

Effects of Textile Policy on Profitability and Dividend Payout Ratio of Textile Industry in Pakistan

AHSAN NAWAZ SHEIKH¹

Research Scholar

Karachi University Business School

University of Karachi, Pakistan

Dr. DANISH AHMED SIDDIQUI

Associate Professor

Karachi University Business School

University of Karachi, Pakistan

Abstract

As the textile industry is one of the main source of our country's earnings for which the substantial investment from the shareholders is required. However, it is necessary to evaluate the effects of textile policy to evaluate the dividend payout in order to enhance the investment in this respective sector. On the other, if the profitability of the sector would be higher, then ultimately firms will pay out the higher dividends. Thus, evaluating the effects of textile policy on profitability of the textile sector is also crucial. The objective of the study is to find out the effects of textile policy on profitability & dividend payout ratio of the textile sector of Pakistan. The policy implemented by government in different tenure one is from 2009- 2014 and second is from 2015 to till date. The study used quantitative research based yearly pool data of 9 years taken from financial statements of listed companies of the textile industry. Data was analyzed using multiple regression analysis. The findings indicated that no significant impacts found on the effect of policy change in 2015. Dividend payout ratio remained insignificant by the measures of textile policy of the selected listed companies. Hence,

¹ Corresponding author: ahsan.nawaz.shk@gmail.com

there is an immense need of an improved policy for better outcomes in the textile industry as it is a prodigious sector in the economy of Pakistan.

Keywords: Dividend payout ratio, profitability, textile industry, textile policy, dividend policy, determinant of dividend policy.

1. INTRODUCTION

1.1 Background of Study

The textile sector or textile industry manufactures and produces the fabric for different purpose from clothing to carpeting and to almost all of the goods that are yield of fabric or cotton. However, industries that are related to the textile material mainly cotton, wool, silk, chemical fibre are called textile industry. Moreover, the downstream industries of the textile sector include garment industry, industrial textiles, household textiles, etc. also, there are numerous sub-division of the sector which includes the industry of textile testing, textile knitting, printing and dyeing, and chemical fibre, and woollen.

Many traditional industries along with the development of economy are known as the sunset industry, being one of the traditional industries, the textile industry is also considered as the sunset industry. However, in many countries the textile sector is a strong support for their economies. There is a large number of the employees that are directly connected to the textile industry in the world. Hence, despite of any economic downturn the textile industry still supports the economies in many countries including China which shows that it has strong and competitive strength among other industries.

The textile industry in Pakistan is contributing substantially in its developing economy. The Total export of the industry is around 9.6 billion US dollars. In other words, it is contributing 8.5% to the GDP of Pakistan. However, it is considered as the eighth largest exporter of the textile goods in

the Asia. In today's world when the competition is high, the textile sector of Pakistan immensely needs to upgrade its policy for the better impact over the profitability and dividend of the stockholders.

Since 1947, the enormous production of cotton and expansion of textile industry of Pakistan has remained quite impressive. The cotton production increased eventually from the 10.1 million bales to approximately 10 million bales by the year 2000. Thus, the number of mills started to increase as well i.e. from just three mills to six hundred which was a tremendous expansion of the era. The spindles were increased from 177,000 to the 805 million. However, the experts of textile industry realised the possession of large textile sector for which around 70% of the equipment need replacement for better economic and higher quality production in the mills. Moreover, the experts emphasized on the effective textile policy that could give a comprehensive direction to the sector. As according to the situation of state, the experts and textile authorities encourage the efforts of government towards the exports and expansion of the sector. The effective steps were taken with respect to the monetary aspect which was the continuous devaluation of the Pakistani currency. However, it failed to improve the cost of the competitiveness due to the raised in the prices of local input of the Pakistani textile industry. The stance of international consultant over the textile industry of Pakistan was that the Pakistani country has failed to make the exemplary progress in the foreign markets and it has been taken over by its competitive neighbouring countries.

The aim of the textile policy of 2014 till 2019 is not only limited to a perspective plan for the next five years but also to brought unity among the development initiative of government. Either directly or indirectly, the effects of the policy measures on the one subsector ultimately exert the impact on the other subsectors as well. The policy has resolute to make the entire sector self-reliant and competitive in every mean. The textile

policy has aimed broadly by considering the different measures of the industry including tariff rationalization, employment, export performance, long term initiatives that can ultimately impact on the profitability, and consistent growth of the sector. The policy consists of numerous goals of enhancing the production, quality of manufacturing goods, expanding of textile units, specifically increasing of investment of around 5 billion dollars in innovation and machinery of the sector.

