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The Effect of Cost Efficiency and Operating Cash Flow on Earnings Quality: The Mediating Role of Earnings Persistence

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Abstract

Purpose – The mediating function of earnings persistence is evaluated in this study, which also looks at the impact of operating cash flow and cost efficiency on earnings quality and earnings persistence.
Design/Methodology/Approach – This study employs a quantitative approach using secondary data from the annual financial reports of companies listed in the Miscellaneous Industries sector of the Indonesia Stock Exchange (IDX) for 2021–2025. Purposive sampling produced a final sample of 95 firm-year observations. To determine whether there were any direct or indirect relationships between the variables, the researchers used regression and path analysis.
Results – Operating cash flow is found to affect earnings persistence, whereas cost efficiency has no effect. Earnings persistence has a negative effect on earnings quality. Cost efficiency does not affect earnings quality, while operating cash flow does. Earnings persistence mediates the relationship between operating cash flow and earnings quality, but the mediating effect is negative; it does not mediate the relationship between cost efficiency and earnings quality.
Originality – This study integrates cost efficiency and operating cash flow as internal factors related to earnings persistence, with earnings persistence serving as the mechanism linking these factors to earnings quality, using Signaling Theory and the Resource-Based View.
Research limitations/Implications – The use of secondary data and certain proxies limits the measurement of research variables. Future research could expand the observation period and sectors and use alternative measures and other variables to gain a more comprehensive understanding of earnings quality.

Keywords: Cost Efficiency, Earnings Persistence, Earnings Quality, Operating Cash Flow

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Introduction

Earnings quality is an important factor in evaluating a company's performance because it reflects the ability of earnings to reliably depict economic conditions. Earnings quality is also related to investors' assessments of a company's condition (Helmi et al., 2025). One characteristic of earnings quality is earnings persistence, that is, the ability of current-period earnings to reflect future performance (Rahman, 2023). Dang & Vu (2022) identify persistence as a characteristic of earnings quality, while Indawati and Huda (2026) linkit to future earnings and cash flows. However, the relationship between earnings persistence and earnings quality continues to yield mixed results (Halawa, 2024; Danibrata, 2024; Kusumawardhani dan Setyorini, 2024; Lubis & Sari, 2024).

Table 1
Comparison of Net Income and Operating Cash Flow

Company	Financial Measure	2023	2024	2025
ASII	Net Income	33,839	33,901	32,769
	Operating Cash Flow	33,746	45,029	44,694
SMSM	Net Income	950*	1,020*	1,130
	Operating Cash Flow	1,117	1,176	1,124
AUTO	Net Income	1,840	2,030	2,210
	Operating Cash Flow	1,836	1,533	1,944

Table Source: Annual Reports and Consolidated Financial Statements Processed Data (2026)

Patterns observed in the Miscellaneous Industries sector further illustrate the relevance of this issue. Changes in net income are not always accompanied by proportional changes in operating cash flow. For example, ASII recorded relatively stable net income during 2023–2025, while its operating cash flow increased substantially in 2024. Similarly, SMSM experienced consistent growth in net income, whereas its operating cash flow remained relatively stable. In AUTO, net income increased over the period, while operating cash flow initially declined before increasing again in 2025. These patterns indicate that reported earnings and operating cash flow may exhibit different dynamics across periods, providing a relevant context for examining factors associated with earnings persistence and earnings quality.

Operating cash flow has the potential to support earnings persistence because it reflects the ability of core activities to generate cash. Cash flow also plays a role in financial management and operational stability. Suranta et al. (2021) provide evidence that cash flow patterns contain relevant information about a company's financial condition. Almomani et al. (2023), Triani and Abbas (2023), and Algantya (2024) found a positive effect of operating cash flow on earnings persistence, whereas Febriani and Firmansyah (2022) found a negative relationship.

In addition to cash flow, cost efficiency has the potential to sustain earnings through resource optimization and cost control. Zhang et al. (2023) found a positive relationship between operational efficiency and earnings persistence, while Algantya (2024) demonstrated that cost inefficiency is associated with increased earnings uncertainty. Putri Meliyansyah et al. (2024) also found a link between efficiency and persistence, while Salsabila and Murwaningsari (2026) showedthat longer operating cycles reduce earnings persistence. However, research specifically examining the effect of cost efficiency on earnings persistence remains limited.

