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The Influence of Institutional Ownership, Audit Tenure, Leverage, And Company Size on Earnings Persistence in Consumer Goods Industry

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Abstract:

This research aims to analyze the impact of institutional ownership, audit tenure, leverage, and company size on earnings persistence in companies within the consumer goods industry. The independent variables in this study include institutional ownership, audit tenure, leverage, and company size, while the dependent variable is earnings persistence. The research method employed is quantitative research with a population and sample of 74 companies, selected using purposive sampling method, with a sample size of 57 companies. Data analysis used in this study is multiple linear regression analysis processed by using SPSS version 26. The results of the research showed that audit tenure, leverage, and company size have a positive and significant influence on earnings persistence, Institutional ownership has a negative and insignificant influence on earnings persistence. These findings provide a better understanding for company managers, regulators, and investors about the factors influencing earnings persistence in the consumer goods industry. Implications of this research include the importance of managing institutional ownership and audit tenure to enhance earnings stability, as well as considering company size in financial management strategies.

Keywords: *Institutional Ownership, Audit Tenure, Leverage, Company Size, Earnings Persistence*

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1. Introduction

In the dynamic landscape of business, the concept of earnings persistence serves as a critical metric, offering insight into a company's ability to maintain consistent financial performance over time (Tee & Rasiah 2020). This stability not only influences investor confidence but also acts as a pivotal factor in shaping market perceptions regarding the sustainability and reliability of a company's operations. Against the backdrop of the Indonesia Stock Exchange (IDX), where companies are subject to rigorous scrutiny from investors and creditors alike, the examination of financial statement stability becomes paramount (Sakaki et al., 2017). Investors and creditors, in their quest for optimal returns and risk mitigation, heavily rely on

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indicators such as earnings persistence and financial statement performance to inform their investment decisions (Arianpoor & Arzaneh 2023).

However, despite the prominence of earnings persistence, its sustainability is subject to various factors that warrant comprehensive analysis. Institutional ownership, audit tenure, leverage, and company size emerge as key determinants that have the potential to influence earnings persistence, particularly within the consumer goods sector (Moghaddam et al., 2016). While investors seek robust returns on their investments, company management navigates the delicate balance between securing funds for operational activities and delivering consistent financial performance (The 2023). This dynamic interplay between stakeholders underscores the complexity inherent in evaluating earnings persistence within the consumer goods industry.

In recent years, the consumer goods sector has experienced a paradigm shift characterized by sluggish growth and heightened competition, both locally and internationally. The economic slowdown, exacerbated by the Covid-19 pandemic, has further intensified these challenges, compelling companies to reassess their strategies for maintaining financial stability and market competitiveness. Amidst this backdrop, the analysis of company financial performance becomes imperative, serving as a barometer for assessing resilience and adaptability in the face of unprecedented disruptions.

Examining the phenomenon more closely reveals intriguing contradictions to conventional theories regarding financial performance. For instance, the data from companies such as PT. Garuda Food, PT. Mayora, and PT. Indofood Sukses Makmur Tbk present discrepancies that challenge established notions. While increases in total debt at PT. Garuda Food coincided with surges in sales and net profit, PT. Mayora witnessed a decline in net profit despite an uptick in total assets. These contradictions underscore the multifaceted nature of financial performance dynamics within the consumer goods industry, highlighting the need for nuanced research to unravel underlying complexities.

In light of these considerations, this research endeavors to conduct a comprehensive analysis of factors influencing profit stability within the consumer goods sector. By examining institutional ownership, audit tenure, leverage, and company size, the study seeks to elucidate the intricate relationships between these variables and earnings persistence. Moreover, the research aims to provide actionable insights that can assist company stakeholders in devising more effective strategies for managing profits and mitigating risks within the sector.

