The Role of Financial Leverage and Cost Management on Operational Efficiency and Earnings Stability in Hospitality Industry in Indonesia

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Article Info	ABSTRACT
	This study explores the impact of cost management and financial leverage on operational efficiency and earnings stability in the hospitality industry in Indonesia. Utilizing a quantitative approach, data was collected from 280 hospitality businesses and analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The results reveal that both cost management and financial leverage significantly contribute to earnings stability, with financial leverage also playing a strong role in improving operational efficiency. Operational efficiency serves as a critical mediator, linking financial strategies to stable earnings. The findings highlight the importance of carefully balancing debt financing and cost control to optimize both financial performance and operational processes in the hospitality sector. These insights offer valuable guidance for hospitality managers seeking to enhance long-term profitability and resilience in a highly competitive industry.

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1. INTRODUCTION

The hospitality industry in Indonesia is an important contributor to the national economy, requiring effective financial strategies to maintain competitiveness. Financial leverage and cost management are key factors in influencing operational efficiency and profit stability. Capital structure in this industry is influenced by liquidity and business risk, where companies with high liquidity and risk tend to reduce the use of debt [1]. Although profitability is negatively correlated with capital structure, it has an insignificant effect on the leverage strategy of more profitable firms [2]. Effective cost management, such as linen loss control and operational capacity optimisation in the food and beverage sector, is also crucial to improving operational efficiency and profitability [3]. In addition, human resource management plays a significant role in operational performance, where employee motivation and performance can be improved through strategic recruitment and training,

addressing the industry's need for skilled labour [4], [5].

Financial leverage, while effective in increasing investment and profitability, also carries significant risks, especially in vulnerable industries such as hospitality [6]–[8]. Balancing the benefits and risks of leverage is critical to maintaining operational efficiency and long-term profitability. Studies in India and Jordan show that higher leverage can lower profitability due to increased finance costs [9], [10]. In the food and beverage sector, leverage has no significant effect on profit, suggesting that operational efficiency determines profitability [11]. Although leverage can increase firm value, the impact is not always significant, except in the IT sector, where leverage supports firm value without compromising profitability [11]. The right strategy is to manage leverage carefully and focus on operational efficiency [12].

Effective cost management is crucial for hospitality businesses to maintain profitability in a volatile market. Strategies like Total Quality Management (TQM) and Target Costing (TC) help reduce costs while ensuring quality, focusing on continuous improvement. TQM fosters a customer-focused approach and employee involvement, while TC sets cost targets based on market conditions and customer expectations, ensuring profitability before products reach the market [13]. The integration of these methods leads to cost savings, competitive advantage, and long-term sustainability. Cost accounting plays a key role in managing profitability by analyzing direct and indirect costs and controlling raw material and labor expenses [14]. Modern cost control techniques and standardized accounting procedures further enhance data accuracy and business stability, supporting resource optimization and project success [15]. Additionally, business process optimization through cost control and automation fosters efficiency and sustainable growth, while aligning cost management practices with organizational goals is essential to achieving desired outcomes [16], [17]. This study aims to explore the role of financial

leverage and cost management in driving operational efficiency and profit stability within Indonesia's hospitality industry.

2. LITERATURE REVIEW
2.1 Financial Leverage

Financial leverage in the hospitality industry can significantly impact profitability and operational efficiency by enabling expansion and investment without depleting equity, but it also introduces financial risks in a sector with volatile cash flows. Moderate levels of leverage can enhance profitability, as seen in the U.S. service sector and the food and beverage industry, where the Debt to Equity Ratio (DER) positively impacts Return on Assets (ROA) [10]. However, excessive leverage may lead to financial distress, reducing operational efficiency and threatening sustainability [9]. The relationship between leverage and firm value is complex, with studies suggesting that firm size and asset turnover ratios are more significant in determining market value [18]. High leverage levels increase the risk of financial distress, particularly in industries with fluctuating demand like hospitality, requiring careful management to avoid liquidity problems [19]. The trade-off theory emphasizes balancing leverage to enhance firm value while mitigating the risk of financial distress and its negative impact on firm performance [20].