In light of the foregoing, several research gaps remain. First, previous studies have reported inconsistent findings regarding the effect of operating cash flow on earnings persistence. Almomani et al. (2023), Triani and Abbas (2023), and Algantya (2024) found a positive effect, whereas Febriani and Firmansyah (2022) reported a negative relationship. Second, although previous research has examined operational efficiency and related efficiency measures, evidence specifically addressing cost efficiency as a determinant of earnings persistence remains limited. Third, previous studies have reported conflicting findings regarding the relationship between earnings persistence and earnings quality (Halawa, 2024; Kusumawardhani dan Setyorini, 2024; Lubis & Sari, 2024). This study develops an integrated model by identifying operating cash flow and cost efficiency as factors related to earnings persistence, and earnings persistence as a mediating mechanism between operating cash flow and earnings quality. The novelty of this study lies in its explanation of the mechanism underlying this relationship, the use of consistent financial statement-based measures, and its application to companies in the "Miscellaneous Industries" sector listed on the Indonesia Stock Exchange—a group that has received relatively limited attention in studies examining this integrated relationship.

This study aims to analyze the effects of cost efficiency and operating cash flow on earnings persistence; to analyze the effects of earnings persistence, cost efficiency, and operating cash flow on earnings

quality; and to analyze the role of earnings persistence in mediating the effects of cost efficiency and operating cash flow on earnings quality. The Miscellaneous Industries sector is selected because its business activities involve cost management, resource utilization, and operating cash generation, which are relevant to the variables examined in this study. This study contributes to the management accounting literature by providing empirical evidence on the relationships among cost efficiency, operating cash flow, earnings persistence, and earnings quality, while extending the understanding of earnings persistence as a potential mediating mechanism. From a practical perspective, the findings may provide useful information for management and financial statement users in evaluating the sustainability and quality of reported earnings.

Literature Review and Hypothesis Development

Resource-Based View (RBV) Theory

Under the Resource-Based View (RBV), an organization's ability to manage and utilize its internal resources sustainably determines how long its performance can last. In this study, cost efficiency is defined as an organization's skill in managing expenses while making the most of its resources. Arbelo et al. (2021) explain that cost efficiency relates to the ability to produce a certain level of output with optimal cost usage. Indawati and Rif'atul Huda (2026) also show that firm performance related to resource management is associated with earnings persistence, future profits, and future cash flows. This perspective serves as the basis for explaining the role of a firm's internal capabilities in supporting profit sustainability. From the perspective of the Resource-Based View (RBV), a company's ability to optimally manage its internal resources supports the achievement of sustainable performance. Cost efficiency reflects this ability through the optimal use of resources and costs (Arbelo et al., 2021). Cost efficiency can support earnings sustainability, thereby influencing earnings persistence (H1), and generate profits that better reflect the firm's economic performance, thereby influencing earnings quality (H4). Through this persistence channel, cost efficiency ultimately contributes to earnings quality (H6).

Signaling Theory

Spence (1973) explained that information communicated by a firm can help external parties assess its condition and future prospects.Both operational cash flow and cost efficiency are measures of a company's capacity to manage its resources effectively, in addition to showing how well the business is doing. Another attribute associated with earnings quality is earnings persistence, which indicates how long earnings are likely to last (Budiman et al., 2025).

Cost Efficiency and Earnings Persistence

Cost efficiency reflects a company's ability to manage operating costs relative to revenue. From a Resource-Based View (RBV) perspective, effective cost management is an internal capability that may support sustained performance by maintaining margins and controlling expenses. Zhang et al. (2023), Himawan et al. (2026), and Fillio and Diana (2024) identified relationships between operational efficiency and earnings persistence. However, operational efficiency and cost efficiency are distinct constructs, so these findings provide related rather than direct evidence. Sloan (1996) demonstrated that accrual and cash flow components exhibit different levels of persistence, indicating that earnings persistence partly depends on earnings composition. Although cost efficiency may support stable operating performance, it does not necessarily ensure persistent earnings. Given the limited direct evidence, this study examines whether cost efficiency contributes to earnings persistence.

H1: Cost efficiency has a positive effect on earnings persistence.

