

Earnings Persistence and Its Determinants: The Moderating Role of Good Corporate Governance in Non-Cyclical Manufacturing Firms

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ABSTRACT

This study examines the effect of book-tax differences, operating cash flow, leverage, and firm size on earnings persistence, as well as the moderating role of good corporate governance in non-cyclical manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period. Using 185 firm-year observations from 37 non-cyclical manufacturing firms selected through purposive sampling, the study employs panel data regression and moderated regression analysis. The results show that book-tax differences, operating cash flow, leverage, and firm size significantly affect earnings persistence. Furthermore, good corporate governance significantly weakens the relationship between book-tax differences and earnings persistence. Good corporate governance also strengthens the relationship between leverage and earnings persistence. However, good corporate governance does not moderate the effects of operating cash flow and firm size on earnings persistence. These findings show that corporate governance does not uniformly influence earnings persistence but conditionally alters the effects of specific financial characteristics, particularly book-tax differences and leverage.

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1. Introduction

Earnings information remains a critical element of financial reporting, as it reflects corporate performance and serves as a primary basis for investment decisions, firm valuation, and contractual assessments. In recent literature, attention has shifted from the magnitude of earnings to their sustainability over time, commonly referred to as earnings persistence, which is widely recognized as a proxy for earnings quality. Earnings persistence reflects the extent to which current earnings can predict future earnings and indicates the stability of firm performance (Khuong et al., 2022). In emerging markets such as Indonesia, where information asymmetry between managers and investors is relatively high, earnings persistence plays an essential role in reducing uncertainty and enhancing the credibility of financial information. Nevertheless, empirical evidence indicates that earnings and related operating measures can exhibit substantial volatility across manufacturing

firms, including those in non-cyclical sectors, potentially reducing earnings persistence and the ability of current earnings to predict future performance (Martins et al., 2022; Paramaratni et al., 2023). Non-cyclical firms generally face stable demand, which should support stable financial performance. However, earnings volatility remains, raising questions about how firm-specific financial factors influence earnings persistence in these firms.

Recent studies identify several firm-specific financial factors that may influence earnings persistence, including book-tax differences, operating cash flow, leverage, and firm size. Book-tax differences arise from discrepancies between accounting income and taxable income resulting from divergent financial-reporting and tax-recognition rules. While some BTDs are mechanical, unusually large differences may reflect managerial discretion, tax planning, or earnings management, thereby signaling lower earnings quality and persistence (Luo, 2019). Operating cash flow reflects cash generated from core activities and is generally more persistent than accruals, making it useful for assessing sustainable performance (Pimentel & Malacrida, 2020). Leverage may enhance managerial discipline through creditor monitoring, but high debt levels can also increase financial pressure and incentives to manage earnings, potentially reducing earnings stability (Chow, 2024; I. Ebirien et al., 2019). Larger firms may exhibit greater earnings persistence due to more diversified operations and greater intertemporal earnings stability, although empirical evidence on the firm size-earnings persistence relationship remains mixed (Canina & Potter, 2019)(Nurdiniah et al., 2021). Despite their theoretical relevance, empirical evidence regarding these financial determinants remains inconclusive. Prior studies report varying effects of book-tax differences, operating cash flow, leverage, and firm size on earnings persistence, suggesting that their influence may depend on firm-specific monitoring and governance conditions. The state of the art in earnings quality research increasingly emphasizes the importance of corporate governance mechanisms in shaping the credibility and sustainability of reported earnings.

