

A Conceptual Framework Linking Earnings Level, Earnings Stability and Market Valuation

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ABSTRACT

Market valuation is important because it reflects how the market assesses a company's current performance and future prospects. Earnings remain one of the main sources of financial information used in this assessment. However, focusing only on the amount of earnings reported in a particular period may provide an incomplete view of company performance. This conceptual paper examines the relationship between earnings performance and market valuation by separating earnings performance into two dimensions: earnings level and earnings stability. A conceptual literature review approach is used to integrate relevant studies on earnings per share, profitability, earnings persistence, earnings volatility, stock prices, firm value, and price-to-earnings ratios. The review gives priority to recent Scopus-indexed studies while retaining selected earlier studies that provide important conceptual foundations. Based on the literature, the paper develops a focused framework with two propositions. The first proposes that higher earnings levels are positively associated with market valuation. The second proposes that greater earnings stability is positively associated with market valuation. The framework argues that the amount of earnings provides information about current financial strength, while stable earnings provide additional information about the reliability and predictability of future performance. By distinguishing these two dimensions, the paper offers a clearer explanation of how earnings performance may contribute to market valuation. The framework also provides practical value for managers and investors by encouraging them to consider both earnings strength and consistency when evaluating company performance. This distinction may support more balanced financial analysis and valuation decisions. Future empirical research can test the two proposed relationships across different industries and market settings.

Keywords: Earnings Level, Earnings Stability, Earnings Performance, Market Valuation, Firm Value

INTRODUCTION

Market valuation is important to companies and investors because it reflects how the market assesses a company's financial position and future prospects. Investors use financial information to compare companies, evaluate risk, and form expectations about future performance. Earnings are especially important because they provide a direct indication of the financial results generated by a company. Recent research continues to show that earnings and financial ratios remain relevant to stock market valuation, although their importance may differ across companies and market conditions (Boonlert-U-Thai & Schaberl, 2022; Kinnunen & Georgescu, 2025).

An important part of financial performance is earnings performance. It reflects a company's ability to generate profits and provide returns to shareholders. Earnings per share (EPS) is commonly used to evaluate this performance because it shows the amount of earnings attributable to each outstanding share. However, the usefulness of earnings information depends not only on the amount reported. Current earnings may be more useful when they provide a reasonable indication of future earnings, while unstable or highly volatile earnings can make future performance more difficult to assess (Sulistiawan et al., 2026). Therefore, earnings performance should be considered from more than one perspective.

This paper focuses on two dimensions of earnings performance: earnings level and earnings stability. Earnings level refers to the amount of earnings generated by a company, while earnings stability refers to its ability to maintain earnings consistently over time. The distinction is important because companies with similar earnings in one period may have very different earnings patterns across several periods. Evidence shows that sustained earnings are relevant to market outcomes, suggesting that consistency can provide useful information beyond short-term profitability (Sharma, 2023). In this sense, a strong earnings level may indicate current financial strength, while stable earnings may provide greater confidence in the continuity of that performance.

Market valuation reflects how the market translates available information into an assessment of company value. Measures such as stock price, firm value, market capitalisation, and the price-to-earnings (P/E) ratio are commonly used to examine valuation. The P/E ratio is particularly relevant to earnings because it links a company's market price with the earnings it generates. Nevertheless, market valuation is influenced by several factors, including expected future earnings, growth opportunities, risk, and market conditions (Neldi et al., 2023; Phan & To, 2025). This means that higher earnings do not automatically lead to higher valuation in every situation.

Although prior studies confirm that earnings are relevant to stock prices and firm value, the literature remains fragmented in three ways. First, earnings level, earnings persistence, earnings stability, and earnings volatility are often discussed as closely related ideas even though they capture different features of performance. Second, market valuation is represented by different outcomes, including share price, market capitalisation, firm value, and the P/E ratio, which should not be treated as interchangeable measures (Neldi et al., 2023; Phan & To, 2025). Third, recent evidence continues to examine earnings and valuation relationships, but it rarely places the amount of earnings and the consistency of earnings side by side within one focused framework (Kinnunen & Georgescu, 2025; Lakkangoudra, 2025; Sulistiawan et al., 2026). This paper addresses this gap by separating earnings level from earnings stability and proposing that each has a distinct positive association with market valuation. The contribution is therefore not to argue that earnings alone determine value, but to clarify which feature of earnings is being considered and why both current strength and consistency may provide different valuation information.