According to the World Trade Statistical Review, the value of the world textile has rose to 454.5 billion dollars respectively in the year 2017 which was considered as the robust growth since last 6 years. This shows that the growth and profitability in this respective sector is tremendous.

The profitability ratios have been used in the past to determine the profit margin of the textile mills because these ratios are the better means to represent the profit related information for the shareholders, investors, and stakeholders who wants to invest in the sector against the handsome dividend. As the time passes, the profitability of the sector is increasing, the statistics of the profitability analysis since 2010-13 shows the high increase in net profit, gross profit margin, return on equity, and return on assets for the textile sector as compared to previous years.

Years	Growth
2008-2009	-0.7%
2009-2010	-1.78%
2010-2011	1%
2011-2012	4.8%
2012-2013	13.02%

Source: Economic Survey of Pakistan, state bank of Pakistan

However, the reason of such higher profitability was the lower energy crises during that period. Hence, as the energy crises were increased, it created a downturn for two quarters but later on in 2013, the industry rose again due to the higher

profitability as per the higher demands both national and regional.

1.2 Problem Statement

The policy is aimed to achieve the several effective goals that ultimately enhance the growth and profitability of the entire sector. However, there are several effects that exerts by implementation of textile policy on the profitability of the industries which ultimately impact on the dividend payout ratio of the mills of textile sector. The dividend payout ratio can be described as the amount of dividends that is paid to the shareholders of a firm with respect to the total net income that firm generates. It is also a certain percentage of net income of a firm which is meant to distribute among the shareholders as a dividend. This dividend payout sends signal to the markets and investors on which the decision of further investment is based.

According to the theory of dividend signalling, a signal is send to the investors and market by an increase or decrease in dividend payout. So, the increase in dividend announced by the firm sends a positive signal representing a strong future of the company. While a decrease in announced dividend shows the negative signal occurs due to an asymmetry of information.

As the textile industry is the main source of Pakistan' earnings for which the substantial investment from the shareholders is required. However, it is necessary to evaluate the effects of textile policy to evaluate the dividend payout in order to enhance the investment in this respective sector. On the other, if the profitability of the sector would be higher, then ultimately firms will pay out the higher dividends. Thus, evaluating the effects of textile policy on profitability of the textile sector is also crucial.

1.3 Gap Analysis

Zhou and Ruland (2006) explored the variable of dividend payout and future earnings growth of the firm. In which they

associated high dividend payout with weak future earnings. Thus, the findings revealed that high dividend payout companies tend to experience strong future earnings despite of their previous dividend paid. Ritha and Koestiyanto (2013) also explored the dividend payout ratio based in Indonesia. He proposed that the dividend policy is connected to the controversial issue in determining the income of the companies for its shareholders in the dividend form. Thus, the research found that the variables i.e. debt to total assets, cash ratio, growth, institutional ownership significantly influence the dividend payout ratio of companies. On the other hand, the other variables like return on asset and size of the companies do not influence the dividend payout ratio. Fitri, Hosen, & Muhari, (2016) examined the effect of ratios i.e. Return on Assets, Debt to equity, growth, and the dividend payout ratio by using the data of annual financial reports of listed companies. Findings showed numerous effects i.e. positive and negative and insignificant of the variables to dividend payout ratio. However, the factor of previous dividend paid shows the highly significant impact. Abor & Fiador, (2013) also found the significant positive relationship in dividend payout among the firms of Kenya and Ghana. The study found the negative effects of corporate governance on dividend payout in the area of Nigeria. However, the study found the contrary results in case of Ghana which is the significantly positive effects. However, this study is limited to the South African companies only. Moreover it generalised their findings to all the sectors of the country.

The above mentioned researches are limited to the short time span however; this study has taken 9 years period to determine the impact. Also, the above mentioned researches focused on the limited ratios of annual reports, while this study included the variables from profitability ratios, debt ratios, and even the income of the firms. Hence, this study, not only focused on the ratios but also their effects during the

implementation of a governance policy i.e. textile policy which have not been done by previous researchers. Hence, it will evaluate the impact of financial determinants on the basis of change in textile policy Moreover; the above researches have been done generally for all the industries. Whereas, this research study has targeted the textile sector of Pakistan specifically, that was not explored before and it appeared as a sector with increase in its growth and profitability.