Operating Cash Flow and Earnings Persistence

Operating cash flow reflects the ability of a company's core activities to generate cash. Strong operating cash flow indicates that core activities support earnings, thereby increasing the likelihood that earnings will be sustained in the following period. Almomani et al. (2023), Triani and Abbas (2023), and Algantya (2024) found a positive effect of operating cash flow on earnings persistence. In contrast, Febriani and Firmansyah (2022) found a negative relationship in the infrastructure, utilities, and transportation sectors. This discrepancy suggests that the relationship between the two variables still needs to be tested in different contexts. According to Signaling Theory, the ability to generate operating cash flow provides information about a company's operational strength.

H2: Operating cash flow has a positive effect on earnings persistence.

Earnings Persistence and Earnings Quality
Foundational literature provides further support for examining earnings persistence as an attribute of earnings quality. Dechow and Dichev (2002) document a positive association between accrual quality and earnings persistence, indicating that the reliability of accrual estimates is relevant to the sustainability of reported earnings. Francis et al. (2004) also examine earnings persistence as an accounting-based earnings attribute. Furthermore, Dechow et al. (2010) explain that earnings persistence and accrual-based measures represent distinct proxies for earnings quality, and that the interpretation of earnings quality depends on the research context and the decision being considered. Taken together, these studies provide a theoretical and empirical foundation for examining the relationship between earnings persistence and earnings quality, while recognizing that the strength and direction of this relationship may depend on how earnings quality is operationalized. The term "earnings persistence" describes how well earnings in one period carry over into the next. More persistent earnings carry more information about how long performance is likely to last. Dang & Vu (2022) linked persistence to earnings quality characteristics, while Indawati and Rif'atul Huda (2026) found a relationship between persistence and future earnings and cash flows. The relationship between persistence and earnings quality, however, has not yielded consistent evidence. Danibrata (2024) and Halawa (2024) found a significant effect, whereas Kusumawardhani dan Setyorini (2024) and Lubis and Sari (2024) found no significant effect. Ubaidikah (2022) found a negative effect. This inconsistency provides a basis for re-examining the relationship between earnings persistence and earnings quality.
H3: Earnings persistence has a positive effect on earnings quality.

Cost Efficiency and Earnings Quality
Cost efficiency reflects a company's ability to optimize resource utilization and control operating costs (Arbelo et al., 2021). From a Resource-Based View (RBV) perspective, efficient cost management is an internal capability that may support earnings quality by reducing resource waste and improving the stability of operating performance. However, cost efficiency does not necessarily guarantee higher earnings quality, as the latter also depends on the reliability of reported earnings and the underlying accounting information. Given the limited direct empirical evidence, this study examines whether cost efficiency contributes to earnings quality.
H4: Cost efficiency has a positive effect on earnings quality.

Operating Cash Flow and Earnings Quality
Operating cash flow reflects a company's ability to generate cash from its core operating activities. Adequate operating cash flow indicates that reported earnings are supported by operational activities rather than solely by accrual components, providing an indication of the company's underlying financial condition. Previous studies have examined the relationship between operating cash flow and earnings quality, while Indawati and Rif'atul Huda (2026) and Almomani et al. (2023) provide additional evidence regarding the relationship between operating cash flow and earnings persistence. These findings suggest that operating cash flow provides relevant information for assessing the sustainability and quality of reported earnings. Therefore, operating cash flow is expected to have a positive effect on earnings quality. H5: Operating cash flow has a positive effect on earnings quality.

Earnings Persistence as a Mediating Variable
Earnings persistence is used as an intervening variable to explain the mechanism underlying the relationship between a company's operational capabilities and earnings quality. Efficient cost management and the ability to generate cash from core activities can create conditions that support earnings persistence. This persistence further provides information regarding the sustainability of performance and is related to earnings quality (Indawati & Rif'atul Huda, 2026). Thus, earnings persistence is not only viewed as a variable related to earnings quality but also as a mechanism transmitting the effects of cost efficiency and operating cash flow to earnings quality. Cost efficiency enables companies to optimize the use of resources and control costs on a sustainable basis, thereby supporting earnings persistence, which is in turn linked to earnings quality. Thus, earnings persistence serves as the mechanism through which cost efficiency influences earnings quality.
H6: Earnings persistence mediates the effect of cost efficiency on earnings quality.