LITERATURE REVIEW

Earnings Performance

Earnings performance reflects a company's ability to generate profits and maintain financial results over time. The literature broadly agrees that earnings are useful for evaluating current performance and future prospects, but it differs in the feature of earnings being emphasised. Recent work on earnings predictability focuses on whether current earnings help explain future earnings, while studies of sustained earnings emphasise continuity across periods (Sharma, 2023; Sulistiawan et al., 2026). These ideas are related but should not be treated as identical. In this paper, earnings performance is the broad concept, while earnings level and earnings stability are treated as two separate dimensions.

Earnings level refers to the amount of earnings generated in a period and may be represented by measures such as net income or EPS. EPS is useful because it expresses earnings on a per-share basis and is directly relevant to shareholders. Earnings stability, however, concerns the pattern of earnings across time rather than the size of earnings in one period. It is conceptually close to earnings persistence and inversely related to earnings volatility, but the terms are not interchangeable. Persistence concerns the extent to which current earnings continue into future periods, whereas stability refers more generally to low fluctuation in earnings over time (Markonah & Kusnadi, 2025; Sulistiawan et al., 2026). This distinction is important because a company may report a high earnings level while still having unstable earnings.

The literature therefore suggests a tension between current strength and continuity. Strong earnings can indicate present financial capacity, but their valuation usefulness may be weaker when the earnings pattern is difficult to predict. Evidence on sustained earnings supports the importance of continuity for market outcomes (Sharma, 2023), while recent research shows that the ability to predict future earnings differs across market

settings (Sulistiawan et al., 2026). Taken together, these studies support analysing earnings level and earnings stability separately rather than combining them into one undifferentiated earnings measure. This separation forms the main conceptual basis of the framework developed in this paper.

Market Valuation

Market valuation refers to the market's assessment of a company's economic value and future potential. The value-relevance literature provides the conceptual foundation for this paper: accounting information is useful for valuation when it is associated with market assessments of the firm. Current earnings and expected future earnings both have value relevance, although their importance changes across life-cycle stages and levels of market uncertainty (Boonlert-U-Thai & Schaberl, 2022). More recent evidence also confirms that earnings and financial ratios remain connected with stock market valuation (Kinnunen & Georgescu, 2025). This supports examining whether different features of earnings provide different information for valuation.

Market valuation should also be distinguished from the individual measures used to observe it. Share price is the market price of one share, market capitalisation combines share price with shares outstanding, and firm value is a broader valuation concept. The P/E ratio is a relative valuation multiple that links share price to EPS rather than a direct measure of firm value. These measures may move differently because valuation is also shaped by growth expectations, risk, capital structure, and other firm-level conditions (Neldi et al., 2023; Phan & To, 2025; Saputra & Setiawan, 2023). For future empirical testing of this framework, market valuation should therefore be represented by a clearly specified outcome, such as market capitalisation or firm value, with P/E used as a supplementary valuation indicator rather than treated as interchangeable with them.

The recent literature supports the relevance of earnings to valuation but also shows important differences in context and measurement. Kinnunen and Georgescu (2025) connect company earnings and financial ratios with stock market valuation, while Lakkangoudra (2025) focuses more specifically on the interaction between EPS and stock price. Phan and To (2025), in contrast, examine determinants of market capitalisation in an emerging-market setting, while Ezratty et al. (2026) show that market prices can contain information about future fundamentals. These studies agree that financial performance matters, but they operationalise valuation differently. This variation strengthens the need for conceptual clarity before empirical testing. The present framework therefore focuses on the underlying relationship between earnings characteristics and market valuation while requiring future studies to define the selected valuation measure explicitly.

METHODOLOGY

This conceptual paper adopts a structured, literature-based approach to examine the relationship between earnings performance and market valuation. The review was designed to support concept clarification and proposition development rather than to estimate an overall statistical effect. A structured approach is appropriate because it allows prior findings to be compared and integrated while making the basis of the conceptual argument more transparent (Linnenluecke et al., 2020; Salih, 2024).