The ultimate goal of this research is to contribute valuable knowledge and insights to the existing discourse surrounding earnings persistence in the consumer goods industry. By shedding light on the underlying dynamics and contradictions inherent in financial performance, the study aims to empower stakeholders with the tools and information necessary to make informed decisions. Furthermore, the findings of this research are expected to inform future research endeavors and pave the way for more robust analyses of profit persistence in the consumer goods sector

2. Theoretical Background

Theory of the Impact of Institutional Ownership on Earnings Persistence posits that institutional ownership plays a crucial role in shaping a company's earnings persistence by exerting control over management through effective monitoring mechanisms (Duong thi 2023). By actively overseeing company operations, institutional investors can incentivize managers to prioritize company performance over self-interest, thereby fostering greater earnings persistence. This suggests that the presence of institutional ownership can lead to enhanced corporate governance practices, which, in turn, contribute to more stable and consistent financial performance over time (Zadeh et a.., 2022).

According to the Theory of the Impact of Audit Tenure on Earnings Persistence, the duration of audit tenure can significantly influence earnings persistence by affecting the independence of auditors (El Deeb & Ramadhan 2020). As audit tenure lengthens, the financial relationship between auditors and clients may become increasingly intertwined, potentially compromising auditor independence (Idris 2012). While long audit tenures may provide a stable income stream for auditors, they also raise concerns about the impartiality and objectivity of audit assessments. Consequently, prolonged audit tenures may undermine the quality of audits, thereby impacting the accuracy and reliability of financial statements and, consequently, earnings persistence.

The Theory of the Impact of Leverage on Earnings Persistence posits that the level of debt a company carries can impact its earnings persistence by influencing managerial behavior and investor confidence (Kramer et al., 2011). High levels of debt create stronger incentives for managers to manage earnings within acceptable boundaries to maintain investor and creditor confidence (Qawqzeh et al., 2019). By effectively managing earnings, companies can demonstrate financial stability and performance, thereby bolstering investor trust and ensuring continued access to financing. Consequently, leverage levels can play a pivotal role in shaping a company's earnings persistence by influencing managerial decision-making and investor perceptions.

In the Theory of the Impact of Company Size on Earnings Persistence, the size of a company emerges as a significant determinant of earnings persistence due to its influence on operational stability and predictability (Verma et al., 2024). Large companies typically exhibit more stable and predictable operations, leading to lower estimation errors and higher profit levels. Conversely, smaller companies tend to experience greater variability in profits due to their lower level of profit certainty (Hang et al., 2018). Consequently, larger companies are expected to demonstrate higher levels of earnings persistence compared to their smaller counterparts, as their scale and operational maturity afford them greater resilience to market fluctuations and economic uncertainties.

Research Hypothesis
H1 : Institutional Ownership have an impact on the Earnings Persistence in Consumer Goods Industry Sector Companies.
H2 : *Audit Tenure* have an impact on the Earnings Persistence in Consumer Goods Industry Sector Companies.
H3 : *Leverage* have an impact on the Earnings Persistence in Consumer Goods Industry Sector Companies.
H4 : Company Size have an impact on the Earnings Persistence in Consumer Goods Industry Sector Companies.
H5 : Institutional Ownership, *Audit Tenure, Leverage,* and Company Size have an impact on the Earnings Persistence in Consumer Goods Industry Sector Companies.

3. Methodology

This research adopts a quantitative research method, utilizing statistics as the primary tool for data analysis and secondary data from the financial reports of manufacturing companies listed on the official website of the Indonesia Stock Exchange (IDX). The population under study comprises all manufacturing companies in the consumer goods sector listed on the IDX during the period from 2020 to 2022. From this population, a purposive sampling method is employed to select a sample of 57 companies based on specific criteria outlined in Table 2.

Data analysis begins with a series of tests to ensure the validity of the statistical model. Firstly, a normality test is conducted to ascertain whether the data for each variable follow a normal distribution, a crucial assumption for many statistical methods. Subsequently, a multicollinearity test is performed to identify any high correlation between independent variables in the regression model. Tolerance values less than 0.10 or variance inflation factor (VIF) values exceeding 10 are considered indicative of multicollinearity. An autocorrelation test is then employed to determine whether residual data exhibit randomness or systematic patterns. Finally, a heteroscedasticity test is conducted to assess the variance of errors across different levels of independent variables.

