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The Effect of Retained Earnings and Liquidity on Dividend Policy in Telecommunications Listed on IDX 2020 – 2023

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ABSTRACT

This study aims to examine and analyze the effect of retained earnings and liquidity on dividend policy in telecommunications companies listed on the IDX, as well as the simultaneous effect of retained earnings and liquidity on companies in the telecommunications sector listed on the IDX in 2020-2023, with the criteria of still being actively listed on the IDX until 2023, publishing annual reports in the period 2020–2023, and distributing dividends in the period 2020–2023. This study uses a quantitative method with a descriptive causality approach. The study found that retained earnings have a positive but insignificant effect on dividend policy, liquidity has a positive but insignificant effect on dividend policy, and there is a less significant positive effect from retained earnings and liquidity simultaneously on dividend policy.

Keywords: Retained Earnings, Liquidity, Telecommunications, Dividend Policy.

INTRODUCTION

In today's competitive business environment, dividend policy is a vital strategic decision. It not only indicates how profits are distributed to shareholders but also reflects the company's stability and future prospects. Companies do not always distribute their entire net profit; often, a portion is retained as retained earnings to support business growth and strengthen capital structure (Brigham & Houston, 2019). Retained earnings are the part of a company's net profit that is reinvested into operational activities and funding long-term projects, rather than being paid out as dividends. This item appears under equity on the balance sheet and is often a cheaper form of financing compared to external sources like debt (Fischer et al., 2018).

Management has several strategic reasons for retaining earnings. These include supporting growth and expansion, maintaining liquidity, and increasing company value through investments in productive assets. For instance, growing companies in the telecommunications industry often require significant funding to expand networks, develop new technologies, and maintain infrastructure. By retaining earnings, companies can enhance their internal financing capacity and reduce their reliance on debt or issuing new shares.

However, retaining too much in earnings can lead to disappointment among investors who expect regular dividend payouts. This situation creates a dilemma for management: they must balance meeting short-term shareholder expectations with ensuring the long-term sustainability of the business.

In addition to retained earnings, liquidity plays a crucial role in a company's financial health. It indicates the ability to meet short-term obligations while also providing funds for dividends (Gutman et al., 2018). According to Mardiyanto (2009), liquidity refers to a company's capacity to repay short-term debt on time, which may include some long-term debt that is due within the current year. Similarly, Munawir (2007) emphasizes that liquidity reflects a company's ability to pay bills promptly as they become due. If a company can meet these obligations, it is considered to have good liquidity; conversely, failing to do so results in poor liquidity. Therefore, understanding liquidity goes beyond just measuring cash; it also reflects a company's success in maintaining financial stability and instilling market confidence.

During the COVID-19 pandemic, telecommunications companies faced significant financial pressures, despite a heightened demand for data services. These challenges were largely due to high operational costs and the need for substantial network investments. To maintain liquidity and bolster retained earnings, many companies opted to cut or eliminate dividends. This situation aligns with the Dividend Smoothing Theory proposed by Lintner in 1956, which describes management's inclination to maintain stable dividends despite fluctuating earnings in order to preserve investor confidence (Brealey et al., 2020). Essentially, dividend policy is closely linked to liquidity management and a company's growth strategy.

Additionally, Rahman *et al*. (2022) highlighted that dividend policy is not determined in isolation, but rather is influenced by key factors such as profitability, liquidity, company size, and growth rate. Companies with high profitability, strong liquidity, and larger scale are generally more inclined to distribute higher dividends. In contrast, companies that prioritize growth often prefer to retain earnings to fund their expansion. Investors typically expect returns through dividends and capital gains, which is why an optimal dividend policy should balance short-term investor interests with long-term investment needs to enhance company value (Hutabarat & Siregar, 2020).

Previous research has yielded mixed results regarding the impact of liquidity on dividend policy.

1. No Significant effect: Syarif & Parasetya (2023), Zhafirah *et al*. (2019), Sudiartana & Yudantara (2020).
2. Negative effect: Akbar & Fahmi (2019), Attahiriah *et al*. (2020).
3. Positive effect: Aryani & Fitria (2020), Swandana *et al.* (2023).

