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THE EFFECT OF LEVERAGE AND OPERATING CASH FLOW ON EARNINGS PERSISTENCE

PENGARUH LEVERAGE DAN ARUS KAS OPERASIONAL TERHADAP PERSISTENSI LABA

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ABSTRACT

The purpose of this study is to examine the influence of leverage and operating cash flow on earnings persistence. The sample consists of industrial sector companies listed on the Indonesia Stock Exchange, obtained from the LSEG (Refinitiv Eikon) database for the 2021-2024 period using a purposive sampling method, resulting in 332 firm-year observations. The analysis employs ordinary least squares (OLS) regression model using Stata version 16 and SPSS version 27. Descriptive statistics, correlation analysis, classical assumption tests, model specification tests, and hypothesis testing were conducted. Four control variables were included in the model, namely firm size, profitability, sales growth, and capital intensity. The results show that operating cash flow has a significant positive effect on earnings persistence, while leverage has no significant effect. These findings indicate that earnings persistence among industrial sector firms is more strongly driven by operational factors than by financing decisions, suggesting that future research should consider additional variables to obtain a more comprehensive understanding of earnings persistence.

Keywords: *Leverage, Operating Cash Flow, Earnings Persistence, Industrial*

ABSTRAK

Tujuan penelitian ini adalah untuk menguji pengaruh leverage dan arus kas operasi terhadap persistensi laba. Sampel terdiri dari perusahaan sektor industri yang terdaftar di Bursa Efek Indonesia, yang diperoleh dari basis data LSEG (Refinitiv Eikon) untuk periode 2021-2024 menggunakan metode purposive sampling, menghasilkan 332 observasi perusahaan-tahun. Analisis menggunakan model regresi ordinary least squares (OLS) dengan menggunakan Stata versi 16 dan SPSS versi 27. Statistik deskriptif, analisis korelasi, uji asumsi klasik, uji spesifikasi model, dan pengujian hipotesis dilakukan. Empat variabel kontrol dimasukkan dalam model, yaitu ukuran perusahaan, profitabilitas, pertumbuhan penjualan, dan intensitas modal. Hasil menunjukkan bahwa arus kas operasi memiliki pengaruh positif yang signifikan terhadap persistensi laba, sedangkan leverage tidak memiliki pengaruh yang signifikan. Temuan ini menunjukkan bahwa persistensi laba di antara perusahaan sektor industri lebih kuat dipengaruhi oleh faktor operasional daripada keputusan pembiayaan, yang menunjukkan bahwa penelitian selanjutnya harus mempertimbangkan variabel tambahan untuk mendapatkan pemahaman yang lebih komprehensif tentang persistensi laba.

Kata Kunci: Leverage, Arus Kas Operasional, Ketahanan Pendapatan, Industri.

INTRODUCTION

Earnings are often used to show how well a company performs financially and how capable it is of generating profit and maintaining its operations. They provide investors and analysts with insight into how well a company converts its resources into earnings and how durable those earnings may be in the future. The stability of earnings over time also shows how consistent and dependable a firm's performance is. In line with this view, earnings persistence shows how much current earnings can inform expectations about future earnings (Kimouche, 2021).

High persistence earnings suggests that company's earnings come from ongoing and reliable activities, while low persistence may indicate unstable performance, greater risk, or earnings management that weakens the credibility of reported results (Kimouche, 2021). In addition, leverage can signal a firm's earnings stability

because debt provides additional funding that supports business activities. Firms that rely on debt are expected to maintain consistent financial performance to justify the use of external funds (Januandika et al., 2025). Since leverage also represents obligations that must be repaid, it becomes financial information that shapes investor perceptions. Companies with higher debt therefore have an incentive to keep their earnings stable to meet repayment requirements and maintain creditor and investor confidence (Sabila et al., 2021).