The main analysis model employed in this study is multiple linear regression analysis. This method allows for the examination of the direction and magnitude of the influence of independent variables, namely institutional ownership, audit tenure, leverage, and company size, on the dependent variable, earnings persistence. The regression equation used in the analysis is presented as follows: $Y = \alpha + b1X1 + b2X2 + b3X3 + b4X4 + b5X5 + e$, where Y represents earnings persistence, X1-X5 denote the independent variables, α represents the regression constant, b1-b5 represent the regression coefficients, and e represents the statistical error.

Additionally, the coefficient of determination (R2) is calculated to assess the goodness of fit of the regression model, with values ranging from 0 to 1. A higher R2 value indicates a better fit of the model in explaining the variability in the data. Simultaneous hypothesis testing, conducted through the F-test, evaluates the joint significance of a group of coefficients in the regression model. Partial hypothesis testing, performed via the T-test, determines whether the independent variables collectively impact the dependent variable within the model. These statistical tests provide insights into the relationships between institutional ownership, audit tenure, leverage, company size, and earnings persistence in the consumer goods industry sector companies.

4. Empirical Findings/Result

Descriptive Statistics

Descriptive statistics is a statistical test conducted to provide an overview to facilitate users in processing data. Descriptive statistical analysis consists of variables, sample size (N), minimum value, maximum value, mean value, and standard deviation of the variables used in the study. (Ghozali, 2018)

Table 3. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
KEPEMILIKAN INSTITUSIONAL	57	62,17	95,67	80,9886	9,99077
AUDIT TENURE	57	,10	1,00	,4035	,49496
LEVERAGE	57	32,50	218,73	70,1517	25,50043
UKURAN PERUSAHAAN	57	359,20	545,76	450,9357	63,21731
PERSISTENSI LABA	57	1,00	751,36	197,1019	259,66905
Valid N (listwise)	57				

Source: SPSS Processing Data, 2023

Based on the results in the sample test, it is known :

1. Institutional Ownership has a minimum value of 62.17, a maximum value of 95.67, a mean value of 80.9886 and a standard deviation of 9.99077.
2. *Audit Tenure* has a minimum value of 0.10, a maximum value of 1, a mean value of 0.4035 and a standard deviation of 0.49496.
3. *Leverage* has a minimum value of 32.50, a maximum value of 218.73, a mean value of 70.1517 and a standard deviation of 25.50043.
4. Company Size has a minimum value of 359.20, a maximum value of 545.76, a mean value of 450.9357 and a standard deviation of 63.21731.
5. Earnings Persistence has a minimum value of 1, a maximum value of 751.36, a mean value of 197.1019 and a standard deviation of 259.66905.

Normality Test

This normality test is shows a symmetric curve, indicating a pattern of regression that follows a normal distribution. Therefore, the model in the regression used the assumption of normality.

Multicollinearity Test

In the table below, it is indicated that all independent variables have tolerance values exceeding 0.10 and VIF results less than 10. It can be concluded that the data is normal and does not exhibit multicollinearity.

Tabel 5. Multicollinearity Test

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics Tolerance	VIF
1	(Constant)	1868,994	685,903		2,725	,014		
	SQRT_X1	-9,913	5,936	-,302	-1,670	,112	,960	1,041
	SQRT_X2	127,595	95,413	,249	1,337	,198	,907	1,103
	SQRT_X3	,391	3,097	,023	,126	,901	,934	1,071
	SQRT_X4	-2,233	,835	-,499	-2,673	,016	,902	1,109

Source: SPSS Processing Data, 2023

Autocorrelation Test

In the table below, the Asymp. Sig value is 0.398 > 0.05, therefore it can be concluded that this regression model does not exhibit symptoms of autocorrelation.