These differences in results suggest that the impact of liquidity on dividend policy is context-dependent, shaped by management strategies, market conditions, and industry characteristics. In the capital-intensive telecommunications sector, the need for substantial investment often means that dividend policy is influenced more by retained earnings and growth strategies than by liquidity alone. Therefore, the study titled "The Effect of Retained Earnings and Liquidity on Dividend Policy in Telecommunication Companies Listed on the IDX from 2020 to 2023" is relevant for providing empirical insights in the post-pandemic context.

RESEARCH METHODS

Types of research

This research is quantitative with a descriptive causality approach. The quantitative approach is used to measure variables objectively through numerical data, while the causality approach aims to analyze the cause-and-effect relationships between variables.

Population and Sample

1. Population: All 18 telecommunications companies listed on the IDX for the 2020–2023 period.
2. Sample: Determined by purposive sampling based on specific criteria: (1) operating in the telecommunications sector, (2) actively listed on the IDX until 2023, (3) publishing annual reports for the 2020–2023 period, and (4) distributing dividends.
3. The selection results showed that only two companies met the criteria: PT Telkom Indonesia (Persero) Tbk. and PT XL Axiata Tbk.

Data collection technique

The data used is secondary data in the form of company annual reports obtained from the official websites of each issuer and the Indonesia Stock Exchange.

Operational Definition of Variables:

1. Retained Earnings (X1): the portion of a company's profits not distributed as dividends, measured by the retained earnings value in the financial statements.
2. Liquidity (X2): the company's ability to meet short-term obligations, measured by the Current Ratio (CR = Current Asset / Current Liability).
3. Dividend Policy (Y): the company's profit distribution decision, measured by two indicators:
   a. Dividend Payout Ratio (DPR = Dividend / Net Profit)
   b. Dividend per Share (DPS = Dividend / Outstanding Shares)

Data Analysis Techniques

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The analysis was carried out with the help of SPSS using:

1. Multiple Regression Analysis was used to determine the effect of retained earnings and liquidity on dividend policy, both partially and simultaneously.
2. Bootstrapping was applied due to the small sample size, resulting in more stable coefficient estimates and an reliance on the assumption of a normal distribution.

RESULTS AND DISCUSSION

Retained Earnings

An analysis of retained earnings reveals varying trends among telecommunications companies. Telkom exhibited the highest retained earnings capacity, which rose significantly in 2021 to Rp 21.07 trillion. However, it experienced a drastic decline in 2022 to Rp 4.15 trillion, before rebounding to Rp 6.87 trillion in 2023. This sharp fluctuation reflects a dynamic dividend policy and financial strategy.

ISAT, which had no retained earnings between 2020 and 2021 due to accumulated losses, began to improve after the merger with Hutchison. It reached Rp 2.66 trillion in 2022 and Rp 2.34 trillion in 2023, despite still facing cost pressures.

In contrast, EXCL showed relatively modest retained earnings that fluctuated slightly. Its retained earnings rose from Rp 496.74 billion in 2020 to Rp 930.64 billion in 2021, then declined to Rp 566.69 billion in 2022, before increasing slightly to Rp 35.46 billion in 2023.