Good corporate governance strengthens managerial monitoring, limits opportunistic behavior and earnings management, and enhances financial reporting quality (Man & Wong, 2013). Strong governance structures—particularly independent boards and audit committees—can constrain discretionary accruals and earnings management, thereby supporting higher earnings quality and persistence (Kent et al., 2010). More importantly, governance may operate not only as a direct monitoring mechanism but also as a boundary condition that shapes how firm-specific financial characteristics translate into persistent earnings (Inezeh et al., 2025). Effective oversight may constrain managerial discretion associated with book-tax differences, strengthen financial discipline under higher leverage, and influence how operating resources and organizational scale are translated into sustainable earnings performance (Wang & Hou, 2024). However, empirical studies that explicitly examine good corporate governance as a moderating factor in the relationship between financial characteristics and earnings persistence remain limited, particularly in non-cyclical manufacturing firms within emerging markets. From an agency-theory perspective, corporate governance serves as a monitoring mechanism that constrains managerial discretion and aligns managerial decisions with shareholders' interests (Alwadani et al., 2024)(Quttainah et al., 2025). This perspective provides a theoretical basis for expecting governance quality to condition the relationship between firms' financial characteristics and earnings persistence. Rather than assuming that financial fundamentals uniformly translate into persistent earnings, an agency perspective suggests that the strength of this relationship may depend on the effectiveness of corporate monitoring mechanisms.

Recent studies have predominantly examined corporate governance and firm-specific determinants as direct predictors of earnings persistence or earnings quality, while comparatively fewer studies consider governance as a moderating condition that may alter these relationships (Agustina et al., 2021)(Asogwa et al., 2020)(Rezaee & Safarzadeh, 2023). This study incorporates good corporate governance as a moderating mechanism to explain how firm-specific financial characteristics translate into persistent earnings (Tee & Rasiah, 2020). Given the increasing regulatory emphasis on corporate governance practices in Indonesia and the strategic importance of earnings stability for investors, examining this moderating role is both timely and relevant.

Based on the above considerations, this study aims to examine the effects of book-tax differences, operating cash flow, leverage, and firm size on earnings persistence, as well as to

analyze the moderating role of good corporate governance in non-cyclical manufacturing companies listed on the Indonesia Stock Exchange during the 2020–2024 period.

2. Methods

This study employs a quantitative explanatory research design using balanced panel data to examine the determinants of earnings persistence and the moderating role of good corporate governance. The unit of analysis is the firm-year observation, covering non-cyclical manufacturing firms listed on the Indonesia Stock Exchange over the 2020–2024 period.

The study relies on secondary financial and governance data extracted from firms' annual reports and audited financial statements for the 2020–2024 fiscal years. Financial information was used to construct earnings persistence, book–tax differences, operating cash flow, leverage, and firm size, while corporate governance information was obtained from disclosures concerning the composition of the board of commissioners.

The sample was selected using the purposive sampling technique, which allows the selected sample to represent the population parameter better (Setiawan et al., 2024). Specifically, we selected 185 observations from Indonesian listed non-cyclical manufacturing firms in 2020–2024. The sample selection process involved multiple exclusion criteria:

Table1. Sample Criteria

Description	Total
Population: non-cyclical manufacturing firms listed in Indonesia Stock Exchange.	134
Sample selection based on criteria (purposive sampling):	
1. Companies that published annual reports for the 2020–2024 period	88
2. Companies that did not generate profits during the 2020–2024 period	51
3. Companies that did not experience losses during the observation period in 2020–2024	37
Final Sample	37
Total Observation (n x period) (37 x 5 years)	185

Source: E-Views 12 (data processing)

Applying these criteria resulted in a final sample of 37 firms observed continuously over five fiscal years, yielding 185 firm-year observations. The panel structure enables the analysis to account for both cross-sectional differences across firms and temporal variation within firms.

This study used a quantitative approach based on secondary data to propose and test the predictions. A quantitative approach analyzes quantitative data to test the hypotheses and analyze the association between the research variables with statistical analysis. More specifically, we employed multiple regression analysis to identify the association between the variables.

Earnings Persistence

Earnings persistence is measured using an earnings-based regression model that reflects the sustainability of profits over time. This approach captures the extent to which current earnings can predict future earnings and has been widely applied in empirical accounting research. The measurement in this study follows the model proposed by Widyawati (2025).

$$EP = \frac{Earnings\ before\ tax_t - Earnings\ before\ tax_{t-1}}{Total\ Assets}$$

Where:

Earnings before tax_t = the company's profit before income tax in the current period.