Strong operating cash flow reflects a company's ability to generate cash from its core activities, which can support the sustainability of earnings and enhance earnings persistence. This earnings persistence, in turn, serves as the mechanism linking operating cash flow to earnings quality.
H7: Earnings persistence mediates the effect of operating cash flow on earnings quality.

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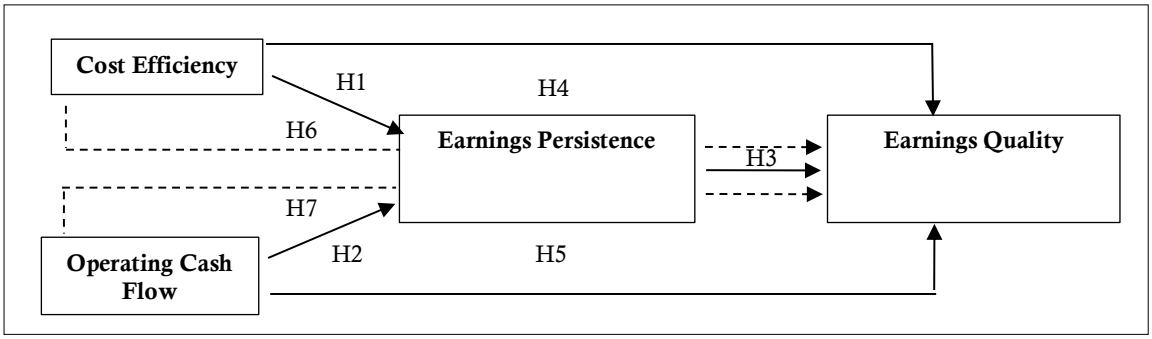


Figure 1
Research Framework
Developed by Researchers Based on Theoretical Analysis and Previous Research (2026)

Methods

This study uses a quantitative approach with secondary data. Data were collected from annual financial reports that are publicly available on the Indonesia Stock Exchange (IDX) website as well as from the websites of individual firms. The 260 financial reports used in this study are from 52 businesses listed on the Indonesia Stock Exchange (IDX) in the miscellaneous industries sector from 2021 to 2025. Companies listed on the IDX in the miscellaneous industries category provided the financial statements utilized for this study's sample. This study used the purposive sampling method. Sugiyono (2018) asserts that purposive sampling is used to select a sample based on predetermined criteria. The following criteria were applied to select the sample:

1. Companies in the Miscellaneous Industries sector listed on the Indonesia Stock Exchange (IDX) for consecutive years during the 2021–2025 period.
2. Companies that published complete financial statements during the 2021–2025 period.
3. Companies whose fiscal year ended on December 31 during the 2021–2025 period.

Based on these criteria, 95 firm-year observations were obtained and used as the final sample of the study.

Table 2
Sample Selection

Sample Selection Criteria	Excluded	Number
Companies in the Miscellaneous Industry sector listed on the Indonesia Stock Exchange (IDX) during 2021–2025	-	52
Companies with complete financial statements for the period 2021–2025	(17)	35
Companies with a fiscal year ending on December 31 during 2021–2025	(2)	33
Observation Period		**5 years**
Total Units of Analysis		**33 × 5 = 165**
Outlier Observations Excluded	**(70)**	
Total Sample Observations for 2021–2025		**95**

Table Source: Processed Data (2026)

The study examines cost efficiency, operating cash flow, earnings persistence, and earnings quality using 95 observations from firms' annual financial reports for 2021–2025. Further details are provided in Table 2. Cost efficiency is measured as net sales divided by operating expenses, operating cash flow as operating cash flow divided by total assets, earnings persistence as the regression coefficient (β) of current earnings on prior-period earnings, and earnings quality as operating cash flow divided by net income. Earnings data for 2020 were included to provide prior-year earnings for 2021 observations. Firms with negative net income were retained if their financial data were valid; no zero-net-income observations were identified. Near-zero net-income observations were retained without adjustment, although they may produce extreme ratios. Data were processed according to these operational definitions and analyzed using descriptive statistics, linear regression, classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), and hypothesis tests (t-test and coefficient of determination).

Research Results

This study examines the effects of cost efficiency and operating cash flow on earnings persistence and earnings quality, with earnings persistence as the mediating variable. To identify the direct and indirect effects among the variables, two regression models were estimated. The seven proposed hypotheses were then tested.

