that the separation of ownership and control creates incentives for managers to pursue personal interests. Governance mechanisms are designed to reduce this conflict through supervision, accountability, and transparent reporting. Independent commissioners are expected to question managerial decisions and protect outside shareholders. A larger independent proportion may therefore strengthen the credibility of earnings. Nevertheless, effectiveness depends on competence, access to information, and actual independence rather than formal representation alone (Asogwa et al., 2019; Choi et al., 2020).

Cash-Flow Volatility

Cash from operations reflects the firm's ability to convert its activities into liquid resources. A stable pattern of operating cash flows should make recurring earnings easier to sustain. High volatility, by contrast, may signal uncertainty in collection, production, or working-capital management. Earlier studies report that cash-flow volatility can reduce earnings persistence, although positive associations may appear when the empirical proxy captures the strength of operating cash generation rather than pure dispersion (Pimentel & Malacrida, 2020; Almomani et al., 2023).

Leverage

Leverage represents the proportion of assets financed by liabilities. Debt may weaken persistence when interest obligations and refinancing risk make earnings more sensitive to business shocks. It may also strengthen managerial discipline and encourage firms to maintain stable performance in order to satisfy creditors. The expected effect is therefore context dependent, particularly in mature firms with predictable demand and established access to financing (Gunarto, 2019; Pereira et al., 2023).

Firm Size

Firm size is associated with resource availability, market reach, internal-control capacity, and public scrutiny. Larger firms can distribute fixed costs across broader operations and may be better able to absorb temporary disturbances. They also face stronger pressure to provide credible financial information. These characteristics support a positive association between firm size and persistent earnings, although size alone does not guarantee reporting quality (Abdillah et al., 2021; Gunawan & Prasetya, 2021).

Sales Volatility

Sales provide the main operating basis for earnings in manufacturing firms. Unstable sales can make production planning and margin management more difficult, reducing the predictability of profit. On the other hand, a sales-based ratio may capture intensity or growth rather than volatility when it is not calculated as a multi-period dispersion measure. For this reason, interpretation must follow the operational definition used in the data (Saptiani & Fakhroni, 2020; Arif & Ananda, 2023).

Research Hypotheses

Based on the theoretical arguments, the study tests five hypotheses: Good Corporate Governance, cash-flow volatility, leverage, firm size, and sales volatility are associated with earnings persistence. The regression evaluates the direction and significance of each relationship while controlling for the other predictors.

III. RESEARCH METHOD

The study applies a quantitative explanatory design. The population consists of food and beverage manufacturing companies included in the Jakarta Islamic Index. Purposive sampling was used to select firms that remained relevant to the research criteria and published complete annual reports throughout 2019-2024. Five companies met the criteria: Kalbe Farma Tbk., Unilever Indonesia Tbk., Charoen Pokphand Indonesia Tbk., Indofood CBP Sukses Makmur Tbk., and Indofood Sukses Makmur Tbk. Six annual observations for each company produced 30 firm-year observations.

Earnings persistence is the dependent variable. The independent variables are Good Corporate Governance, represented by the proportion of independent commissioners; the cash-flow volatility proxy; leverage, represented by the debt-to-asset ratio; firm size; and the sales-volatility proxy. The ratios were transcribed from the thesis appendices and checked for consistency before estimation. The analysis uses pooled ordinary least squares, consistent with the analytical approach adopted in the thesis.

The empirical model is specified as follows:

$$EP\_it = \alpha + \beta_1 GCG\_it + \beta_2 CFV\_it + \beta_3 LEV\_it + \beta_4 SIZE\_it + \beta_5 SV\_it + \varepsilon\_it$$

EP denotes earnings persistence; GCG is the proportion of independent commissioners; CFV is the cash-flow volatility proxy; LEV is the debt-to-asset ratio; SIZE is the firm-size measure; and SV is the sales-volatility proxy. Model adequacy was assessed through residual normality, heteroskedasticity, multicollinearity, and the Durbin-Watson statistic. Statistical significance was evaluated at the 5% level.

IV. RESULTS AND DISCUSSION

Descriptive Statistics

The descriptive statistics indicate considerable differences in governance structure and operating characteristics across the sampled firms. The proportion of independent commissioners ranges from 33.33% to 83.33%. Earnings persistence ranges from 0.043 to 0.332, with a mean of 0.118. The variation is especially visible in the firm-size and sales proxies, reflecting differences in scale and business intensity among the five companies.

Table 1. Descriptive Statistics

Variable	Min-Max	Mean	Std. Dev.
Good Corporate Governance (%)	33.33-83.33	54.079	16.661
Cash-flow volatility proxy	0.042-0.777	0.196	0.178
Leverage	0.146-0.866	0.441	0.215
Firm size	1.155-6.872	2.960	1.658
Sales-volatility proxy	0.558-5.582	2.755	1.507
Earnings persistence	0.043-0.332	0.118	0.078

Source: Re-estimation of firm-year ratios reported in the thesis appendices.