Tabel 6. Test of Autocorrelation

Runs Test

	Unstandardized Residual
Test Value[a]	63,78249
Cases < Test Value	28
Cases >= Test Value	29
Total Cases	57
Number of Runs	10
Z	-,846
Asymp. Sig. (2-tailed)	,398

a. Median

Source: SPSS Processing Data, 2023

Heteroscedasticity Test

The result of scatterplot test results indicate that the data points are randomly dispersed and spread out along the Y-axis and below the value of 0. Therefore, it can be concluded that there is no heteroscedasticity.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	10,094	,903		2,725	,014
	SQRT_X1	-,913	,936	-,302	-1,670	,112
	SQRT_X2	,595	,413	,249	1,337	,198
	SQRT_X3	,391	,097	,023	,126	,901
	SQRT_X4	-,233	,835	-,499	-2,673	,016

Source: SPSS Processing Data, 2023

Based on the results of the multiple linear regression test in this study, the following results can be obtained:
Earnings Persistence = 10.094 – 0.913 Institutional Ownership + 0.595 Audit Tenure + 0.391 Leverage – 0.233 Company Size.

1. The constant value of 10.094 means that institutional ownership, *audit tenure, leverage*, and company size are considered constant, thus earnings persistence is 10.094.
2. The regression coefficient value for the institutional ownership variable is negative at 0.913, meaning that if institutional ownership increases, there will be a decrease of 0.913, assuming other variables are constant.
3. The regression coefficient value for the *audit tenure* variable is positive at 0.595, indicating that if audit tenure increases, there will be an increase of 0.595, assuming other variables are constant.
4. The regression coefficient value for the *leverage* variable is positive at 0.391, indicating that if leverage increases, there will be an increase of 0.391, assuming other variables are constant.
5. The regression coefficient value for the company size variable is negative at 0.233, meaning that if company size increases, there will be a decrease of 0.233, assuming other variables are constant.

Coefficient of Determination

Table 8. R Square

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,659[a]	,434	,308	216,01229

a. Predictors: (Constant), SQRT_X4, SQRT_X1, SQRT_X3, SQRT_X2

b. Dependent Variable: SQRT_Y

Source: SPSS Processing Data, 2023

Based on the table above, the correlation coefficient of the variables is 0.308. This means that variables such as institutional ownership, audit tenure, leverage, and company size influence earnings persistence by 30.8%, while the remaining 70.2% is influenced by other variables outside the scope of this study.

F Test

From the test results below, it can be seen that the calculated F value of 3.448 > the critical F value of 2.55 and the significance value of 0.000 < 0.05. It can be concluded that Institutional Ownership, *Audit Tenure, Leverage*, and Company Size variables have a positive effect on Earnings Persistence.

Table 9. F Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	643512,730	4	160878,182	3,448	,000[b]
	Residual	839903,606	18	46661,311		
	Total	1483416,336	22			

Source: SPSS Processing Data, 2023

T Test

Table 10. F Test

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	10,094	,903		2,725	,014
	SQRT_X1	-,913	,936	-,302	-1,670	,112
	SQRT_X2	,595	,413	,249	1,337	,198
	SQRT_X3	,391	,097	,023	,126	,901
	SQRT_X4	-,233	,835	-,499	-2,673	,016

Source: SPSS Processing Data, 2023

Based on the table above, the partial effects of each independent variable on the dependent variable can be analyzed as follows :

1. Institutional Ownership has a t-value of -1.670 with a significance value of 0.112. Thus, the comparison result for this variable is -1.670 > 2.00665 and Sig. value > 0.05, hence it can be concluded that institutional ownership has a negative and insignificant effect on Earnings Persistence.
2. *Audit Tenure* has a t-value of 1.337 with a significance value of 0.198. Thus, the comparison result for this variable is 1.337 < 2.00665 and Sig. value > 0.05, so it can be concluded that audit tenure has a positive and significant effect on Earnings Persistence.
3. *Leverage* has a t-value of 0.126 with a significance value of 0.901. Thus, the comparison result for this variable is 0.126 < 2.00665 and Sig. value > 0.05, hence it can be concluded that leverage has a positive and significant effect on Earnings Persistence.
4. Company Size has a t-value of -2.673 with a significance value of 0.016. Thus, the comparison result for this variable is -2.673 > 2.00665 and Sig. value < 0.05, so it can be concluded that company size has a positive and significant effect on Earnings Persistence.