How a firm's earnings fluctuate over time can also be influenced by its operating cash flow. This internal financial resource allows a company to support its ongoing activities and cover expenses independently, which lessens its need for external funding (Winingrum W. A. & Adinda, 2024). Furthermore, Positive operating cash flow also helps build trust in the firm's future earnings, since it shows that its core operations can produce enough cash to handle liabilities, supporting ongoing activities, and fund new investments (Sa'diyah & Suhartini, 2022). Therefore, higher operating cash flow generally leads to stronger earnings persistence, while weaker or inconsistent cash flow suggests greater uncertainty in sustaining earnings over time.

Previous studies examining the relationship between OCF, leverage, and earnings persistence have shown inconsistent findings. including (Almomani et al., 2023), (Hidayat & Fauziyah, 2020), (Astuti & Damayanty, 2024), (Winingrum W. A. & Adinda, 2024), (Triani & Abbas, 2023),(Purwatiningsih et al., 2022), and (Sabila et al., 2021) found that OCF has a significant and positive effect on earnings persistence. In contrast, (Ramadhan et al., 2023), (Sa'diyah & Suhartini, 2022), and (Oktavia & Susanto, 2022) found OCF has no effect on earnings persistence. Similarly, research findings on leverage are also mixed. (Januandika et al., 2025) and (Prasetyo et al., 2021) found leverage has a significant and positive effect on earnings persistence, whereas like (Hidayat & Fauziyah, 2020), (Winingrum W. A. & Adinda, 2024), (Sabila et al., 2021), and (Astuti & Damayanty, 2024) found that debt level has no significant effect. These varying results indicate that the effect of leverage and OCF on earnings persistence remains inconclusive, indicating that more research is required to provide stronger empirical evidence and a clearer understanding of how this leverage and OCF contribute to the sustainability of earnings.

This research area uses the industrial sector as the subject. The industrial sector was selected due to Industrial firms typically maintain substantial leverage due to significant fixed asset investments, while their operating cash flow tends to fluctuate with economic conditions. These features make the sector particularly relevant for investigating how financial leverage and cash flow stability influence earnings persistence.

After reviewing several previous studies, this research uses leverage and operating cash flow as the main independent variables, while firm size, profitability, sales growth, and capital intensity serve as control variables. Most prior studies included fewer control variables usually no more than four and often applied different combinations than those used in this study. In addition, the study focuses on industrial companies listed on the IDX for the years 2021-2024, whereas most earlier studies examined data before

2022. The study adopts a quantitative approach and uses several analytical methods, including descriptive statistics, correlation tests, classical assumption tests, model specification tests, and hypothesis testing.

Since previous empirical findings on the determinants of earnings persistence have shown inconsistent results, a research gap remains regarding the factors that influence the stability of earnings over time. Therefore, In response to the theoretical framework and research gap outlined previously, this study is titled **"The Effect of Leverage and Operating Cash Flow on Earnings Persistence"**

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

2.1 Signaling Theory

Signaling theory by Michael Spence in 1973 stated how different parties with asymmetric information communicate unobservable qualities through observable actions. In his job market model, individuals signal their productivities to potential employers through educational attainment, which functions as a credible indicator of ability because it is more costly for less qualified individuals to obtain. Spence (1973) argues that signaling reduces information asymmetry by allowing outsiders to infer true quality based on observable characteristics, thereby minimizing adverse selection and improving market efficiency. Spence's framework established the basis for understanding how credible signals can differentiate entities of varying quality in environments characterized by uncertainty.

Building on Spence's foundation, Morris (1987) extended signaling theory to the corporate and accounting context, specifically focusing on how managers signal private information to investors. Morris suggests that managers have information advantages regarding the firm's performance and expected future conditions compared to external parties, creating information asymmetry between management and investors. To reduce this asymmetry, managers use accounting policy choices, financial structures, and disclosure practices as credible signals of firm quality and performance stability.