2.2 Cost Management

Cost management encompasses the strategies and processes businesses use to plan and control expenditures, aiming to enhance operational efficiency and profitability. This involves budgeting, cost reduction, and monitoring to ensure companies operate within their financial means. In the hospitality industry, where costs fluctuate due to seasonality, economic changes, and consumer demand shifts, effective cost management is crucial for sustaining profitability. Techniques like

activity-based costing (ABC) and just-in-time (JIT) inventory systems help businesses manage resources more effectively by eliminating unnecessary costs [21]. Strategic cost management enhances operational performance and long-term financial stability, especially in sectors with tight profit margins like hospitality [14]. Studies have shown that cost control practices such as efficient inventory management and labor cost reduction improve operational efficiency in the hospitality sector [13]. Furthermore, hotels that implement cost management strategies during economic downturns are better able to maintain profitability and achieve financial stability [15], [16], underscoring the critical role of cost management in ensuring sustainability amidst external challenges.

2.3 Operational Efficiency

Operational efficiency is the ability of a company to deliver high-quality products and services while minimizing resource use, and it plays a critical role in profitability and long-term sustainability in the hospitality industry. [22], [23] emphasizes that operational efficiency is driven by effective management, streamlined processes, and cost control, which not only reduce expenses but also enhance customer satisfaction, resulting in higher occupancy rates and repeat business. Studies show that operationally efficient hotels tend to achieve better financial performance, even during economic downturns, as they can more effectively adapt to fluctuating demand [24]. Furthermore, [25], [26] highlight the close relationship between operational efficiency, financial leverage, and cost management, which together influence a company's ability to control costs and generate the revenue needed to meet financial obligations.

2.4 Profit Stability

Profit stability refers to a company's ability to maintain consistent profit levels over time despite fluctuations in demand, costs, and external factors. In the hospitality industry, profit stability is often challenged by seasonality, economic shifts, and changing consumer behavior. Achieving profit stability requires a combination of financial and operational strategies, including effective cost management, revenue management, and financial leverage [27]. Research by [28] suggests that adopting flexible financial and operational strategies, such as using financial leverage for growth while maintaining liquidity, enhances profit stability. Additionally, cost management practices, such as controlling variable costs and reducing fixed expenses, are crucial for maintaining stable profits [29]. Operational efficiency also plays a key role, as businesses that operate efficiently can better manage costs and maintain profit stability, even in challenging market conditions [30], [31]. This underscores the importance of integrating financial strategies with operational efficiency to drive long-term profit stability in the hospitality sector.

Based on the literature review, the following hypotheses are proposed for this study:
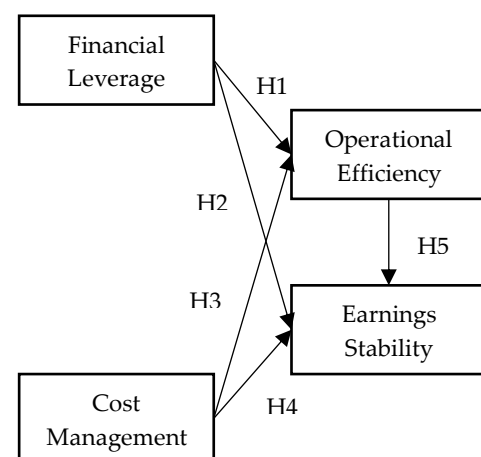

Figure 1. Conceptual and Hypothesis
Source: Literature Review, 2024

3. RESEARCH METHODS

3.1 Research Design

This study employs a quantitative research design to

investigate the role of financial leverage and cost management on operational efficiency and profit stability in the hospitality industry in Indonesia. Quantitative research is selected due to its ability to measure variables numerically and analyze relationships using statistical tools, allowing for generalizable findings across a large sample. The study adopts a cross-sectional approach, collecting data at a single point in time from 280 hospitality businesses across various regions in Indonesia. The data is analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3), a multivariate statistical technique suitable for testing complex models and relationships among latent variables.

3.2 Population and Sample

The population for this study comprises hospitality businesses in Indonesia, including hotels, resorts, and other accommodation providers. Given the broad scope of the hospitality sector in Indonesia, the sample was carefully selected to represent different regions and business sizes to ensure that the findings are generalizable across the industry. A total of 280 businesses were surveyed, providing a robust sample size for the statistical analysis.

