

Effect of Debt Level, Operating Cash Flow, Sales Volatility and Managerial Ownership on Earning Persistence

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ABSTRACT

This study aims to examine the variables of debt level, operating cash flow, sales volatility and managerial ownership on earnings persistence in Property & Real Estate Sector Companies listed on the Indonesia Stock Exchange in 2017-2020. The research method used in this study is the method quantitative research. The sample was taken using a purposive sampling technique where the population was 63 companies and a sample that met the specified criteria was 11 companies listed on the Indonesia Stock Exchange in 2017-2020. The statistical analysis used in this study was multiple linear regression analysis. The results of this study indicate that debt level has no significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Operating cash flow has a positive and significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Sales volatility has a negative and significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Managerial ownership has no significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020.

Keywords: Debt Level, Operating Cash Flow, Sales Volatility, Managerial Ownership, Earnings Persistence

INTRODUCTION

The Property & Real Estate sector is one of the important indicators to assess a country's economic growth. Increased

activity and interest in this industry can attract and influence business development partnerships in Property & Real Estate companies. As evidenced by the increasing number of the Property & Real Estate sector which expands the land bank (assets in the form of land), although the demand for housing is quite large every year, it is possible that the company's profits generated by Property & Real Estate companies are not persistent or unsustainable. Earnings persistence is often used as a consideration; there is a steep decline in profit fluctuations in a short time causing the persistence of earnings to be questioned so that investors tend to pay attention to the persistence of earnings that are able to survive to invest.

Earnings persistence is a measure that explains the company's ability to reflect the sustainability of current and future earnings that are said to be persistent if they do not fluctuate in each period (Suwandika and Astika, 2013). Stable earnings can provide good signal information (good news), while unstable earnings can provide bad signal information (bad news). In relation to the importance of earnings persistence for investors and other users, an analysis of the factors that can affect earnings persistence is carried out.

The first factor that is thought to influence earnings persistence is the level of debt. The large level of corporate debt will cause the company to increase earnings persistence with the aim of maintaining

good performance in the eyes of auditors and investors. This theory is in accordance with research (Septavita, 2016) where the results of the study show that the level of debt affects earnings persistence. However, it is different from research (Kusuma and Sadjiarto, 2014) which shows the level of debt has no effect on earnings persistence.

The second factor is operating cash flow, operating cash flow has information that can assess the real success or achievement of the company. According to Septavita (2016) if the operating cash flow of a company is positive, then the company is in good profit condition. So that the higher the operating cash flow to profit, the higher the persistence of the profit. In addition, a positive operating cash flow condition tends to give more confidence to the company's ability. Research conducted (Dewi and Putri, 2015) shows that operating cash flow has an effect on earnings persistence.

The third factor, namely sales volatility, is a fluctuation or movement that varies from one period to another. The high sales volatility for several periods must be questioned, because this indicates disturbances and problems with sales information, so the company is not persistent and cannot be a reference for predicting profits in the next period (Kusuma and Sadjiarto, 2014). Investors prefer sales levels that are relatively stable or have low volatility. The more unstable sales as indicated by high sales volatility, the lower the persistence of profits and vice versa. Indra's research (2014) shows that sales volatility has a negative and significant effect on earnings persistence. However, it is different from Sulastri's research (2014) which shows that sales volatility has no effect on earnings persistence.

In 2018 PT. Agung Podomoro Land Tbk recorded a net profit of Rp193.7 billion, down 89.7% from Rp1,882.6 billion in 2017 and in 2019 again experienced a decrease in net profit of Rp120.8 billion, down 41.3% from Rp205.8 billion in 2018. This can be seen from the earnings persistence ratio of

PT. Agung Podomoro Land Tbk in 2018 seemed to experience quite large fluctuations compared to the previous year. In 2018, PT. Agung Podomoro Land Tbk in its earnings persistence ratio of -0.060 in 2019 fell again with a earnings persistence ratio of -0.003 and increased again in 2020, which recorded a ratio of 0.003.