Based on Morris's view, financial leverage and operating cash flow act as signals managers use to communicate about the firm's future that investors cannot observe directly. Taking on debt signals that management is confident the firm will be able to meet those fixed obligations, implying that earnings are expected to remain strong and persistent. OCF strengthens earnings persistence as it provides the liquidity and operational stability needed for earnings to continue in future periods. Strong and steady OCF supports this signal by showing that the company's earnings are supported by cash generated through its main business activities, indicating that the current earnings level is more likely to persist into future periods. Together, leverage decisions and healthy cash flows help reduce information asymmetry and guide investors toward expecting more consistent and sustainable earnings.

In signaling theory, a firm's use of financial leverage acts as a clear signal of management's confidence in the stability and sustainability of future earnings. Information asymmetry occurs because managers hold exclusive information that cannot always be fully disclosed, so investors depend on observable actions such as financing choices to interpret the firm's real prospects (Miglo, 2025).

Taking on higher debt becomes a credible signal, because committing to

fixed interest payments indicates managerial confidence that the firm's future earnings will be stable enough to meet those obligations. This signal is reinforced by the fact that firms with higher leverage receive stricter monitoring from creditors, which encourages managers to be more transparent and maintain accurate financial reporting (Januandika et al., 2025).

Within signaling theory, the firm'soperating cash flow (OCF) serves as a credible signal of its earnings persistence and operational efficiency. When OCF remains strong and stable, it signals that the firm's earnings come from actual cash generated through its main operations. A higher level of OCF indicates that the company can finance its obligations and ongoing activities internally, reinforcing the dependability of future earnings (Sabila et al., 2021; Winingrum W. A. & Adinda, 2024). Likewise, positive OCF provides confidence in the firm's capacity to finance operations and investments without relying heavily on external funding, reinforcing the expectation that its earnings will remain persistent (Sa'diyah & Suhartini, 2022).

2.2 Leverage

Leverage shows how much a company relies on borrowed funds to support its operations and investment activities. It also reflects the firm's ability to meet its obligations in the short and long term. Januandika et al. (2025) explains that the use of leverage can help firms expand their business and improve profitability since additional debt provides funds for daily operations or business growth.

Miglo (2025) states that managers, as insiders, possess private information that is not fully disclosed to outsiders. Because investors cannot directly observe this information, they interpret financing decisions such as the use of debt as a sign that management believes the company can maintain stable earnings going forward. A higher level of leverage can therefore be viewed as a signal of optimism, though its interpretation depends on the firm's actual financial condition.

Moreover, leverage also serves as a financial signal because it reflects obligations that must be repaid and therefore shapes how investors assess a firm's risk and discipline. Firms with higher debt are pushed to maintain stable earnings to meet these commitments, which can strengthen the credibility of leverage as an indicator of future performance (Sabila et al., 2021).

H_1: Leverage has a positive significant effect on earnings persistence.

2.3 Operating Cash Flow

The Cash Flow Statement outlines how the company produces and utilizes cash. Of its three components, operating cash flow is often regarded as the most crucial because it shows the cash generated directly from core business activities. Firms with strong OCF are typically better positioned to continue operations, meet short-term liabilities, and support growth internally without heavy dependence on external financing (Paolone, 2020).

Beyond its role in financial stability, operating cash flow serves as a positive signal to stakeholders by reducing information asymmetry and decision-making risks. OCF shows a positive correlation with earnings persistence, as firms that generate more cash from their core operations tend to exhibit earnings that are more consistent and sustainable over time. This relationship shows how stable OCF enables firms to maintain consistent

operational performance and fund investments internally, thereby supporting enduring earnings quality over time (Sabila et al., 2021; Sa'diyah & Suhartini, 2022).

H_2: Operating cash flow has a positive significant effect on earnings persistence.