Table 3
Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Cost Efficiency	1.87	114.29	10.5600	30.21925
Operating Cash Flow	-0.10	0.32	0.0393	0.10065
Earnings Persistence	-0.78	5.06	0.8914	1.65545
Earnings Quality	-0.20	0.08	-0.0214	0.07037

Table Source: Processed Data (2026)

The descriptive statistics in Table 3 reveal considerable variation across the 95 firm-year observations. Cost efficiency has a mean of 10.5600 and a standard deviation of 30.21925, with values ranging from 1.87 to 114.29. The standard deviation substantially exceeds the mean, indicating considerable dispersion in cost efficiency across the sampled observations. Operating cash flow has a positive mean of 0.0393, ranging from −0.10 to 0.32, which indicates that the sample includes observations with both negative and positive operating cash flow relative to total assets. Earnings persistence has a mean of 0.8914, with a standard deviation of 1.65545 and a range from −0.78 to 5.06. The wide range indicates substantial variation in the estimated persistence measure across observations. In contrast, earnings quality has a negative mean of −0.0214, with values ranging from −0.20 to 0.08. This distribution indicates that the operating-cash-flow-to-net-income ratio varies across observations and takes both negative and positive values. Overall, the descriptive statistics indicate heterogeneity in the financial characteristics of the sampled companies, providing context for the subsequent regression and mediation analyses. These descriptive patterns do not, by themselves, establish the direction or statistical significance of the relationships among the research variables.

Table 4
Normality Test Results Before and After Outlier Removal

Model	Dependent Variable	Initial N	Initial Sig.	Final N	Final Sig.
Model 1	Earnings Persistence	165	0.000	95	0.183
Model 2	Earnings Quality	165	0.000	95	0.401

Table Source: Processed Data (2026)

The results of the Monte Carlo normality test (Sig., 2-tailed) show that, before removing outliers, both Model 1 and Model 2 had a significance value reported as 0.000 based on 165 observations, indicating that the residuals did not meet the criteria for normality. After removing the outliers, the sample size decreased to 95 observations. The significance values increased to 0.183 for Model 1 and 0.401 for Model 2, both of which exceeded the 0.05 threshold. Thus, the residuals of both models met the normality criteria after the outliers were removed. Ghozali (2018) explains that path analysis is an extension of regression analysis used to examine both direct and indirect relationships among variables based on a predetermined theoretical model. Two structural models were used to perform path analysis in this study. The first model estimates the effects of cost efficiency and operating cash flow on earnings persistence, and the second model estimates their effects on earnings quality.

Table 5
Classical Assumption Tests

Test	Indicator	Model 1	Model 2
Normality	K–S Sig. (after outlier removal)	0.183	0.401
Multicollinearity	Tolerance range	0.996–0.996	0.818–0.992
	VIF range	1.004–1.004	1.008–1.223
Heteroscedasticity	Significance range	0.250–0.959	0.087–0.432
Autocorrelation	Durbin–Watson	1.969	2.235
Conclusion	Overall assessment	Pass	Pass

Table Source: Processed Data (2026)

Based on the classical assumption tests, Models 1 and 2 meet the normality criterion, as indicated by Kolmogorov–Smirnov significance values of 0.183 and 0.401, respectively (> 0.05). Neither model indicates multicollinearity, with tolerance values above 0.10 and VIF values below 10. The heteroscedasticity tests also show that all significance values exceed 0.05, indicating no evidence of heteroscedasticity. Furthermore, the Durbin–Watson statistics are 1.969 for Model 1 and 2.235 for Model 2. These results suggest that both models satisfy the reported classical regression assumption tests.