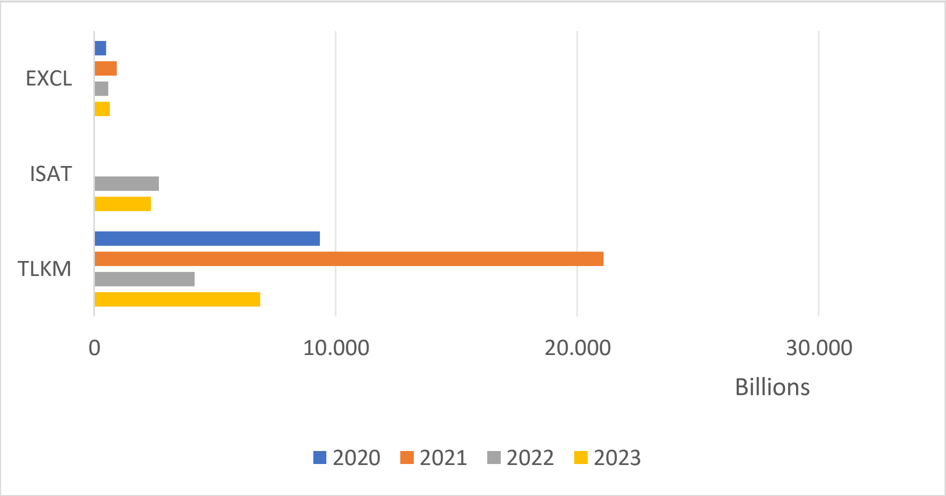

Figure 1. Growth in retained earnings of telecommunications companies

Overall, TLKM remains dominant, ISAT shows an improving trend post-restructuring, while EXCL faces limited profit accumulation. These differences reflect the varying dividend and expansion strategies among companies, necessitating further analysis of their respective financial statements and dividend policies.

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Liquidity

The liquidity of telecommunications companies, as measured by the Current Ratio (CR), was relatively low during the period from 2020 to 2023. Telkom had a CR below 1 from 2020 to 2022 but experienced a drastic increase to 4.739 in 2023. This spike was due to a rise in current assets and a reduction in current liabilities, although it was an anomalous result. In contrast, ISAT consistently had a CR below 1 (ranging from 0.40 to 0.52), indicating tight liquidity caused by investment requirements and post-merger restructuring. Nevertheless, ISAT's liquidity was somewhat supported by access to external funding. EXCL also displayed a low CR, which declined from 0.401 to 0.356, signaling an increasing risk in meeting short-term obligations.

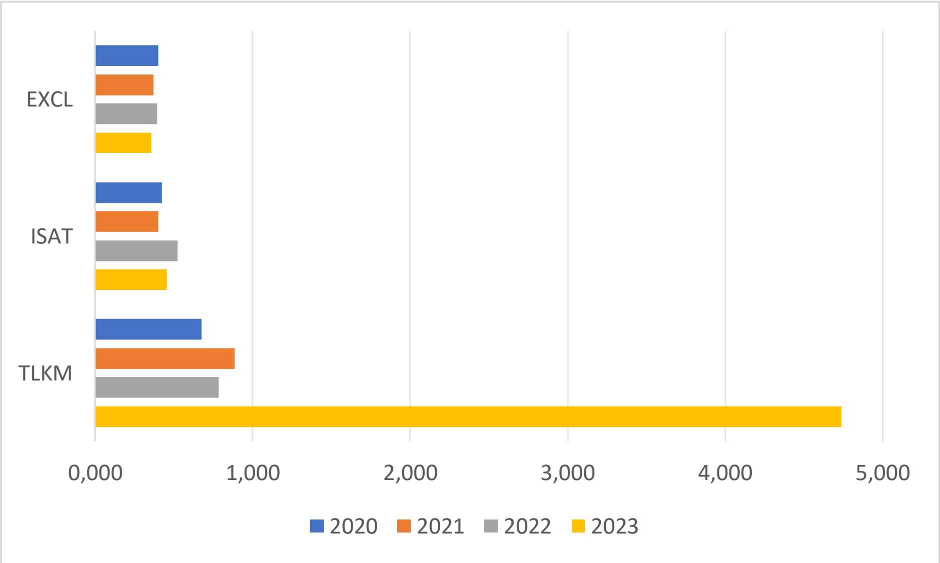

Figure 2. Growth in Liquidity of Telecommunication Companies

Overall, the liquidity of all three companies is relatively weak, with the exception of TLKM in 2023, which is likely a temporary phenomenon.

Dividend Policy

Based on the Dividend Payout Ratio (DPR), TLKM exhibits a relatively stable dividend policy, maintaining a range of 40% to 60%. There have been some moderate fluctuations over the years: the DPR was 56.3% in 2020, 43.8% in 2021, 60% in 2022, and 54.9% in 2023. This indicates a balanced approach between distributing profits to shareholders and retaining capital for investments.

ISAT has shown an upward trend following a loss in 2020 (with a DPR of 0). The company began paying dividends in 2021 at 29.2%, which rose to 38.4% in 2022 and reached

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45.3% in 2023. This reflects a recovery in performance after a restructuring, sending a positive signal to investors.