RESEARCH METHODOLOGY

This study is classified as quantitative research because it uses numerical data to examine and analyze relationships between variables through statistical methods. Quantitative research focuses on measuring and interpreting relationships among variables using structured numerical data. Based on its level of explanation, this study falls under causal-comparative research, which seeks to identify and explain cause-and-effect relationships between independent variables and a dependent variable.

This study is based on a final samples 332 firm-year observations from 83 companies over a four-year period. The sample consists of Industrial companies listed on IDX based on LSEG (Refinitiv Eikon). During data screening process 15 observations were identified as outliers and excluded from the analysis. As a result, the final dataset consists of 309 firm-year observations. The sample will be examined using descriptive statistics, correlation tests, classical assumption tests, model specification tests, and hypothesis testing, with all analyses conducted using Stata 16 and SPSS 27.

Table 3.1 Table of Sample Criteria

Criteria	Amount
Industrial companies listed on IDX based on LSEG (Refinitiv Eikon)	165
Industrial companies that experience losses during the observation period	(64)
Industrial companies that do not provide complete data required to calculate the research variables	(20)
Total Company	81
Total Period (2021-2024)	4
Total Sample Before Removing Outliers	324
Number of Outliers	(15)
Total Sample After Removing Outliers	309

RESEARCH RESULT AND DISCUSSION

In this study, the descriptive statistics table presents an overview of the total number of samples (N), along with the minimum, maximum, mean, and standard deviation values for each independent and dependent variable.

Table 4.1 Descriptive Statistics

VARIABLES	OBS	MEAN	STD. DEV.	MIN	MAX
EP	309	.020569	.0547283	-.1574526	.2007618
DAR	309	.2149383	.170004	.0013807	.7847894
OCF	309	.0887062	.1138177	-.3358723	.4527845
SIZE	309	27.78444	1.827474	23.30529	33.78996
ROA	309	.0763998	.0648806	.0005096	.3210405
SG	309	.1774919	.2821763	-.6615765	1.268369
CAPINT	309	.502913	.2418555	.0318329	.9487721

The Earnings Persistence (EP) values range from -.1574526 to .2007618, with a mean of .020569 (2.06%). Based on the mean from the 309 firm-year observations, the results show that the sample in general tends to have very low earnings persistence. The mean indicates that only about 2.06% of a company's earnings in the current year are sustained into the following year.

The Leverage (DAR) values range from .0013807 to .7847894, with a mean of .2149383 (21.49%). These results indicates that on average, companies in the sample finance approximately 21.49% of their total assets using debt, indicating a generally conservative capital structure. the relatively low mean shows that most firms rely more on equity than on debt to fund their operations.

The Operating Cash Flow (OCF) values range from -.3358723 to .4527845, with a mean of .0887062 (8.87%), indicating that on average, companies in the sample maintained positive cash flow from operations. The mean indicates that the sample in general generated operating cash flow equivalent to 9% of their total assets.

The Firm Size (SIZE) values range from 23.30529 to 33.78996, with a mean of 27.784444. This indicates that most companies in the sample operate on a relatively large scale.

The Profitability (ROA) values range from .0005096 to .3210405, with a mean of .0763998 (7.64%), showing that the sample in general maintained positive profitability. The mean indicates that the sample companies on average generated a return of 7.64% on their total assets.

The Sales Growth (SG) values range from -.6615765 to 1.268369, with a mean of .1774919 (17.75%), indicates that the sample in general has a positive sales growth. The mean value shows that the sample companies, on average expanded their sales revenue by 17.75% compared to the previous year.

The Capital Intensity (CAPINT) values range from .0318329 to .9487721, with a mean of .502913 (50.29%), indicates that indicating that the sample companies are generally capital-intensive, where the proportion of fixed assets to total assets is approximately 50.29% on average.