The sampling method employed is purposive sampling, as it allows for the selection of businesses that meet specific criteria relevant to the research objectives. Businesses were selected based on their use of financial leverage, cost management practices, and the availability of operational and financial data. The survey targeted managers, financial officers, and business owners who have direct knowledge of the financial strategies and operational performance of their organizations.

3.3 Data Collection

Data for this study was collected through a structured questionnaire distributed to the selected businesses. The questionnaire was designed to gather information on four main constructs: financial leverage, cost management, operational efficiency, and profit stability. A Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) was used to capture respondents' perceptions and assessments of their business practices and performance. The data collection process lasted for three months, and follow-up reminders were sent to respondents to ensure a high response rate. A total of 280 completed questionnaires were returned and used for data analysis, yielding a 100% response rate.

3.4 Data Analysis Techniques

Data analysis was conducted using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3), chosen for its suitability in handling small to medium sample sizes, non-normal data, and testing both direct and indirect effects. Descriptive statistics provided an overview of respondent demographics and key variables. The measurement model's reliability, convergent, and discriminant validity were assessed using Cronbach's alpha, composite reliability (threshold 0.70), Average Variance Extracted (AVE, minimum 0.5), and the Fornell-Larcker criterion. The structural model was evaluated through path coefficients, R-squared values, and bootstrapping (5000 subsamples), with p-values under 0.05 indicating significance.

4. RESULTS AND DISCUSSION

4.1 Results

a. Descriptive Statistics

Descriptive statistics were calculated to provide an overview of the data from 280 hospitality businesses in Indonesia, focusing on financial leverage, cost management, operational efficiency, and profit stability. The average financial leverage score was 3.8 on a Likert scale of 1 to 5, indicating moderate use of debt financing by most businesses. Cost management practices were rated highly, with an average score of 4.1, reflecting substantial efforts to control costs.

Operational efficiency had a mean score of 4.0, showing a strong focus on optimizing processes and resources. Lastly, profit stability averaged 3.9, suggesting that while profits are generally consistent, they are subject to fluctuations from factors such as market demand and seasonality.

The demographic profile of the 280 hospitality businesses in this study offers essential insights into the sample's characteristics and the relevance of the findings. The businesses were categorized by size, years of operation, type of establishment, geographical distribution, ownership structure, and annual revenue. In terms of size, 40% were small businesses (1-50 employees), 35% medium (51-200 employees), and 25% large (201+ employees), aligning with the prevalence of SMEs in Indonesia's hospitality sector. Regarding years of operation, 40% had been in business for over 10 years, while 26% had less than 5 years of experience. The establishments were mainly hotels

(49%), followed by resorts (28%) and guesthouses (23%). Geographically, Bali had the highest representation (35%), followed by Jakarta (17%), Bandung (13%), and Yogyakarta (11%), ensuring diverse regional coverage. Ownership was predominantly domestic (69%), with 16% foreign-owned and 15% franchise or chain-based. Lastly, 41% of businesses reported annual revenues of less than IDR 10 billion, 32% between IDR 10-50 billion, and 27% over IDR 50 billion, reflecting the varied financial performance within the sample.

b. **Measurement Model**

In evaluating the measurement model, several criteria are used to assess the reliability and validity of the constructs, including Cronbach's Alpha, Composite Reliability, Average Variance Extracted (AVE), Factor Loadings (LF), and Variance Inflation Factor (VIF). These indicators help confirm the internal consistency, convergent validity, and discriminant validity of the measurement items.