In contrast, EXCL recorded a remarkably high DPR of 90.9% in 2020, which then dropped significantly to 42.2% in 2021. It stabilized around 50% in 2022 and 2023. This trend indicates a more aggressive approach to profit distribution, even though it may lead to a reduction in reserves needed for internal financial strengthening.

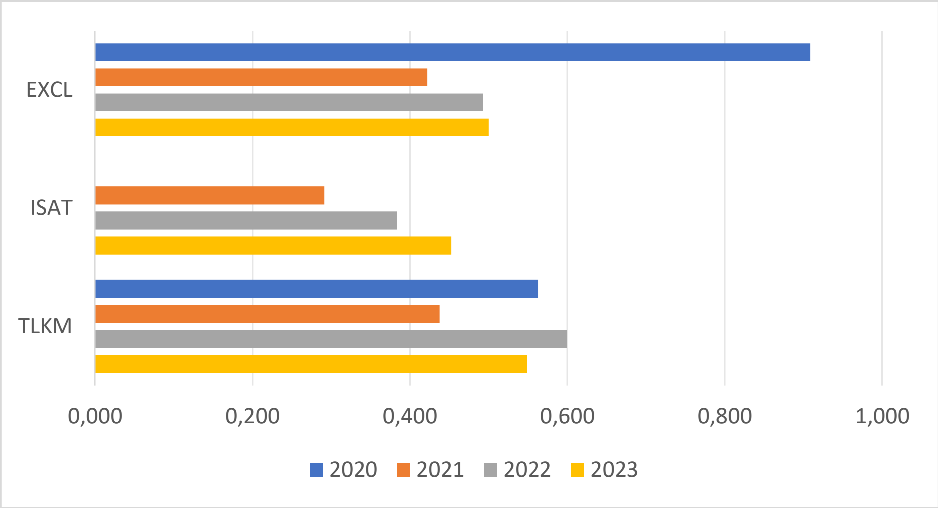

Figure 3. Dividend Payout Ratio

In terms of Dividends per Share (DPS), TLKM consistently distributed a value above IDR 150 per share, with moderate fluctuations. The DPS was IDR 168.01 in 2020, then decreased to IDR 149.97 in 2021, before increasing to IDR 167.60 in 2022 and IDR 178.50 in 2023. This trend aligns with strong profits and stable Dividend Payout Ratio (DPR) policies.

On the other hand, ISAT did not distribute dividends in 2020, but began paying a DPS of IDR 248.06 in 2021. The DPS continued to rise, reaching IDR 255.70 in 2022 and IDR 268.40 in 2023, reflecting efforts to bolster investor confidence despite declining profits.

Meanwhile, EXCL recorded a significantly lower DPS, starting at IDR 25.76 in 2020 and gradually increasing to IDR 48.39 in 2023, which corresponds with a lower net profit compared to its competitors.

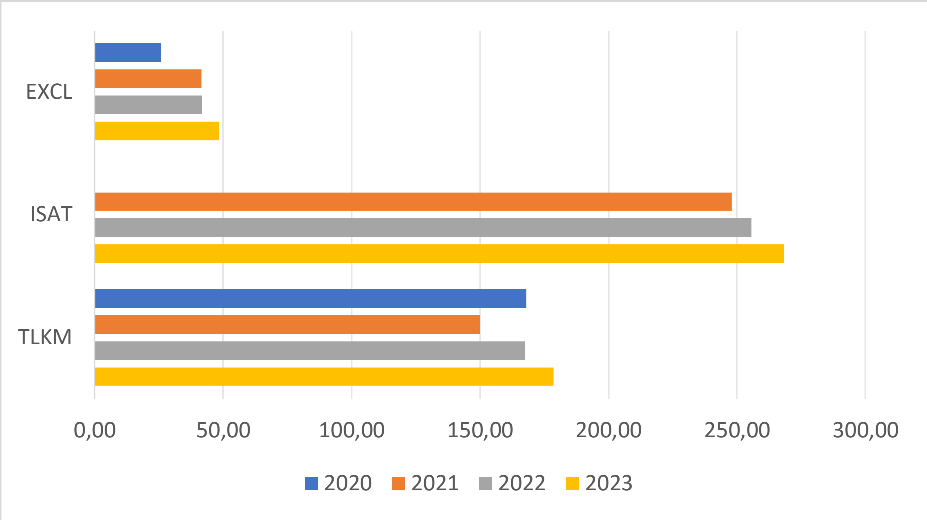

Figure 4. Dividend per Share

The discussion above can be concluded that TLKM shows stability and attractive dividends, ISAT is progressive but depends on profit sustainability, while EXCL, although aggressive at the start, is still limited by small profits so that DPS is low.