Scopus was used as the main database. The search focused primarily on peer-reviewed studies published from 2021 to 2026, while earlier studies were retained only when they provided an important conceptual or methodological foundation. Search terms were combined around three groups: earnings measures ("earnings performance," "earnings per share," and "earnings level"), earnings continuity ("earnings stability," "earnings persistence," and "earnings volatility"), and valuation outcomes ("market valuation," "firm value," "market capitalisation," "stock price," and "price-to-earnings ratio"). Searches combined terms from the earnings groups with terms from the valuation group using AND, while related terms within each group were connected using OR. Studies were included when they directly addressed earnings characteristics, valuation outcomes, or the conceptual review method. Studies with no clear connection to these concepts were excluded. Recent 2023-2026 studies were prioritised when they provided comparable evidence.

The selected studies were reviewed in three stages. First, the concepts and measures used for earnings and valuation were identified to avoid treating related terms as interchangeable. Second, findings were compared to

identify areas of agreement, differences in measurement, and contextual limitations. Third, evidence was organised around the two proposed relationships: earnings level with market valuation, and earnings stability with market valuation. No primary data, meta-analysis, or statistical testing was conducted. This process produced a focused conceptual synthesis rather than a descriptive list of studies and provided the basis for the two propositions.

Conceptual Framework and Proposition Development

The framework explains market valuation through two dimensions of earnings performance: earnings level and earnings stability. Its conceptual foundation is the value relevance of earnings information: earnings can contribute to valuation when they help the market assess current performance and future prospects (Boonlert-U-Thai & Schaberl, 2022; Kinnunen & Georgescu, 2025). The framework separates the amount of earnings from their consistency because these dimensions answer different questions. Earnings level indicates how much the company currently earns, whereas earnings stability indicates how consistently that performance is maintained. The model therefore proposes two direct relationships with market valuation rather than treating all earnings characteristics as one measure.

Table 1. Proposed Conceptual Framework

Earnings Performance		Market Valuation
Earnings Level	P1 →	Market Valuation
Earnings Stability	P2 →	

Note: Earnings level and earnings stability are distinct dimensions of earnings performance. Both are proposed to have direct positive associations with market valuation.

Earnings Level and Market Valuation

Earnings level represents the amount of profit generated by a company during a particular period. It provides information about current financial performance and the company's ability to generate returns. EPS is often used to represent this performance because it expresses earnings on a per-share basis. Stronger earnings can provide a positive indication of financial capacity and may therefore support a stronger market assessment of the company.

Recent evidence generally supports a positive connection between earnings information and market outcomes, but the studies differ in the valuation measure used. Gharaibeh et al. (2022) link EPS and net income with stock price, while Lakkangoudra (2025) examines the interaction between EPS and stock price in investment decisions.

Kinnunen and Georgescu (2025) consider the wider relationship among earnings, financial ratios, and stock market valuation. Together, these studies support the relevance of earnings level, but they also show that the observed relationship depends partly on how market valuation is measured.

The relationship is therefore not mechanical. Profitability and firm value may be shaped by competition, equity value, debt, growth expectations, and other market conditions (Saputra & Setiawan, 2023). This is an important limitation of a simple earnings-valuation relationship.

The proposition in this paper should therefore be interpreted as an expected association, not as a claim that higher earnings automatically create higher market value. Its contribution is to isolate earnings level as one distinct component of earnings performance before considering other determinants of valuation. Accordingly, the first proposition is stated as follows:

Proposition 1 (P1) : Higher earnings levels are positively associated with market valuation.

Earnings Stability and Market Valuation

Earnings stability refers to the consistency of earnings across time. It differs from earnings level because it concerns the pattern of performance rather than the amount reported in one period. It is also distinct from earnings persistence and earnings volatility. Persistence focuses on the extent to which current earnings continue into future periods, while volatility captures the degree of fluctuation. Stability can therefore be understood as relatively low fluctuation combined with a consistent earnings pattern. The seminal evidence of Dichev and Tang (2009) shows that higher earnings volatility is associated with lower earnings predictability, while more recent work links earnings persistence with market responses to earnings information (Markonah & Kusnadi, 2025).

The literature supports the importance of continuity, but it does not use one common measure. Sharma (2023) shows that sustained earnings are relevant to stock returns, whereas Markonah and Kusnadi (2025) emphasise earnings persistence. These approaches are conceptually related because both concern whether reported performance is likely to continue, but they should not be treated as identical measures of stability. For future empirical research, earnings stability could be operationalised using the variability of EPS or net income over a defined multi-year period, such as the standard deviation or coefficient of variation, where lower variability indicates greater stability. A persistence coefficient estimated from earnings over time could be used as an alternative measure when the research question focuses specifically on persistence.