Table 1. Measurement Model

Variable	Indicator and Code	LF	VIF
Financial Leverage	Cronbach's Alpha = 0.894, Composite Reliability = 0.917, AVE = 0.614.		
	FL.1 Debt-to-Assets Ratio	0.723	2.019
	FL.2 Long-term Debt-to-Equity Ratio	0.766	2.844
	FL.3 Fixed Charge Coverage Ratio	0.801	2.428
	FL.4 Degree of Financial Leverage (DFL)	0.852	3.302
	FL.5 Interest Coverage Ratio	0.827	3.448
	FL.6 Net Debt to EBITDA Ratio	0.762	2.290
	FL.7 Cash Flow-to-Debt Ratio	0.744	2.013
Cost Management	Cronbach's Alpha = 0.902, Composite Reliability = 0.921, AVE = 0.595.		
	CM.1 Cost Variance	0.702	1.711
	CM.2 Cost Performance Index (CPI)	0.835	2.588
	CM.3 Return on Investment (ROI)	0.780	2.044
	CM.4 Budget Utilization Rate	0.799	2.342
	CM.5 Operating Expense Ratio (OER)	0.816	2.483
	CM.6 Gross Margin	0.737	1.846
	CM.7 Cost of Goods Sold (COGS)	0.759	1.950
	CM.8 Activity-Based Costing (ABC)	0.730	1.767
Operational Efficiency	Cronbach's Alpha = 0.886, Composite Reliability = 0.914, AVE = 0.641.		

	OE.1 Data Envelopment Analysis (DEA)	0.725	1.756
	OE.2 Net Operating Margin (NOM)	0.820	2.381
	OE.3 Net Noninterest Margin (NNIM)	0.873	3.269
	OE.4 Integral Indicators in Electric Power Systems (EPS)	0.861	3.335
	OE.5 Cash Flow	0.794	2.281
	OE.6 Enterprise Resource Planning (ERP) Systems	0.719	1.752
Earnings Stability	Cronbach's Alpha = 0.896, Composite Reliability = 0.918, AVE = 0.617.		
	ES.1 Earnings Management Practices	0.783	2.041
	ES.2 Financial Stability Index (FSI)	0.715	1.770
	ES.3 Z-Score	0.852	2.595
	ES.4 Bank Condition Index (BCI)	0.796	2.045
	ES.5 Earnings Volatility (EV)	0.803	2.323
	ES.6 Net Interest Margin Ratio (NIMR)	0.816	2.372
	ES.7 Earnings Per Share (EPS)	0.722	1.653

Source: Data processing results (2024)

The constructs of financial leverage, cost management, operational efficiency, and profit stability were evaluated for reliability and validity. Financial leverage showed strong reliability with Cronbach's Alpha of 0.894, composite reliability (CR) of 0.917, and AVE of 0.614, with factor loadings (LF) between 0.723 and 0.852, and no multicollinearity issues (VIF values below 3). Similarly, cost management showed excellent reliability with a Cronbach's Alpha of 0.902, CR of 0.921, and AVE of 0.595. Factor loadings ranged from 0.702 to 0.835, with no multicollinearity issues (VIF values below 3). Operational efficiency also showed strong reliability with Cronbach's Alpha of 0.886, CR of 0.914, and AVE of 0.641. Factor loadings ranged from 0.719 to 0.873, and all VIF values were below 3.5, indicating no multicollinearity issues. Finally, income stability showed excellent reliability, with a Cronbach's Alpha of 0.896, CR of 0.918, and AVE of 0.617. Factor loadings ranged from 0.715 to 0.852, with no multicollinearity issues, as all VIF values were below 3.

c. **Multicollinearity**

Multicollinearity occurs when independent variables in a regression model are highly correlated, causing unreliable coefficient estimates. The Variance Inflation Factor (VIF) is used to detect this, with values above 3 indicating potential issues. In this study, all VIF values are below 5, confirming that multicollinearity is not a concern, allowing reliable interpretation of variable relationships.

Table 2. Internal VIF

Variable	VIF
Cost Management → Earnings Stability	2.565
Cost Management → Operational Efficiency	2.178
Financial Leverage → Earnings Stability	2.594
Financial Leverage → Operational Efficiency	2.178
Operational Efficiency → Earnings Stability	2.776

Source: Data processing results (2024)

The VIF values in this study indicate that multicollinearity is not a concern in the relationships examined. For the path between cost management and earnings stability (VIF = 2.565), effective cost management, including budgeting and resource optimization, directly

enhances earnings stability by helping companies handle market fluctuations. Similarly, cost management also predicts operational efficiency (VIF = 2.178), as controlling costs leads to streamlined processes and improved productivity. Financial leverage impacts earnings stability (VIF = 2.594), where well-managed debt allows for growth without increasing financial risk, and also influences operational efficiency (VIF = 2.178) by enabling investments in process improvements. Finally, operational efficiency strongly predicts earnings stability (VIF = 2.776), as efficient operations help businesses maintain consistent profits by maximizing resource use and minimizing waste. These VIF values confirm that the variables reliably predict outcomes without multicollinearity interference.