Earnings before tax_{t-1} = the company's profit before income tax in the previous period.

Total Assets = the company's total assets at the end of the period.

Book Tax Difference

Book-tax differences are measured as the difference between accounting income and taxable income, reflecting discrepancies arising from financial and tax reporting practices. This measurement captures the extent of divergence between commercial and fiscal earnings and has been widely used in empirical accounting research. The measurement in this study follows the approach proposed by Jannanti et al. (2025).

$$BTD = \frac{\text{Accounting income} - \text{Taxable income}}{\text{Total Assets}}$$

Where:

Accounting income = profit calculated based on financial accounting standards.
 Taxable income = profit calculated based on tax regulations.
 Total Assets = the company's total assets at the end of the period.

Operating Cash Flow

Operating cash flow is measured using the total operating cash flow reported in the statement of cash flows, reflecting a firm's ability to generate cash from its core business activities. This measure captures the sustainability of operational performance and has been widely applied in empirical accounting research.

$$OCF = \frac{\text{Operating Cash Flow} + \text{Income Tax}}{\text{Total Assets}}$$

Where:

Total Operating Cash Flow = the total cash generated from a firm's core operating activities.
 Income Tax = tax imposed on a firm's taxable income.
 Total Assets = the company's total assets at the end of the period.

Leverage

Leverage is measured using the ratio of total liabilities to total assets, reflecting the extent to which a firm finances its operations through debt. This measure captures the firm's financial risk and capital structure characteristics and has been widely applied in empirical accounting research.

$$DER = \frac{\text{Total Liabilities}}{\text{Total Assets}}$$

Where:

Total Liabilities = the total amount of a firm's obligations to creditors.
 Total Assets = the company's total assets at the end of the period.

Firm Size

Firm size is measured using the natural logarithm of total assets, reflecting the scale of a firm's operations and resource capacity. This measurement has been widely applied in empirical accounting research.

$$\text{Firm Size} = \ln(\text{Total Assets})$$

Where:

Firm size is measured using the natural logarithm of total assets.

Good Corporate Governance

Good corporate governance is measured using the proportion of independent commissioners on the board, reflecting the effectiveness of oversight and monitoring mechanisms within the firm. This measurement has been widely applied in corporate governance research.

$$INDCOM = \frac{\text{Number of independent commissioners}}{\text{Total board of commissioners}}$$

Number of independent commissioners = commissioners who are independent of management.
Total board of commissioners = total members of the supervisory board.

3. Results

Descriptive Statistics

Table 2. Descriptive Statistics

	Obs.	Mean	Std.Dev	Min	Max	Skew	Kurt
EP	185	0.005	0.061	-0.423	0.233	-1.883	16.059
BTD	185	0.024	0.048	-0.067	0.293	1.791	8.016
OCF	185	0.165	0.108	0.012	0.629	1.478	6.022
LVRG	185	0.397	0.206	0.067	0.866	0.364	2.189
FS	185	15.736	1.571	11.887	19.122	0.105	2.325
GCG	185	0.442	0.126	0.251	0.833	1.552	5.388

Source: E-Views 12 (data processing)

The table presents descriptive statistics for six variables (EP, BTD, OCF, LVRG, FS, and GCG) based on 185 observations. The mean values indicate that EP and BTD are relatively small, while FS records the highest average at 15.736. The standard deviations show moderate variability across variables, with FS having the largest dispersion. In terms of distribution, EP exhibits a very high kurtosis value of 16.059, indicating a sharply peaked distribution, whereas LVRG and FS have kurtosis values close to 2, suggesting distributions that are relatively more normal compared to the other variables.