1.4 Objective of the Study

The objective of this study under consideration is to find out the right solution to the given problem. However, the aim of the study is to attain the following objectives;

- To find out the effects of textile policy on profitability of the textile sector of Pakistan
- The find out the effects of textile policy on dividend payout ratio of the textile sector of Pakistan

1.5 Research Question

The research questions are major part of any research study as it gives the researcher an idea and a direction of what we want to study. However, the research questions of the study under consideration are given beneath;

- What is the effect of textile policy on profitability of the textile sector of Pakistan?
- What is the effect of textile policy on dividend payout ratio of the textile sector of Pakistan?

1.6 Significance

This research study will be significant to the textile industry in an enormous way as it can be used by the firms of textile sector to pursue their research further in order to the appeal for policy improvement from the government. This study can be taken as a base to execute the research in the textile sector to study the

further measures that better evaluate the effects of textile policy.

1.7 Scope of Study

The scope of the study under consideration is precise to explore the effects of the textile policy which may affect the profitability and dividend payout ratio of textile industry. However, there can be other measures too that can affect the profitability and payout ratio which are not discussed in this study.

2. LITERATURE REVIEW

Under this section, different researchers have conducted the research studies on the impacts of textile policy on profitability and dividend payout ratio of textile industry in Pakistan. The authors have examined the above variables on several other prospects by different assessment methods.

The first part of this literature review consists of the detailed knowledge on textile industry. Second part comprises on the textile policy, dividend policy and the profitability margin in the textile industry of Pakistan, the third part consists of the dividend payout ratio and textile industry of Pakistan, and the last part of the literature review comprises the relationship of profitability, dividend payout ratio, and capital market of Pakistan.

2.1 Textile Industry of Pakistan

Ahmed (2012) stated that the textile industry of Pakistan is considered as the biggest export' contributor containing 60% share and on the 4th rank of world's biggest cotton producer and it is considered as the backbone of country's economy. According to the Ministry of Textile Industry in Pakistan, in the existing global competitive era, the textile industry needs to change and upgrade its procedures of supply chain, increase the value addition to survive, and improve its productivity

methods. Its objectives are mainly to formulate program and strategies to enable the sector to meet upcoming challenges and to attain the global competitiveness.

Latif (2018) stated in a news article 'The Nation' that the textile industry of Pakistan is responsible for the growth of Pakistan's economy and it plays a vital role in GDP growth and national integration. The issues which considered as the obstacles in the textile industry's growth are the high production expense, high cost of raw material, minimum establishment of research and development growth, minimum chances of new ventures, tough monetary policy and the expansion effects. The textile industry needs to enhance the growth of cotton with efficiency to gain more profit margins and find innovative ways to gain more customer and employees loyalty. According to Ahmed (2008), the textile industry of Pakistan has up to 2500 small and 50 large garment production units. Furthermore, it has 600 knitwear manufacturing units and about 400 towel manufacturing units.

As stated by Dr. Mirza Ikhtiar Baig (2010), the global textile demand increased in the few last decades massively and its global share has also been increased gradually, while China is the major textile exporter in the world and the Asian countries have the most share of textile industry in the entire world. According to the view point of Hasan, Ahmad, Rafiq, and Rehman, (2015), no matter which industry is a current point of discussion but the corporate earning split into two parts; the first one is the part of shareholders of the company and the other one is the part which is retained and used in reinvestment. Similarly, textile industry's revenue also get split in the same two parts in which the earning part which are intended to be shared with the stakeholders known as 'dividend.' The textile industry has a great impact on dividend because when the industry gets more shares in the market then the profitability ratio would also increase which would directly impact the dividend payout of the shareholders.

2.2 Textile Policy

Sadik (2017) stated that there is no specific policy has been declared by any legal legislature or by the Security Commission of Pakistan (SECP) which stipulates payout policy of dividend. Further she explained that dividend payout methods used by the textile industry of Pakistan can fill the gap and can help in investment planning process of the potential and current stakeholders.

In official capital market, the company's market share value is generally not affected by the company's dividend decision. In financial economics, the dividend payout policy and its effects is the most crucial study topic because it plays a vital role in maintaining the dividend stability (Malik, Gul, Khan, Rehman, & khan, 2013).