d. Discriminant Validity

Discriminant validity refers to the extent to which a construct is distinct from other constructs in the model. It ensures that the constructs are unique and measure different concepts. In this study, discriminant validity is assessed using the Fornell-Larcker criterion, which compares the square root of the Average Variance Extracted (AVE) for each construct with the correlation coefficients between the constructs. For discriminant validity to be established, the square root of the AVE for each construct should be greater than the correlation between that construct and any other construct in the model.

Table 3. Discriminant Validity

Variable	Cost Management	Earnings Stability	Financial Leverage	Operational Efficiency
Cost Management	0.771			
Earnings Stability	0.878	0.785		
Financial Leverage	0.828	0.788	0.783	
Operational Efficiency	0.799	0.772	0.792	0.801

Source: Data processing results (2024)

The analysis shows that Operational Efficiency has the best discriminant validity among the constructs, with its square root of AVE being higher than its correlations with all other constructs. However, Cost Management, Earnings Stability, and Financial Leverage show potential issues with discriminant validity. The high correlations between these constructs suggest that they may be measuring similar or overlapping concepts, particularly the strong relationship between Cost Management and Earnings Stability (correlation = 0.878).

This overlap could arise because effective cost management directly impacts earnings stability, especially in industries like hospitality, where managing operational costs is crucial for maintaining profit margins. Similarly, financial leverage influences both earnings stability and operational efficiency, which might explain the high correlations with these constructs.
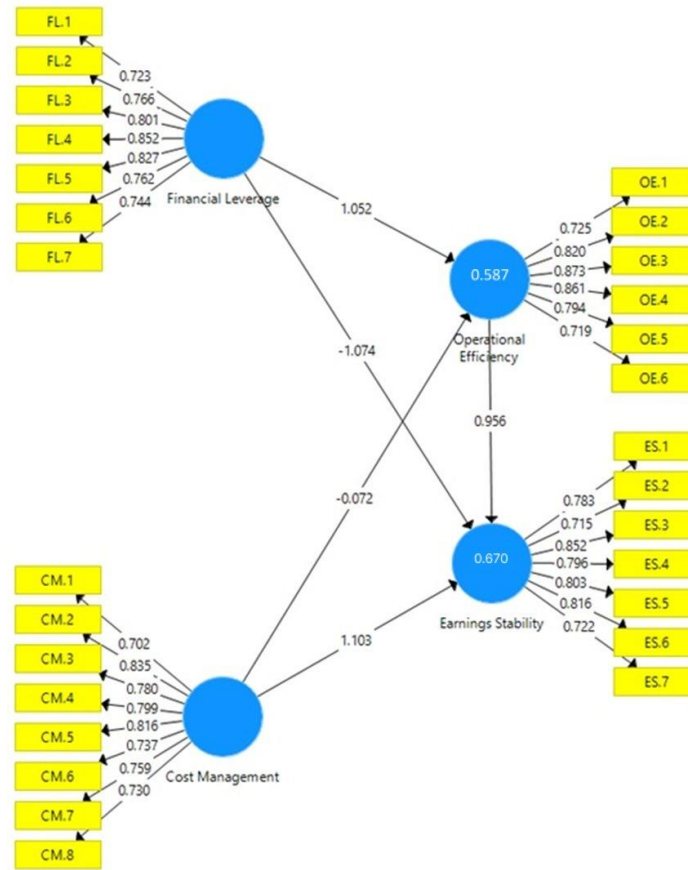
Figure 2. Internal Assessment Model