Panel Data Regression Model Selection

Table 3. Overall Panel Data Regression Model

	Prob	Result	Decision
Chow	0.0096	Prob < 0.05	FEM
Hausman	0.0000	Prob < 0.05	FEM
LM	0.0013	Prob < 0.05	REM

Source: E-Views 12 (data processing)

Three diagnostic tests were applied to identify the most suitable panel data regression model: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. The Chow test reports a probability value of 0.0096 (prob < 0.05), indicating that the null hypothesis favoring the Common Effect Model (CEM) is rejected; therefore, the Fixed Effect Model (FEM) is preferred over CEM. The Hausman test shows a probability value of 0.0000 (prob < 0.05), leading to the rejection of the null hypothesis and implying that FEM is more appropriate than the Random Effect Model (REM). In addition, the LM test yields a probability value of 0.0013 (prob < 0.05), suggesting that the null hypothesis is rejected and that REM is superior to CEM. Based on these results, and considering that both the Chow and Hausman tests consistently support FEM, the Fixed Effect Model (FEM) is selected as the most appropriate model for this panel data analysis.

Classical Assumption Test

Heteroscedasticity Test

Table 4. Heteroscedasticity

	Prob	Result	Decision
F-Statistic	0.476	Prob > 0.05	No heteroskedasticity
Obs*R-Squared	0.463	Prob > 0.05	No heteroskedasticity

Source: E-Views 12 (data processing)

The White test results indicate that the model does not suffer from heteroskedasticity. Both the F-statistic and the Obs*R-squared produce probability values greater than 0.05, leading to the acceptance of the null hypothesis. This finding suggests that the error variance is constant across observations, indicating that the homoskedasticity assumption is satisfied.

Multicollinearity Test

Table 5. Multicollinearity

Variable	Coefficient VIF	<10	Conclusion
BTD	1.031	✓	No Multicollinearity
OCF	1.084	✓	No Multicollinearity
LVRG	1.146	✓	No Multicollinearity
FS	1.167	✓	No Multicollinearity

Source: E-Views 12 (data processing)

The table presents the Variance Inflation Factor (VIF) results for the regression model. The centered VIF values for all independent variables (X1–X4) are close to 1 and well below the critical threshold of 10, indicating no multicollinearity among the explanatory variables. Although the uncentered VIF values for the constant and X4 are high, they are not used as the main criterion for assessment. Overall, the results confirm that the model is free from multicollinearity issues.

Testing Hypothesis

T-Test

Table 6. T-Test

Variable	t-statistic	t-table	Probability Value	Conclusion
BTD	3.861	>1.973	0.002	Significant
OCF	3.843	>1.973	0.002	Significant
LVRG	2.695	>1.973	0.007	Significant
FS	2.654	>1.973	0.008	Significant
BTD x GCG	-3.873	>1.973	0.002	Significant
OCF x GCG	0.299	>1.973	0.818	Not Significant
LVRG x GCG	2.084	>1.973	0.039	Significant
FS x GCG	-0.521	>1.973	0.603	Not Significant

Source: E-Views 12 (data processing)

Several variables exhibit probability values below 0.05 based on the t-test results. Specifically, BTD, OCF, LVRG, and FS each have probability values below 0.05 with t-statistic values exceeding the t-table of 1.973. In addition, among the interaction terms, BTD × GCG and LVRG × GCG also show probability values below 0.05 with t-statistics greater than the critical value. Conversely, OCF × GCG and FS × GCG report probability values above 0.05 and t-statistics lower than the t-table threshold, indicating that they do not meet the statistical significance criteria. The table summarizes the partial t-test results for all main and moderating variables included in the model.

F-Test

The F-test evaluates whether the independent variables jointly explain the variation in the dependent variable. The F-test on the overall sample produces a F-statistic of 2.303 > F-table of 2.227. The results indicate that Book-Tax Difference (BTD), Operating Cash Flow (OCF), Leverage (LVRG), and Firm Size (FS) simultaneously affect Earnings Persistence (Y).

4. Discussion

The Effect of Book Tax Differences on Earnings Persistence

The results indicate that BTD significantly affects Earnings persistence (EP) in the overall sample, suggesting that variations between accounting income and taxable income play a role in the stability of firms' earnings over time. Firms with higher BTD may demonstrate more persistent profits, which could reflect strategic tax management or the timing of recognizing revenues and expenses. This finding is consistent with prior evidence showing that book-tax differences are associated with earnings persistence and earnings quality in manufacturing firms (Oktavia & Susanto, 2022).