At PT. Metropolitan Kentjana Tbk seems to show an inconsistent earnings persistence ratio because it experienced a fairly large decline in fluctuations from 2017-2020. This earnings persistence is not followed by an increase in debt levels and operating cash flows. The debt level ratio at PT. Metropolitan Kentjana Tbk in 2020 amounted to 0.264, an increase in 2017-2019. However, the earnings persistence ratio fluctuated sharply. This is inversely proportional to the theory of the influence of debt where the amount of the company's debt level will cause the company to increase earnings persistence. In the cash flow ratio of PT. Metropolitan Kentjana Tbk has a positive value for the year from 2018-2020 but the earnings persistence ratio shows a decline. PT. Metropolitan Land Tbk shows low sales volatility but the earnings persistence ratio is also low, which has decreased from 2018-2020. At PT. Metropolitan Kentjana Tbk managerial ownership ratio in 2017-2019 increased but earnings persistence ratio decreased.

Earnings persistence is also related to the company's stock price performance in the capital market which is manifested in the return of results. The next factor in the role of managerial ownership according to Khafid (2012) the notion of managerial ownership is the amount of share ownership by management and company directors. Management's participation in owning shares is increasing, it is able to encourage further increase in performance in managing the company. This view is in accordance with Jumiaty and Ratnadi (2014) and Hastutiningtyas and Eni (2019) showing that sales volatility affects earnings persistence. Meanwhile, Nuraeni et al.

(2018) states that managerial ownership has no effect on earnings persistence.

This study aims to examine the variables of debt level, operating cash flow, sales volatility and managerial ownership on earnings persistence in Property & Real Estate Sector Companies listed on the Indonesia Stock Exchange in 2017-2020.

LITERATURE REVIEW

Effect of Debt Level on Earnings Persistence

The large level of debt will cause the company to increase earnings persistence, which will encourage the company to maintain its performance so that it is seen as better by creditors and auditors so that creditors continue to give confidence to the company, continue to provide funds and obtain easy payment processes (Sulastri, 2014). However, if management is unable to use funding from debt efficiently, the possibility of the persistence of profits generated is small, so the company's ability to pay interest and principal loans is also small (Sarah et al., 2014).

Effect of Operating Cash Flow on Earnings Persistence

One that is used as a benchmark in making decisions other than profit is operating cash flow, the higher the operating cash flow value, the higher the company's earnings persistence and the lower the operating cash flow, the lower the earnings persistence of the company (Dewi and Putri, 2015). The large number of operating cash flows will increase earnings persistence. So operating cash flow is often used as a check on earnings persistence.

Effect of Sales Volatility on Earnings Persistence

Sales volatility indicates fluctuations in the operating environment and a large tendency to use forecasts and estimates, causing large estimation errors resulting in

low earnings persistence because a larger deviation rate will lead to lower earnings persistence (Sulastri, 2014). This indicates that the level of prediction of future earnings is also low. The more unstable sales as indicated by high sales volatility, the lower the persistence of earnings. conversely, the lower the sales volatility, the higher the persistence of company profits (Kusuma and Sadjiarto, 2014).

Effect of Managerial Ownership on Earnings Persistence

According to Jumiati and Ratnadi (2014) managerial ownership can be used to determine the quality of future earnings which is reflected in the earnings persistence to period (Hastutiningtyas and Eni, 2019). Therefore, it is expected that a positive relationship between managerial ownership and earnings can occur.

RESEARCH METHODS

The research method used in this study is the method quantitative research. Quantitative research is a type of research that presents numbers and then analyzed using statistics. The data used in this study is secondary data, in the form of annual financial statements of in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. The data used in this study were sourced from the official page (www.idx.co.id).

The sample was taken using a purposive sampling technique where the population was 63 companies and a sample that met the specified criteria was 11 companies listed on the Indonesia Stock Exchange in 2017-2020.

The statistical analysis used in this study was multiple linear regression analysis. Multiple linear analysis plays a role in assessing the relationship or influence of the dependent variable with the independent variable.

RESULT

Descriptive Statistics

Table 1. Descriptive Statistics
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
X ₁ _ Debt Level	44	.079	.756	.44887	.170996
X ₂ _ Operating Cash Flow	44	-808,211,972,000	4,647,444,612,879	587,422,329,413.57	985,717,364,916.079
X ₃ _ Sales Volatility	44	.001	.083	.03132	.021719
X ₄ _ Managerial Ownership	44	.000	.607	.03854	.104249
Y_ Earnings Persistence	144	-.080	.068	-.00689	.029801
Valid N (listwise)	44				

Based on the data from Table 1, it can be explained that there are 44 observations obtained from 11 samples of Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Based on the results of the descriptive statistics test as follows:

- Debt level variable with a minimum value of 0.079 owned by PT. Roda Vivatex Tbk in 2020 with a maximum value of 0.756 at PT. PP Properti Tbk in 2020 while the mean value is 0.44887 and with a standard deviation of 0.170996.
- Operating cash flow variable with a minimum value of -808,211,972,000 contained in PT. Agung Podomoro Land in 2018 and a maximum value of 4,647,444,612,879 at PT. Bumi Serpong Damai Tbk in 2017 while the mean value is 587,422,329,413.57 and with a standard deviation of 985,717,364,916.079.
- Sales volatility variable with a minimum value of 0.001 at PT. Roda Vivatex Tbk in 2020 with a maximum value of 0.083 at PT. Metropolitan Kentjana Tbk in 2017 while the mean value is 0.03132 and with a standard deviation of 0.021719.
- Managerial ownership variable with a minimum value of 0.000 found at PT. Intiland Development Tbk in 2017 with a maximum value of 0.607 at PT. Intiland Development Tbk in 2019 while the mean value is 0.03854 and with a standard deviation of 0.104249.
- Earning persistence variable with a minimum value of -0.080 at PT. Pakuwon Jati Tbk in 2020 with a maximum value of 0.068 at PT. Bumi Serpong Damai Tbk in 2017 while the mean value is -0.00689 and with a standard deviation of 0.029801.

Partial Hypothesis Testing (t-Test)

Table 2. Partial Hypothesis Testing (t-Test)
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-.013	.015		-.847	.402		
X ₁ _Debt Level	.025	.026	.143	.953	.346	.922	1.085
X ₂ _Operating Cash Flow	1.277E-014	.000	.422	2.583	.014	.781	1.281
X ₃ _Sales Volatility	-.455	.212	-.331	-2.142	.038	.872	1.146
X ₄ _Managerial Ownership	.034	.042	.118	.796	.431	.945	1.058

a. Dependent Variable: Y_ Earnings Persistence

The results of this study indicate that debt level has no significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Operating cash flow has a positive and significant

effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Sales volatility has a negative and significant effect on earnings persistence in Property & Real Estate Sector Companies

on the Indonesia Stock Exchange in 2017-2020. Managerial ownership has no significant effect on earnings persistence in

Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020.

Simultaneous Hypothesis Testing (F-Test)

Table 3. Simultaneous Hypothesis Testing (F-Test) ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.007	4	.002	2.234	.083 ^b
	Residual	.031	39	.001		
	Total	.038	43			
a. Dependent Variable: Y_ Earnings Persistence						
b. Predictors: (Constant), X ₄ Managerial Ownership, X ₁ Debt Level, X ₃ Sales Volatility, X ₂ Operating Cash Flow						

Based on the results of the test table above, Fcount is 2.234 with Ftable is 2.61 and with a significant value of 0.083 > 0.05, meaning that the independent variables are debt level (X1), operating cash flow (X2), sales volatility (X3), managerial ownership (X4) simultaneously has no effect on earnings persistence (Y).

Coefficient of Determination Test

Table 4. Coefficient of Determination Test Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.432 ^a	.186	.103	.028225	2.409
a. Predictors: (Constant), X ₄ Managerial Ownership, X ₁ Debt Level, X ₃ Sales Volatility, X ₂ Operating Cash Flow					
b. Dependent Variable: Y Y_ Earnings Persistence					

Based on the results of the test table above, the R square value is 0.186 or 18.6%. This shows that the debt level, operating cash flow, sales volatility, and managerial ownership can explain earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020 of 18.6% and 81.4% influenced by other variables that are not involved in this research.

CONCLUSION AND SUGGESTION

The results of this study indicate that debt level has no significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Operating cash flow has a positive and significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Sales volatility has a negative and significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020. Managerial ownership has no

significant effect on earnings persistence in Property & Real Estate Sector Companies on the Indonesia Stock Exchange in 2017-2020.

Suggestions for this research are:

1. For further researchers, it is hoped that research will not only be limited to Property & Real Estate Companies but also try and test other sectors such as manufacturing companies, banking, trading companies, or other sub-sector service companies.
2. Future researchers are expected to be able to add independent variables in the research model used in the study such as the audit fee variable, the difference between fiscal and accrual income.
3. Future researchers are expected to use a longer and more recent observation year period so that it will provide greater possibilities in obtaining results that are close to the actual conditions.

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