Table 6
Path Analysis Test I

Coefficients				
Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	0.270	0.094	
	Cost Efficiency	-0.009	0.007	-0.106
	Operating Cash Flow	10.577	1.231	0.729
	Earnings Persistence	-3.455	1.250	-0.234
Dependent Variable: Earnings Quality				

Table Source: Processed Data (2026)

Based on the results of the test above table 6, the linear regression equation for Path Analysis Test I is as follows: $Z = -0.015 + 0.000 (X1) + 0.416 (X2) + e_1$
Based on the results on table 7, the linear regression equation for Path Analysis II is as follows:
$Y = 0.270 – 0.009 (X1) + 10.577 (X2) – 3.455 (Z) + e_2$

Table 7
Partial Test Results of Cost Efficiency and Operating Cash Flow on Earnings Persistence

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-0.015	0.008		-2.025	0.046
	Cost Efficiency	0.000	0.001	0.056	0.592	0.556
	Operating Cash Flow	0.416	0.093	0.424	4.477	0.000
Dependent Variable: Earnings Persistence						

Table Source: Processed Data (2026)

The computed t-value for the cost-efficiency t-test was 0.592. The results in table 7 show that cost efficiency does not affect earnings persistence because the computed t-value is below the critical t-value of 1.986 and the significance level is larger than 0.05. Operating cash flow is found to have an effect on earnings persistence according to the results of the t-test (partial test) on operating cash flow. The calculated t-value of 4.477 is greater than the critical t-value of 1.986, and the significance level of 0.000 is less than 0.05.

Table 8
Results of the Partial Test of Cost Efficiency, Operating Cash Flow, Earnings Persistence on Earnings Quality

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.270	0.094		2.880	0.005
	Cost Efficiency	-0.009	0.007	-0.106	-1.379	0.171
	Operating Cash Flow	10.577	1.231	0.729	8.594	0.000
	Earnings Persistence	-3.455	1.250	-0.234	-2.764	0.007
Dependent Variable: Earnings Quality						

Table Source: Processed Data (2026)

The t-test results in table 8 indicate that cost efficiency has no significant effect on earnings quality ($t = -1.379$, $p > 0.05$). In contrast, operating cash flow has a positive and significant effect on earnings quality ($t = 8.594$, $p < 0.001$). Earnings persistence also significantly affects earnings quality, but negatively ($t = -2.764$, $p = 0.007$), indicating that higher earnings persistence is associated with lower earnings quality. The results indicate that earnings persistence negatively affects earnings quality, suggesting that persistent earnings do not necessarily reflect higher quality, as they may be influenced by recurring accrual components. The indirect effect of operating cash flow on earnings quality through earnings persistence is −1.437, compared with a positive direct effect of 10.577, indicating competitive mediation. The total effect is 9.140, confirming that earnings persistence mediates the relationship in the opposite direction to the direct effect.

Table 9
Regression Results and Model Explanatory Power

Test	Indicator	Model 1: Earnings Persistence	Model 2: Earnings Quality	Direction and Interpretation
t-test	Cost Efficiency: t (Sig.)	0.592 (0.556) — Fail	−1.379 (0.171) — Fail	Model 1: Positive, not significant. Model 2: Negative, not significant.
	Operating cash flow: t (Sig.)	4.477 (0.000) — Pass	8.594 (0.000) — Pass	Positive and significant in both models. Report Sig. = 0.000 as $p < 0.001$.
	Earnings persistence: t (Sig.)	—	−2.764 (0.007) — Pass	Negative and significant effect on earnings quality.
Coefficient of determination	R^2	0.180 (18.0%)	0.465 (46.5%)	Model 1 explains 18.0% of the variation in earnings persistence; Model 2 explains 46.5% of the variation in earnings quality.
	Adjusted R^2	0.162 (16.2%)	0.447 (44.7%)	After adjustment for the number of predictors and sample size, the explanatory power is 16.2% and 44.7%, respectively.
Conclusion	Individual predictors	Mixed results	Mixed results	Some predictors have statistically significant effects, while others do not.

Table Source: Processed Data (2026)

The regression results in table 9 shows that operating cash flow has a positive and significant effect on both earnings persistence and earnings quality, whereas cost efficiency has no significant effect on either variable. Earnings persistence has a negative and significant effect on earnings quality. The adjusted R^2 values indicate that Model 1 explains 16.2% of the variation in earnings persistence, while Model 2 explains 44.7% of the variation in earnings quality.

Discussion & Conclusion

Discussion

Cost efficiency has no effect on earnings persistence; therefore, H1 is rejected. These results are inconsistent with those of Zhang et al. (2023) and Himawan et al. (2026) who found a positive relationship between operational efficiency and earnings persistence. This discrepancy may be due to the fact that cost efficiency reflects only cost-related factors, whereas earnings persistence is also influenced by earnings characteristics, accruals, and a firm's operating conditions; thus, the RBV perspective does not fully explain this relationship. The lack of an effect of cost efficiency on earnings persistence suggests that cost efficiency does not necessarily lead directly to earnings persistence.