Conversely, some studies report weak or context-dependent effects of book–tax differences on earnings persistence, suggesting that their explanatory power may vary with firm characteristics, institutional settings, and economic conditions (Hsu et al., 2022; Kimouche, 2022; Le et al., 2026). From a theoretical perspective, the results can be explained using legitimacy theory and stakeholder theory. Legitimacy theory suggests that firms manage book-tax differences to maintain credibility and align with societal expectations regarding financial reporting.

The Effect of Operating Cash Flow on Earnings Persistence

The results show that operating cash flow significantly affects earnings persistence (EP), indicating that firms' ability to generate cash from core operating activities contributes to the sustainability of reported earnings. Higher operating cash flows may reflect stronger underlying operating performance and support the realization of more persistent earnings across periods (Lidyah et al., 2023). However, empirical evidence remains mixed. Oktavia and Susanto (2022) find no significant effect of operating cash flow on earnings persistence, while Pimentel and Malacrida (2020) show that the persistence and informational content of operating cash flows may vary with their measurement and firm-specific operating conditions. From a theoretical perspective, the results can be explained by stakeholder theory, which argues that stable operating cash flow signals financial health to investors and other stakeholders, enhancing their confidence in the firm's future earnings.

The Effect of Leverage on Earnings Persistence

The results indicate that leverage (LVRG) significantly affects earnings persistence (EP), suggesting that firms' financing structure plays an important role in shaping the sustainability of reported earnings. Higher leverage may increase external monitoring and financial discipline, encouraging managers to maintain stable operating and reporting performance. This finding is consistent with Nurdiniah et al. (2021), who identify leverage as an important determinant of earnings persistence. However, empirical evidence remains mixed. Paramaratri et al. (2023) find that debt levels do not significantly affect earnings persistence in consumer cyclical firms, whereas Setiana and Hadianto (2023) report a negative relationship between financial leverage and earnings persistence. These differences suggest that the effect of leverage may depend on firms' financial conditions, industry characteristics, and debt structures. From a theoretical perspective, agency theory provides an explanation, arguing that higher leverage imposes monitoring pressure from creditors, which incentivizes managers to maintain consistent earnings (Jensen & Meckling, 1976).

The Effect of Firm Size on Earnings Persistence

The results show that firm size (FS) significantly affects earnings persistence (EP), indicating that larger firms tend to exhibit more persistent earnings over time. Larger firms may benefit from broader asset bases, greater organizational resources, and stronger capacity to sustain operations, which can support more stable earnings performance. This finding is consistent with Sabila et al. (2021) and Setiana and Hadianto (2023), who report a positive association between firm size and earnings persistence. However, empirical evidence remains mixed. Nurdiniah et al. (2021) find no significant effect of firm size on earnings persistence, suggesting that larger organizational scale does not necessarily translate into more sustainable earnings across all firms and settings. Although larger firms may possess greater resources and operational capacity to sustain earnings, the firm size–earnings persistence relationship remains context-dependent, with prior studies reporting positive as well as insignificant effects (Dang & Vu, 2022). From a resource-based perspective, larger firms may possess broader pools of organizational and financial resources that can support more stable operating performance; however, firm size itself does not guarantee earnings persistence.

The Moderating Effect of Corporate Governance on the Relationship between Book Tax Differences and Earnings Persistence

The results indicate that good corporate governance (GCG) significantly moderates the relationship between book–tax differences (BTD) and earnings persistence (EP), suggesting that the effect of BTD on persistent earnings is conditional on the strength of firms' governance mechanisms. This finding

is consistent with prior studies that position corporate governance as a moderating mechanism in the relationship between book-tax differences and earnings-related outcomes (Sormin & Aryati, 2021)(Halimatus Sa'diyah & Dwi Suhartini, 2022). More broadly, effective audit committee oversight has been associated with improved earnings quality and lower discretionary permanent book-tax differences, indicating that stronger governance can constrain managerial discretion in tax-related reporting practices (Ling, 2023).