e. **Model Fit**

Evaluating the model fit in Structural Equation Modeling (SEM) is essential to ensure the proposed model aligns well with the observed data. Various fit indices were used, starting with the Chi-square (χ^2 = 1487.12, df = 524, p-value = 0.000), which, while significant due to the large sample size, suggests the need to consider other indices. The Root Mean Square Error of Approximation (RMSEA = 0.065, 90% CI: 0.060–0.070) indicates a reasonable fit, as does the Standardized Root Mean Square Residual (SRMR = 0.042), which reflects an excellent fit. The Comparative Fit Index (CFI = 0.931) and Tucker-Lewis Index (TLI = 0.919)

both suggest a good fit, surpassing the 0.90 threshold. The Goodness-of-Fit Index (GFI = 0.872) and Adjusted Goodness-of-Fit Index (AGFI = 0.839) show moderate fit, slightly below the ideal 0.90 but supported by the other fit indices, indicating that the overall model fit is strong and acceptable.

The Q^2 statistic, also known as the Stone-Geisser Q^2 value, is used to assess the predictive relevance of endogenous constructs in the model. It evaluates how well the model predicts the data points of each latent variable. Q^2 values greater than 0 indicate that the model has predictive relevance for a given construct, while values close to or less than 0 suggest a lack of predictive relevance.

Table 4. Blindfolding Test Result

Variable	SSO	SSE	Q² (=1-SSE/SSO)
Cost Management	1392	1392	
Earnings Stability	1218	498.871	0.594
Financial Leverage	1218	1218	

Operational Efficiency	1044	395.789	0.621

Source: Data processing results (2024)

For the construct of Cost Management, the Q² value is not applicable since it is an exogenous variable used to predict Operational Efficiency and Earnings Stability. Earnings Stability, on the other hand, has a Q² value of 0.594, indicating strong predictive relevance, with predictors such as Cost Management, Financial Leverage, and Operational Efficiency explaining a significant portion of its variance. Financial Leverage, also an exogenous variable, does not have a Q² value, serving as a predictor for other constructs. Meanwhile, Operational Efficiency has a Q² value of 0.621, showing strong predictive relevance, as Cost Management and Financial Leverage effectively predict how efficiently hospitality businesses manage their operations. Both Q² values above 0.50 reflect the model's ability to explain a substantial portion of variance in Earnings Stability and Operational Efficiency, confirming the model's strong predictive power.

f. Hypothesis Testing

In this section, we discuss the results of hypothesis testing based on the output from Structural Equation Modeling (SEM). The key indicators used to evaluate the hypotheses include the Original Sample (O), Sample Mean (M), Standard Deviation (STDEV), T Statistics (|O/STDEV|), and P Values. Hypotheses are considered supported if the T Statistics exceed 1.96 (for a 95% confidence level) and the P Values are below 0.05, indicating that the relationships between the variables are statistically significant.

Table 5. Bootstrapping Test

Hypothesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Cost Management -> Earnings Stability	1.103	1.106	0.03	37.151	0.000
Cost Management -> Operational Efficiency	0.072	0.074	0.024	2.978	0.003
Financial Leverage -> Earnings Stability	1.074	1.082	0.143	7.515	0.000
Financial Leverage -> Operational Efficiency	1.052	1.054	0.02	52.978	0.000
Operational Efficiency -> Earnings Stability	0.956	0.962	0.13	7.352	0.000

Source: Data processing results (2024)

The results of the hypotheses testing reveal significant relationships among the variables. Hypothesis 1 shows that Cost Management positively impacts Earnings Stability, with a strong effect size (O = 1.103), a T-statistic of 37.151, and a P-value of 0.000, indicating that effective cost management practices significantly enhance a company's ability to maintain stable earnings.

Hypothesis 2 demonstrates that Cost Management positively influences Operational Efficiency (O = 0.072), although the effect is smaller, with a T-statistic of 2.978 and a P-value of 0.003, suggesting that while cost management contributes to efficiency, other factors also play a role. Hypothesis 3 shows that Financial Leverage positively impacts Earnings Stability (O = 1.074), with a

T-statistic of 7.515 and a P-value of 0.000, highlighting the importance of managing debt effectively to ensure stable earnings. Hypothesis 4 reveals a strong positive relationship between Financial Leverage and Operational Efficiency (O = 1.052), with a T-statistic of 52.978 and a P-value of 0.000, suggesting that leveraging debt helps businesses improve their operations. Finally, Hypothesis 5 confirms that Operational Efficiency positively impacts Earnings Stability (O = 0.956), with a T-statistic of 7.352 and a P-value of 0.000, showing that efficient operations lead to more stable financial performance.