H2 is accepted because operating cash flow positively affects earnings persistence, consistent with Almomani et al. (2023) and Triani and Abbas (2023). Strong operating cash flow may indicate a firm's ability to sustain its operating activities and support the continuity of reported earnings. From a Signaling Theory perspective, operating cash flow can provide information about a firm's underlying operational condition and its capacity to sustain earnings over time. However, greater earnings persistence does not necessarily imply higher earnings quality, as indicated by the negative relationship between earnings persistence and earnings quality in this study.

The results indicate that earnings persistence has a negative and statistically significant effect on earnings quality ($B = -3.455$; $t = -2.764$; $p = 0.007$). Therefore, H3, which predicts a positive relationship between earnings persistence and earnings quality, is not supported. Although earnings persistence reflects

the continuity of reported earnings over time, such continuity does not automatically guarantee that earnings faithfully represent a firm's underlying economic performance. In this study, earnings quality is measured by the ratio of operating cash flow to net income. Accordingly, persistent earnings do not necessarily indicate higher earnings quality when the continuity of reported earnings is not accompanied by sufficient operating cash flow relative to net income. This distinction suggests that earnings persistence and cash-flow-based earnings quality capture different aspects of reported earnings.

The negative relationship found in this study differs from the expected positive relationship between earnings persistence and earnings quality. These results are consistent with those of Danibrata (2024) and Halawa (2024). The differing results from Kusumawardhani dan Setyorini (2024), Lubis and Sari (2024), and Ubaidikah (2022) may be due to differences in sector, study period, and the measurement of earnings quality. These comparisons should be interpreted in light of the different research contexts and measurement approaches. Overall, the findings highlight the importance of evaluating earnings persistence alongside operating cash flow rather than treating persistence alone as sufficient evidence of higher earnings quality.

Cost efficiency does not affect earnings quality; therefore, H4 is rejected. This finding is not consistent with evidence that efficiency is related to performance and earnings uncertainty (Arbelo et al., 2021). This discrepancy suggests that cost efficiency does not automatically improve earnings quality because earnings quality is also influenced by cash flow, accruals, and financial reporting characteristics.

The lack of an effect of cost efficiency on earnings quality suggests that cost efficiency is not necessarily directly reflected in the quality of earnings information. This finding is consistent with the view that the relationship between a firm's internal characteristics and the consequences of financial information can be contextual. Surifran et al. (2026), for example, show that the relationship between firm information and financial consequences is influenced by corporate governance characteristics.

Operating cash flow influences earnings quality; therefore, H5 is accepted. These results are consistent with Indawati and Huda (2026) and Himawan et al. (2026) regarding the relationship between earnings characteristics and future cash flows and are supported by the relationship between OCF and earnings persistence found by Almomani et al. (2023). These findings are consistent with Signaling Theory because operating cash flow provides information about the fundamental strength of a company's core activities.

Earnings persistence does not mediate the effect of cost efficiency on earnings quality; therefore, H6 is rejected. This result follows from the rejection of H1: since cost efficiency does not influence earnings persistence, no indirect path through earnings persistence is supported. Thus, cost efficiency as an internal capability from the RBV perspective is not strong enough to generate earnings quality through the persistence mechanism.

The mediation analysis reveals that operating cash flow has a positive direct effect on earnings quality (B = 10.577), while its indirect effect through earnings persistence is negative (−1.437). The Sobel test indicates that the indirect effect is statistically significant (t = −2.310). These findings demonstrate that earnings persistence mediates the relationship between operating cash flow and earnings quality, but the direction of the indirect effect is contrary to that of the direct effect. The opposing directions of these effects suggest that operating cash flow and earnings persistence play different roles in explaining earnings quality. The positive direct effect indicates that operating cash flow is positively associated with the cash-flow-based measure of earnings quality used in this study. However, the negative indirect effect indicates that the pathway through earnings persistence partially offsets this positive relationship. The resulting total effect is 9.140, calculated as the sum of the positive direct effect (10.577) and the negative indirect effect (−1.437). Thus, the negative indirect effect does not eliminate the positive overall effect of operating cash flow, but it reduces its magnitude.