Earnings volatility can also affect how quickly the market processes information. Cho (2022) finds that greater earnings volatility is associated with stock price delay, suggesting that unstable earnings can make valuation more difficult. This evidence complements, rather than duplicates, the persistence literature: volatility captures fluctuation, while persistence captures continuation. The framework uses the broader concept of earnings stability to represent the consistency dimension and expects greater stability to support market valuation by improving the predictability of future performance. Accordingly, the second proposition is stated as follows:

Proposition 2 (P2): Greater earnings stability is positively associated with market valuation.

DISCUSSION AND IMPLICATIONS

The framework contributes to the literature by separating two earnings characteristics that are often discussed together. Earnings level captures current financial strength, while earnings stability captures the consistency of that strength over time. Recent studies continue to show that earnings and financial ratios matter for market valuation, but they use different earnings and valuation measures (Kinnunen & Georgescu, 2025; Lakkangoudra, 2025; Phan & To, 2025). By placing earnings level and earnings stability in the same framework, this paper makes the comparison explicit and clarifies that each dimension may provide different valuation information.

This distinction also addresses an important measurement issue. A high earnings level does not necessarily imply stable earnings, and stable earnings do not necessarily imply a high earnings level. Similarly, stock price, market capitalisation, firm value, and P/E should not be used as if they represent exactly the same outcome. The framework therefore contributes conceptual clarity before empirical testing. It also recognises its boundary conditions: valuation remains influenced by growth expectations, risk, capital structure, competition, and market conditions (Neldi et al., 2023; Saputra & Setiawan, 2023). The two propositions should be interpreted within these wider conditions rather than as a complete model of firm value.

The framework also has practical implications for managers. Efforts to improve short-term earnings are important, but they should not come at the expense of the quality and sustainability of future performance. Earnings management, for example, may improve reported results temporarily while reducing the usefulness of accounting information for evaluating actual performance (Tran & Nguyen, 2026). Managers should therefore focus not only on achieving strong earnings but also on building business performance that can be

maintained over time.

For investors, the framework encourages a broader reading of earnings information. High EPS or strong profitability in one period may appear attractive, but the value of that information may be weaker when earnings fluctuate substantially. Investors can therefore benefit from examining both the level and the pattern of earnings over time. Market responses are also shaped by the interaction between earnings information, valuation, and expectations about future performance (Alvarado et al., 2021). Considering both earnings level and stability can support a more balanced assessment of company value.

The main contribution to knowledge is therefore threefold. First, the paper separates earnings level from earnings stability instead of treating earnings performance as one undifferentiated construct. Second, it distinguishes the broader concept of market valuation from the specific measures used to observe it. Third, it provides clear directions for future operationalisation: earnings level may be measured using EPS or net income, earnings stability may be measured using multi-period earnings variability or a persistence-based measure, and market valuation should be represented by a clearly selected outcome such as market capitalisation or firm value. Future studies can test whether the two earnings dimensions have different effects across industries, countries, firm sizes, and market conditions.

CONCLUSION

This conceptual paper examines the relationship between earnings performance and market valuation by separating earnings performance into two dimensions: earnings level and earnings stability. The review shows that the literature generally agrees on the relevance of earnings to valuation, but differs in how earnings characteristics and valuation outcomes are defined and measured. The framework responds to this problem by treating current earnings strength and earnings consistency as related but distinct sources of information.

The first proposition suggests that higher earnings levels are positively associated with market valuation. Strong earnings can indicate current financial strength and the ability to generate returns. The second proposition suggests that greater earnings stability is positively associated with market valuation. Stable earnings can make future performance more predictable and provide a more reliable basis for assessing company value. Together, the propositions emphasise that both the strength and consistency of earnings matter when interpreting financial performance.

The paper is limited by its conceptual nature because the proposed relationships have not been empirically tested. The reviewed studies also cover different countries, industries, and valuation measures, so the strength of the relationships may vary across settings. Future empirical studies should define the measures clearly. Earnings level can be represented by EPS or net income, while earnings stability can be assessed through multi-year variability in earnings or a persistence-based measure. Market valuation should be represented by a specified outcome such as market capitalisation or firm value, with P/E treated as a supplementary valuation multiple. Testing these measures across different settings would show whether earnings stability provides additional valuation information beyond the amount of earnings reported in a single period.

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