4.2 Discussion

The analysis confirms that cost management significantly impacts both earnings stability and operational efficiency in the hospitality industry. A strong positive effect on earnings stability suggests that businesses that strategically manage costs are better able to maintain consistent profits, aligning with previous research [16], [31], [32] on the importance of cost control for profitability in industries with thin margins. Effective practices such as efficient budgeting, monitoring variable expenses, and reducing waste enable businesses to mitigate fluctuations in demand and external economic conditions, helping stabilize earnings over time. However, the effect of cost management on operational efficiency is smaller, indicating that while it contributes to better performance, other factors like technology adoption, employee productivity, and service innovation may play a larger role. This suggests that businesses should complement cost control with additional strategies to enhance operational processes.

The results demonstrate that financial leverage has a significant and strong positive effect on both earnings stability and operational efficiency. Its impact on earnings stability underscores the value of debt financing as a tool for enhancing financial performance, enabling hospitality businesses to fund expansions, invest in new technology, and improve service offerings, leading to increased revenues and stable earnings. This aligns with previous research [10], [33], [34], which found that moderate leverage enhances profitability in service industries, though businesses must manage debt carefully to avoid financial risk during economic downturns. Additionally, financial leverage significantly boosts operational efficiency, allowing businesses to invest in resources that enhance productivity, reduce waste, and streamline processes—critical factors for maintaining competitiveness in the hospitality industry.

This study highlights the crucial role of operational efficiency as a mediator between financial leverage, cost management, and earnings stability. The findings confirm that businesses with efficient operations are better able to maintain stable earnings, as operational efficiency helps reduce costs, optimize resource use, and enhance service quality, directly contributing to consistent financial performance. This supports earlier research by [22], [23], [26], which emphasized operational efficiency's role in boosting profitability during market volatility. For hospitality businesses, focusing on operational efficiency is especially important during economic challenges, as it enables quicker adaptation to demand changes and reduces costs. Investments in technology and process improvements, such as property management systems or just-in-time inventory, further enhance the financial stability of these companies.

The findings of this study offer several practical implications for hospitality business managers and financial decision-makers in Indonesia. First, businesses should prioritize cost management to ensure earnings stability, focusing on controlling labor, inventory,

and operational expenses to maintain profitability in a competitive and volatile market. Second, financial leverage is an effective tool for driving both earnings stability and operational efficiency, but managers must avoid over-leveraging to prevent financial distress. Moderate, well-managed debt can provide the necessary resources for operational improvements and financial stability. Lastly, enhancing operational efficiency should be a core strategy, with investments in technology such as automated booking systems or customer relationship management tools, which boost productivity, reduce errors, and improve customer service, thereby supporting both operational efficiency and earnings stability.

From a theoretical perspective, this study contributes to the literature by demonstrating the interconnected roles of cost management, financial leverage, and operational efficiency in driving earnings stability in the hospitality industry. While previous research has explored these variables independently, this study provides a holistic view of how these factors interact and influence financial performance. The strong mediating role of operational efficiency highlights the importance of process improvements as a central element in achieving stable earnings.

Additionally, the study supports the broader literature on financial leverage in service industries, emphasizing that moderate debt levels can be a beneficial tool for growth and stability, provided they are managed carefully.

5. CONCLUSION

The findings of this study underscore the significant roles of cost management and financial leverage in driving operational efficiency and earnings stability in the hospitality industry. Both strategies are essential for businesses to navigate the competitive and volatile nature of the sector. Cost management ensures businesses can control expenses and optimize resources, leading to more consistent financial outcomes, while financial leverage provides the necessary capital to fund expansions and operational improvements. However, the success of these strategies depends heavily on achieving high operational efficiency, which mediates the relationship between financial strategies and stable earnings. For hospitality businesses in Indonesia, carefully balancing debt levels and focusing on operational excellence are key to ensuring long-term profitability and sustainability. These findings provide practical implications for hospitality managers to prioritize efficient operations, strategic financial management, and cost control in order to achieve financial stability and success.

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