This pattern is consistent with competitive mediation, in which the direct and indirect effects are statistically significant but operate in opposite directions. From a Signaling Theory perspective, operating cash flow provides information about a company's ability to generate cash through its core activities. Nevertheless, the negative indirect effect suggests that earnings persistence does not necessarily strengthen the positive association between operating cash flow and earnings quality. Instead, the mediating pathway reflects a relationship that differs in direction from the direct pathway. Accordingly, H7 is not supported in the hypothesized positive direction, although the results provide evidence of a significant negative indirect effect. These findings should also be interpreted in light of the operationalization of earnings quality. Because the dependent variable is measured using the ratio of operating cash flow to net income, operating cash flow is conceptually related to the construction of the dependent variable itself. This measurement overlap may contribute to the observed relationship between operating cash flow and earnings quality and should therefore be considered when interpreting the magnitude of the direct and total effects. Further research using alternative earnings quality measures would help determine whether the observed pattern remains consistent across different operationalizations.

Conclusion

Based on the results of this study, operating cash flow has a positive effect on earnings persistence and earnings quality, whereas earnings persistence has a negative effect on earnings quality. Cost efficiency has no significant effect on either earnings persistence or earnings quality. Earnings persistence also does not mediate the relationship between cost efficiency and earnings quality. However, earnings persistence mediates the relationship between operating cash flow and earnings quality through a statistically significant negative indirect effect that runs counter to the positive direct effect, indicating competitive mediation. Consequently, the negative indirect pathway partially offsets the positive direct relationship between operating cash flow and earnings quality. Furthermore, the negative relationship between earnings persistence and earnings quality indicates that the continuity of reported earnings does not necessarily imply higher earnings quality, particularly when earnings quality is measured using the ratio of operating cash flow to net income. Theoretically, these findings provide empirical evidence relevant to the Resource-Based View and Signaling Theory. The absence of a significant relationship between cost efficiency and earnings persistence or earnings quality suggests that efficient resource utilization does not necessarily correspond to more persistent or higher-quality earnings. By contrast, the positive relationship between operating cash flow and earnings quality highlights the relevance of operating cash flow as information about a company's operating performance. The negative indirect effect further demonstrates that the relationship between operating cash flow and earnings quality may differ depending on whether it is assessed directly or through earnings persistence. Practically, management should evaluate cost efficiency alongside the company's ability to generate operating cash flow rather than rely on cost efficiency alone when assessing operating performance. Investors should consider operating cash flow together with reported earnings when evaluating earnings quality, and regulators can encourage transparent reporting of operating cash flow and earnings information. Overall, this study contributes empirical evidence on the relationships among cost efficiency, operating cash flow, earnings persistence, and earnings quality in companies in the "Miscellaneous Industries" sector listed on the Indonesia Stock Exchange.

Limitation & Future Research

This study has limitations due to the use of secondary data and the measurement of variables using specific proxies, which means it does not fully capture the complexity of cost efficiency and earnings quality. In addition, the estimation of earnings persistence uses a specific approach and therefore does not fully capture all aspects of earnings sustainability. There is also the potential for information overlap because operating cash flow (OCF), as an independent variable, is correlated with OCF components in the earnings quality proxy, which may affect the interpretation of the relationships among variables. The results can only be applied to the sectors and time periods that were specifically studied due to the limitations of the sample size and the duration of the research. Future research could cover more sectors and longer time periods, employ alternative measures of cost efficiency and earnings quality, and consider additional factors such as earnings management, capital structure, and governance characteristics.

This study has a limitation regarding the specification of its empirical model, as it does not incorporate additional control variables, such as firm size, leverage, and growth, that may influence the relationships examined. Consequently, the findings should be interpreted within the scope of the variables included in the model. Future research could incorporate relevant control variables and conduct robustness tests to assess whether the observed relationships remain consistent after accounting for differences in firm characteristics.

Declaration of Generative AI Use

In preparing this manuscript, the authors used generative AI to a limited extent as a tool to assist with language editing, sentence structure refinement, and the initial drafting of certain sections of the manuscript. Generative AI was not used to generate data, perform statistical analyses, or determine research findings and conclusions. All data, analyses, interpretations, and scientific decisions have been verified and are the sole responsibility of the author.

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