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Diagnostic Tests

The residual and specification checks support the use of the pooled regression for the reported sample. The Shapiro-Wilk test does not reject normality, and the Breusch-Pagan test provides no evidence of heteroskedasticity. All predictor VIF values remain below 10, although leverage and firm size show relatively high collinearity and should be interpreted with care.

Table 2. Regression Diagnostic Summary

Test	Result	Interpretation
Shapiro-Wilk residual normality	p = 0.626	Residuals are normally distributed
Breusch-Pagan heteroskedasticity	p = 0.577	No heteroskedasticity detected
Variance Inflation Factor	1.972-8.512	Below the threshold of 10
Durbin-Watson	1.205	No strong residual autocorrelation indication

Source: Author's re-estimation.

Regression Results

The pooled regression is jointly significant ($F = 32.51$; $p < 0.001$). The model yields $R^2 = 0.871$ and adjusted $R^2 = 0.845$, indicating that the five predictors explain a substantial proportion of the variation in earnings persistence. The estimated equation is $EP = -0.1286 - 0.0002GCG + 0.2174CFV + 0.2551LEV + 0.0222SIZE + 0.0123SV$.

Table 3. Multiple Regression Results

Predictor	B and t	p-value	Decision
Good Corporate Governance	-0.0002; t = -0.329	0.745	Not supported
Cash-flow volatility proxy	0.2174; t = 4.501	<0.001	Supported
Leverage	0.2551; t = 3.289	0.003	Supported
Firm size	0.0222; t = 2.487	0.020	Supported
Sales-volatility proxy	0.0123; t = 2.083	0.048	Supported

Dependent variable: Earnings persistence; n = 30 firm-year observations.

Good Corporate Governance and Earnings Persistence

The coefficient of the independent-commissioner proxy is negative and statistically insignificant. This result suggests that board composition, when measured only by the proportion of independent commissioners, is not sufficient to explain the continuity of earnings in the sample. Formal independence may not capture meeting quality, expertise, information access, or the influence of controlling shareholders. The result is consistent with the view that governance effectiveness depends on how monitoring is performed, not merely on compliance with structural requirements.

Cash-Flow Volatility and Earnings Persistence

The cash-flow proxy has a positive and significant coefficient. Companies with stronger values on this measure tend to report more persistent earnings. The result indicates that operational cash generation is closely connected to the continuity of profit. It should nevertheless be interpreted carefully because the operationalization in the appendix resembles scaled operating cash flow rather than a standard-deviation measure of volatility. Future work should distinguish the level of operating cash flow from its variability across time.

Leverage and Earnings Persistence

Leverage is positively associated with earnings persistence. In the sampled firms, debt may create discipline and encourage management to maintain operating performance in order to meet contractual commitments. These companies are relatively established and may use liabilities as part of a stable financing structure rather than as a sign of financial distress. The finding does not imply that higher debt is always desirable; the positive relationship is conditional on effective debt management and sustainable cash flows.

Firm Size and Earnings Persistence

Firm size has a positive and significant effect. Larger companies usually have more diversified products, broader distribution networks, stronger internal systems, and greater access to financing. These advantages help absorb temporary shocks and support recurring income. The result also reflects the stronger public scrutiny faced by large listed firms, which may encourage more consistent reporting and operational planning.

Sales Volatility and Earnings Persistence

The sales proxy is positive and significant at the 5% level. This pattern may reflect the ability of firms with stronger sales activity to sustain earnings despite year-to-year changes. As with the cash-flow variable, the interpretation is influenced by the measurement used in the appendix. A future study should calculate sales volatility from the standard deviation of sales over a defined rolling period so that the concept of instability is separated from sales intensity.

Model Implications

Taken together, the predictors explain a large share of the variation in earnings persistence. The result emphasizes the importance of operating strength, financing discipline, and organizational scale. It also shows that a single governance ratio cannot represent the full quality of corporate oversight. For managers, persistent earnings require more than formal compliance: cash conversion, debt capacity, market continuity, and internal control must work together. For investors, the findings support a broader evaluation of earnings quality that combines accounting results with their operational sources.

V. CONCLUSION

This study examines five determinants of earnings persistence in food and beverage manufacturing companies listed in the Jakarta Islamic Index during 2019-2024. The re-estimated pooled regression is jointly significant and has strong explanatory power. Cash-flow volatility, leverage, firm size, and sales volatility proxies are positively associated with earnings persistence, while the independent-commissioner proxy is not significant.

The findings indicate that persistent earnings in the sample are more closely related to operational and financial characteristics than to the selected governance measure. Companies should strengthen cash-flow management, maintain prudent debt policies, and use scale advantages to support stable core earnings. Governance evaluation should extend beyond the numerical proportion of independent commissioners to include competence, participation, and monitoring effectiveness.

The study is limited by the small number of firms, the pooled estimation approach, and the operationalization of volatility variables. Subsequent research should use a larger panel, apply fixed- or random-effects models where appropriate, and measure cash-flow and sales volatility through multi-period dispersion. Additional governance indicators, such as audit-committee quality, ownership structure, and board activity, may also provide a more complete explanation of earnings persistence.

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