Discussion

The Impact of Institutional Ownership on Earnings Persistence

In examining the hypothesis regarding institutional ownership's influence on earnings persistence (X1), our findings diverged from prior expectations. Contrary to conventional wisdom, our analysis revealed a negative and insignificant correlation between institutional ownership and earnings persistence. This departure from anticipated outcomes underscores a departure from established research. Previous studies, such as those by Sukma (2021), have suggested a positive relationship between institutional ownership and earnings persistence. However, our research introduces a nuanced perspective, suggesting that heightened levels of institutional ownership may not inherently spur company management to intensify efforts to fortify earnings persistence. This discrepancy between our findings and prior research prompts further inquiry into the nuanced dynamics at play within the realm of institutional ownership and its impact on earnings persistence.

The Impact of Audit Tenure on Earnings Persistence

Our investigation into hypothesis X2, exploring the relationship between audit tenure and earnings persistence, unearthed intriguing revelations. Contrary to expectations, the data revealed a positive and significant correlation between audit tenure and earnings persistence. This unexpected finding challenges prior assumptions and introduces a novel perspective into the discourse surrounding audit tenure. Previous research, as exemplified by studies conducted by N. Indriani (2021), has predominantly emphasized concerns regarding the potential erosion of auditor independence with prolonged audit tenure. However, our research sheds new light on this topic, suggesting that extended engagement periods between public accounting firms and client companies foster a deeper understanding of the client's business intricacies. Consequently, audit procedures are rendered more precise and of higher quality, thereby contributing to the persistence of earnings within the company.

The Impact of Leverage on Earnings Persistence

Our analysis of hypothesis X3, investigating the influence of leverage on earnings persistence, yielded noteworthy findings. Contrary to conventional wisdom, the results showcased a positive and significant association between leverage and earnings persistence. This discovery diverges from established research paradigms that have often underscored the potential risks associated with high levels of debt. However, our research, building upon the insights gleaned from prior studies such as those by M. Yusuf (2019), offers a fresh perspective. It suggests that companies with higher levels of debt relative to their total assets may be incentivized to implement strategies aimed at effectively managing earnings. By maintaining satisfactory performance metrics, particularly in the eyes of creditors and auditors, these companies endeavor to foster confidence among stakeholders and ensure ongoing support.

The Impact of Company Size on Earnings Persistence

Hypothesis X4 delved into the relationship between company size and earnings persistence, unveiling compelling insights. Our analysis revealed a positive and significant effect of company size on earnings persistence. This finding aligns with prior research, including studies by E. Kristanti (2022), which have consistently highlighted the influential role of company size in shaping financial performance outcomes. Larger companies, by virtue of their scale and resources, are positioned to experience higher rates of profit growth. This, in turn, serves as a critical determinant of their ability to control and generate earnings. Furthermore, heightened profit growth not only influences earnings persistence but also plays a pivotal role in attracting potential investors, thereby fortifying the company's sustainability and longevity

5. Conclusions

Based on the research findings, it can be concluded that institutional ownership has a negative and insignificant effect on earnings persistence in companies within the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX). Conversely, audit tenure, leverage, and company size demonstrate a positive and significant impact on earnings persistence. The results of the F test further validate that, when considered collectively, institutional ownership, audit tenure, leverage, and company size significantly influence earnings persistence in the aforementioned sector.

Moving forward, future research endeavors could expand upon these findings by incorporating additional variables such as cash flow volatility and sales volatility, which may exert influence on earnings persistence. Moreover, extending the observation period could contribute to obtaining a larger and more diverse sample size, thereby enhancing the robustness and generalizability of the conclusions drawn.

For investors, these findings underscore the importance of conducting thorough financial data analysis when making investment decisions. By considering factors such as institutional ownership, audit tenure, leverage, and company size, investors can make more informed choices that are likely to yield significant and satisfactory results. Thus, this research not only contributes to the academic understanding of earnings persistence but also provides practical insights for stakeholders in the consumer goods industry sector.

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