The Moderating Effect of Corporate Governance on the Relationship between Operating Cash Flow and Earnings Persistence

The results indicate that good corporate governance (GCG) does not significantly moderate the relationship between operating cash flow (OCF) and earnings persistence (EP). This suggests that the contribution of operating cash flow to earnings persistence may operate relatively independently of governance conditions. Prior evidence shows that operating cash flow is directly associated with earnings persistence, whereas the effectiveness of governance mechanisms in shaping earnings quality and persistence is not uniform across firms and institutional settings (Oktavia & Susanto, 2022; Sa'diyah & Suhartini, 2022). From a stakeholder perspective, governance mechanisms are intended to enhance accountability and protect stakeholder interests; however, operating cash flow represents a fundamental outcome of firms' operating activities. Consequently, the OCF-earnings persistence relationship may remain relatively independent of governance quality.

The Moderating Effect of Corporate Governance on the Relationship between Leverage and Earnings Persistence

The results indicate that good corporate governance (GCG) significantly moderates the relationship between leverage (LVRG) and earnings persistence (EP), suggesting that the effect of firms' financing structure on persistent earnings depends on the effectiveness of governance mechanisms. Stronger governance may enhance monitoring and financial discipline, thereby limiting managerial discretion associated with debt financing and supporting more stable earnings. This interpretation is consistent with broader evidence that corporate governance mechanisms contribute to higher earnings quality through stronger monitoring and oversight (Istianingsih, 2021; Rezaee & Safarzadeh, 2023). However, the moderating role of governance is not uniform. Nurdiniah et al. (2021) find that managerial ownership does not significantly moderate the effect of leverage on earnings persistence, indicating that the effectiveness of governance mechanisms may depend on the specific governance attribute and firm context. From an agency-theory perspective, debt creates monitoring and contractual pressures that can constrain managerial discretion, while effective corporate governance provides an additional monitoring mechanism that may reduce agency conflicts associated with leverage and support more persistent earnings (Jensen & Meckling, 1976; Rezaee & Safarzadeh, 2022).

The Moderating Effect of Corporate Governance on the Relationship between Firm Size and Earnings Persistence

The results indicate that good corporate governance (GCG) does not significantly moderate the relationship between firm size (FS) and earnings persistence (EP). This suggests that the influence of organizational scale on the sustainability of earnings remains relatively independent of governance quality. This finding is consistent with Nurdiniah et al. (2021), who report that managerial ownership does not significantly moderate the effect of firm size on earnings persistence. More broadly, recent evidence suggests that the interaction between firm size and governance-related mechanisms is context dependent. Solikhah et al. (2022) show that firm size can condition the relationship between corporate governance mechanisms and earnings quality, whereas other studies indicate that governance effects on earnings quality vary across governance attributes, ownership structures, and institutional settings (Awais Amin & Cumming, 2023). From a resource-based perspective, firm size reflects the scale of organizational resources available to the firm, but the existence of greater resources alone does not guarantee that governance mechanisms will strengthen their contribution to earnings persistence. The insignificant interaction effect therefore suggests that firm size and corporate governance may operate through relatively distinct channels

in explaining persistent earnings. While firm size captures firms' resource capacity and operational scale, governance primarily functions as a monitoring and control mechanism. Consequently, stronger governance does not necessarily amplify the earnings-persistence benefits associated with larger firm size.

5. Conclusion

The conclusions of this study are drawn from the findings and discussions presented. The results indicate that all main variables, including book-tax differences, operating cash flow, leverage, and firm size, have a significant effect on earnings persistence, highlighting their roles in maintaining stable firm performance over time. In terms of moderating effects, corporate governance weakens the relationship between book-tax differences and earnings persistence, and strengthens leverage and earnings persistence, while its influence on operating cash flow and firm size is not significant. These findings contribute to the understanding of how financial management practices and firm characteristics interact with governance mechanisms to support the stability of earnings, providing insights for investors, stakeholders, and policymakers in enhancing firm transparency, accountability, and financial sustainability.

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