Table 4.2 Pearson Correlation Test

Pearson Correlation							
	EP	DAR	OCF	SIZE	ROA	SG	CAP INT
EP	1						
	309						
DAR	-0.0695	1					
	0.2229						
	309	309					
OCF	0.3904**	-0.0652	1				
	0.0000	0.2529					
	309	309	309				
SIZE	-0.0270	0.0932	0.0039	1			
	0.6370	0.1019	0.9459				
	309	309	309	309			
ROA	0.4890**	-0.2931**	0.6162**	-0.0512	1		
	0.0000	0.0000	0.0000	0.3693			
	309	309	309	309	309		
SG	0.4975**	-0.0099	0.1080	-0.0758	0.2107**	1	
	0.0000	0.8631	0.0579	0.1839	0.0002		
	309	309	309	309	309	309	
CAPINT	0.0251	0.3981**	0.3110**	0.1003	-0.0199	0.0670	1
	0.6601	0.0000	0.0000	0.0783	0.7276	0.2405	
	309	309	309	309	309	309	309
**. Correlation is significant at the 0.01 level							

Based on the correlation test analysis, it shows no correlation coefficient exceeding 0.8 between any variables, indicating no strong multicollinearity in the regression model (Herusetya, 2024).

Table 4.3 Normality Test

Shapiro-Wilk W test for normal data					
Variable	Obs	W	V	Z	Prob>Z
EP	309	0.94312	12.440	5.926	0.00000
DAR	309	0.91376	18.861	6.904	0.00000
OCF	309	0.98340	3.631	3.031	0.00122
SIZE	309	0.97694	5.044	3.804	0.00007
ROA	309	0.88358	25.462	7.610	0.00000
SG	309	0.96783	7.037	4.586	0.00000
CAPINT	309	0.96662	7.300	4.673	0.00000
Shapiro-Francia W' test for normal data					
Variable	Obs	W	V	Z	Prob>Z
EP	309	0.94185	13.770	5.578	0.00001
DAR	309	0.91545	20.023	6.374	0.00001
OCF	309	0.98179	4.311	3.108	0.00094
SIZE	309	0.97714	5.415	3.592	0.00020
ROA	309	0.88456	27.338	7.036	0.00016
SG	309	0.96642	7.953	4.410	0.00001
CAPINT	309	0.96988	7.132	4.178	0.00001

Skewness and Kurtosis test for normality					
				Joint Test	
Variable	Obs	Pr (skewness)	Pr (kurtosis)	Adj chi2 (2)	Prob>chi2
EP	309	0.0135	0.0003	16.14	0.0003
DAR	309	0.0000	0.1017	32.38	0.0000
OCF	309	0.6261	0.0019	9.08	0.0107
SIZE	309	0.0002	0.0750	14.88	0.0006
ROA	309	0.0000	0.0013	49.81	0.0000
SG	309	0.0000	0.0155	20.97	0.0000
CAPINT	309	0.4696	0.0000	64.07	0.0000

Based on the results, it can be concluded that none of the variables in this study follow a normal distribution. The Shapiro-Wilk and Shapiro-Francia tests consistently showed probability values (p-values) far below the 5% significance level for all variables. Along with the Skewness-Kurtosis test, which also shows the result of (Prob>chi2 < 0.05) rejected the assumption of normality for all variables.

However, the hypothesis testing can still be conducted considering that the number of data observations 309 has exceeded the minimum threshold of 200 observations. Under this condition, the normality assumption can be considered fulfilled due to the large sample size. (Herusetya, 2024). To further address the issue of non-normally distributed data, several common methods are available, such as Winsorizing, the Box-Cox transformation, or using robust standard errors in regression analysis (Herusetya, 2025). In this study, winsorizing and box-cox transformation are not applied but robust standard errors regression will be used.