Regression Test

Regression testing using the Partial Least Square method using the PROCESS v 5.0 add-on in SPSS produced the following findings:

```
OUTCOME VARIABLE:
 Divi

Model Summary
          R       R-sq    Adj R-sq         F         p      SEest
       ,491       ,241        ,073     1,431      ,289     93,835

                SS         df         MS
Regress   25191,451      2,000  12595,726
Residual  79245,651      9,000   8805,072
Total    104437,102     11,000   9494,282

Model
              coeff         se          t          p       LLCI       ULCI
constant    -14,686     92,944      -,158       ,878   -224,941    195,568
Laba          5,392      3,470      1,554       ,155     -2,457     13,241
Liqu          9,005     23,328       ,386       ,708    -43,766     61,776

********************** ANALYSIS NOTES AND ERRORS ***********************

Level of confidence for all confidence intervals in output:
  95.0000
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Figure 5. Results of PROCESS v.5 in SPSS

The following is a summary of the test results above.

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1. Retained Earnings (coeff = 5.392; p = 0.155) → Has a positive but insignificant effect on dividend policy. Hypothesis 1 is accepted.
2. Liquidity (coeff = 9.005; p = 0.708) → Has a positive but insignificant effect on dividend policy. Hypothesis 2 is accepted.
3. Simultaneous test (F = 1.431; p = 0.289) → Retained Earnings and Liquidity simultaneously have a positive but insignificant effect on dividend policy. Hypothesis 3 is accepted.

It can be concluded that all variables show a positive influence on dividend policy, but are not statistically significant either partially or simultaneously.

1. The Effect of Retained Earnings on Dividend Policy
   a. Retained earnings have a positive but insignificant effect.
   b. Companies with large retained earnings balances are more flexible in paying dividends, but management tends to maintain dividend stability rather than following fluctuations in retained earnings.
   c. This is in line with Dividend Smoothing Theory.
   d. This contrasts with the findings of Sulihin *et al*. (2023).
2. The Effect of Liquidity on Dividend Policy
   a. Liquidity has a positive but insignificant effect.
   b. High liquidity provides more room for dividend payments, but this is not always accompanied by significant increases, as telecommunications companies continue to prioritize investment.
   c. This is consistent with the Trade-Off Theory.
   d. This is in line with Aryani & Fitria (2020), Swandana *et al*. (2023), but differs from Akbar & Fahmi (2019), and Attahiriah *et al*. (2020).
3. The Simultaneous Effect of Retained Earnings and Liquidity on Dividend Policy
   a. Simultanously, they have a positive but insignificant effect.
   b. The combination of large retained earnings and healthy liquidity provides a strong foundation for dividend stability, but decisions are still aligned with investment and expansion strategies.
   c. This is in line with Dividend Stability Theory and the findings of Ghasemi *et al*. (2018) and Jayanti *et al*. (2023).

In general, retained earnings and liquidity support the company's ability to pay dividends, but their influence is weak because management prioritizes long-term dividend stability.

CONCLUSION

The results of the study indicate that retained earnings and liquidity have a positive but insignificant effect on dividend policy. While having a large retained earnings balance and high liquidity can support a company's ability to pay dividends, decisions regarding dividend distribution are more significantly influenced by the stability of annual profits, long-term investment requirements, and the company's growth strategy.

Additionally, the combination of retained earnings and liquidity offers greater flexibility in increasing the Dividend Payout Ratio (DPR) and Dividend Per Share (DPS). However, in practice, the principle of prudence is still upheld according to the Dividend Stability Theory, which aims to maintain consistent dividends and prevent fluctuations that could undermine investor confidence.

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