Table 4.4 VIF Test

Variable	VIF	1/VIF
OCF	1.95	0.513550
ROA	1.93	0.518471
CAPINT	1.43	0.700073
DAR	1.32	0.757634
SIZE	1.06	0.940561
SG	1.02	0.979826
Mean VIF	1.45	

Based on result, it shows that all variables have VIF values < 5, with the highest is 1.95 for the OCF variable and the lowest is 1.02 for the SG variable. The mean VIF of 1.45 further indicates that There is no substantial correlation detected among the independent variables. Under these conditions, the regression coefficient estimates can be regarded as reliable for further hypothesis testing.

Table 4.5 Autocorrelation Test

Model Summary[b]

Model	R	R^2	Adjusted R^2	Std.Error of the Estimate	Durbin-Watson
1	.651[a]	.424	.413	.04194	1.933

Using the Durbin–Watson critical values (dL = 1.78105 and dU = 1.84657), the test statistic of 1.933 is above both thresholds, meaning it is neither in the positive autocorrelation region nor in the inconclusive zone. It also falls below the upper acceptance bound (4 − dU = 2.15343), placing it squarely within the no-autocorrelation region. Therefore, the model passes the Durbin–Watson test and shows no evidence of either positive or negative autocorrelation.

Table 4.6 Heteroscedasticity Test

Heteroskedasticity Test			
Test	chi2	df	Prob > chi2
Breusch-Pagan / Cook-Weisberg	0.85	1	0.3564
White's	42.83	27	0.0272

The Breusch–Pagan test indicates no heteroskedasticity (χ^2 = 0.85, p = 0.3564 > 5%), while the White test suggests heteroskedasticity (χ^2 = 42.83,

p = 0.0272 < 5%), leading to conflicting results but overall indications of heteroskedasticity in the model. To address this issue, several methods are available, including Box–Cox transformation, outlier trimming, winsorization, and robust regression techniques; in this study, robust standard errors are used to ensure reliable regression results despite potential heteroskedasticity.

Table 4.7 Adjusted R^2

Adjusted R^2	
R^2	0.4241
Adjusted R^2	0.4126

Based on the table above, the R2 value is 0.4241 (42.41%) and the adjusted R-squared value is 0.4126 (41.26%). Based on the Adjusted R2 value of 0.4216, it can be seen that the independent variables (leverage and operating cash flow) and control variables (firm size, profitability, sales growth, and capital intensity) collectively explain 41.26% of the variation in the dependent variable (earnings persistence). The remaining 58.74% is explained by the other variables not included in this regression model.

Table 4.8 F-Test

F-Test or ANOVA Test			
Without Robust Standard Errors		With Robust Standard Errors	
F (6, 302)	37.06	F (6, 302)	40.19
Prob > F	0.0000	Prob > F	0.0000

The model without robust standard errors produces an F-statistic of 37.06 with degrees of freedom (6, 325), while the model with robust standard errors shows an F-statistic of 40.19 using the same degrees of freedom. Both models show a p-value of 0.0000, which is well below the significance threshold (α = 1%, 5%, 10%). This means the null hypothesis of the F-test that all regression coefficients are equal to zero can be confidently rejected.

The results confirm that taken together, the independent variables help explain variations in the dependent variable. This suggests that the model's validity is not undermined by potential issues like heteroskedasticity or other assumption violations. Overall, these findings show that the model is statistically suitable for further analysis, particularly in examining the individual effects of each independent variable.

Table 4.9 Multiple Linear Regression

Robust Standard Errors Regression						
EP	Coef.	Robust Std. Err.	t	P> |t|	[95% Conf. Interval]	
DAR	.0217258	.0156309	1.39	0.166	-.0090335	.0524851
OCF	.0907896	.0287512	3.16	0.002	.0342115	.1473677
SIZE	.0006589	.0011451	0.58	0.565	-.0015946	.0029123
ROA	.2556667	.0624644	4.09	0.000	.1327462	.3785873
SG	.0817072	.0111695	7.32	0.000	.0597272	.1036871
CAPINT	-.0192016	.0114361	-1.68	0.094	-.0417061	.0033029
_CONS	-.0348391	.0331541	-1.05	0.294	-.1000815	.0304032

The multiple regression model is as follows:

EP = -0.0348 + 0.0217 DAR + 0.0908 OCF + 0.00066 SIZE + 0.2557 ROA + 0.0817 SG - 0.0192 CAPINT + ε

The interpretation of the regression model is as follows:

1. The constant value is negative -0.0348391 and statistically insignificant with p-value is 0.294, indicating that the baseline level of earnings persistence when all independent variables are zero, is not meaningful for interpretation.
2. DAR has a coefficient of 0.0217 with a p-value of 0.166, which means the effect is not statistically significant. This suggests that the level of debt does not have a clear influence on whether earnings are stable over time.
3. OCF has a coefficient of 0.0908 and a p-value of 0.002, showing a positive and significant effect. This indicates that companies with stronger operational cash inflows are more likely to maintain stable earnings.
4. The coefficient of SIZE is 0.00066 with a p-value of 0.565, meaning firm size does not significantly affect

earnings persistence. Larger firms in the sample do not necessarily have more stable earnings than smaller ones.

5. Return on Assets (ROA) shows a coefficient of 0.2557 with a p-value of 0.000, indicating a strong and significant relationship. This result shows that higher profitability is closely associated with better earnings stability.
6. Sales growth has a coefficient of 0.0817 and a p-value of 0.000, suggesting a strong positive effect. Firms that experience sales growth tend to show more consistent earnings performance.
7. Capital intensity (CAPINT) has a coefficient of -0.0192 with a p-value of 0.094, which is significant at the 10% level. This suggests that higher investment in fixed assets may slightly reduce earnings stability due to higher fixed costs and depreciation expenses.

Table 4.10 Hypothesis Test

Robust Standard Errors Regression						
EP	Coef.	Robust Std. Err.	t	P> |t|	[95% Conf. Interval]	
DAR	.0217258	.0156309	1.39	0.166	-.0090335	.0524851
OCF	.0907896	.0287512	3.16	0.002	.0342115	.1473677
SIZE	.0006589	.0011451	0.58	0.565	-.0015946	.0029123
ROA	.2556667	.0624644	4.09	0.000	.1327462	.3785873
SG	.0817072	.0111695	7.32	0.000	.0597272	.1036871
CAPINT	-.0192016	.0114361	-1.68	0.094	-.0417061	.0033029
_CONS	-.0348391	.0331541	-1.05	0.294	-.1000815	.0304032

Based on the output of the Robust Standard Errors Regression above, Stata reports two-tailed p-values by default. However, because this study uses directional hypotheses, the significance of the leverage (DAR) and operating cash flow (OCF) variables was evaluated using a one-tailed test. Therefore, the two-tailed p-values from Stata were divided by two and then compared with the 1%, 5%, and 10% significance levels to determine the one-tailed significance. In cases where the p-value is already above the significance threshold, the effect is considered insignificant regardless of direction.

For the independent variable Leverage (DAR) shows a coefficient of .0217258 was obtained with a p-value of 0.166. This p-value is above all significance levels (1%, 5%, and 10%), indicating that leverage does not have a statistically significant effect on earnings persistence. The conclusion for these results shows that the H stated leverage has a positive significant effect on earnings persistence is rejected.

For the independent variable Operating Cash Flow (OCF) shows a coefficient of .0907896 remains statistically significant when evaluated using a one-tailed test. The two-tailed p-value of 0.002 corresponds to a one-tailed p-value of 0.001, which is well below the 1% significance level, indicating that operating cash flow does have a statistically significant effect on earnings persistence. The conclusion for these results shows that the H2 stated operating cash flow has a positive significant effect on earnings persistence is accepted.

CONCLUSION

Based on the analysis of the data, the conclusion of this study is as follows:

1. Leverage does not have a significant effect on earnings persistence.
2. Operating cash flow does have a positive significant effect on earnings persistence.

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