2.3 Dividend Policy

Before 2010, the theoretical benefits of dividends to shareholders were quite low as there was no tax on capital gains in Pakistan. However, the view of textile firms' official regarding the dividend payout was changed (Ullah, Saqib, & Usman, 2016). The prior researchers have conducted the research study and none of them have examined this behavioral aspect of dividends to shareholders by conducting interviews, rather they examined the companies in Pakistan by applying the aggregated regression analysis. Dividend policy is the most researched area of corporate finance (Ullah, Saqib, & Usman, 2016), yet it is considered as one of the controversial topic known as "dividend puzzle". However, many academics have tried hard to generate the solution to this puzzle. Hence, numerous opinion have exist regarding why companies pay dividends and how the dividend payout policy effect the profitability and value of the company. Moreover, this dividend debate was initially started in 1961 by Miller and Modigliani. The author explained in this study by using the "theory of irrelevance" which states that the dividend paid by the firm

does not influence or effect the market value or profitability since it will be symmetric to capital loss. This theory of irrelevance was also supported by numerous researchers including (Mahmood, 2016).

The idea of irrelevance later becomes an argument which was criticized due to its perception regarding the information of companies available to its investors. However, according to Riaz, Liu, & Ahmad (2016), it is the change in dividend that sends the information about the future performance of the company. He also added that a great amount of information is usually shared with the investors while the dividend changes. Many researchers have tried to explain why the firms in different countries continue to payout the dividends to their shareholders when the tax over disbursements is quite high.

Dividend is a form of distribution of firm's profit amongst company's shareholders. The dividends can be paid in cash form but can be distributed in different periods like dividend per share and distributed to current and potential shareholders annually, bi-annually, and on quarterly basis. It can also be distributed to the shareholders in the forms of some new shares in each proportion to the current stockholding of investors. So, the dividend can be paid by the above two methods. Investors who wants to save their current income considered shares a very important way because companies assure these stakeholders about the current financial stability of the firm and when the prices boost so they aid in marinating the price of market share of the company (Sadik, 2017); (Gill, Biger and Tibrewala, 2010).

According to Brealey and Myers (2012), dividend policy in the textile corporate finance is the most unresolved issue. When the company issues shares, it helps to increase the additional company's capital. General public purchases more shares when company declared its return on investment by introducing stable and clear dividend policy. (Dilawer, 2012;

Kaleem & Salahuddin, 2006; Nitta, 2006) found that the value of shareholder can be boosted by more dividend payout. Cheong, Lim, Poon, Tan, and Yap (2011) stated that the determination of stock prices is relevant to the dividend policy. Dividend payout policy has a positive impact while the investment opportunity has no direct influence on stock prices (Khan, 2012; Murhadi, 2008).

2.4 Profitability

According to the view point of Tahir, Sohail, Babar, & Oayyum (2015), the only thing that is common among the firms throughout competitive world is earning the profit which is the most fundamental reason why firms exist. The earned profit first of all belong to the owners as according to their share of investment which is in the form of dividends, sometimes this profit might get reinvested in the business which is known as the retained earnings. Hence, this is a controversial issue among the firms either to reinvest their profit or to enjoy their dividends. Generally, most of the investors wants to get a return over their investment as they invest their funds in order to maximize their wealth. Thus the dividend policy play a crucial role in this situation not only for investors but for the government, employees, and entire industry as well (Sattar, Leifu, Ahmad, Hassan, & Ali, 2017).

Shah & Khan (2012) stated in his research paper that the shareholders of an organization themselves hire professional individuals to evaluate the resource allocation about working capital while the current assets comprises of inventories, cash itself and its equivalent. Companies struggle to compete in short run for all scarce resources they need. Umar (2012) stated that equity and debt are the basic financing methods used by every organization and for the purpose of regulating the firm, an intensity of equity or debt options mainly used by the companies to finance the operations that shows the firm's capital and profitability structure. Companies

also need huge investment amount for working capital because it has a direct impact on profitability of a firm. The study of Shah & Khan (2012); Schwartz (1974); Deloof & Jegers (1996) evaluated that high profits margin can help to increase the company's ability to get high market share which directly effects the shareholder's dividend.

2.4.1 Investors

For the better future opportunity and reasonable return from the investment, investors invest greatly from their wealth and don't want to receive less dividend than their expectations until or unless they settle for higher opportunity through reinvestment in the business. According to Khan, Shah, and Baber (2018), the harder people look into the picture of dividend, the more it appears as a puzzle, with the pieces that don't apt together. This complicated debate regarding the investment and dividends of the investors in any business be it of any sector tended the researchers to proposed many theories. However, it starts from Bird in Hand Theory by Gordon (1962) in which he explained regarding the dividends which are more likely to prefer by the outside shareholders. According to the viewpoint of Ahmed, Advani, & Kanwal (2018), shareholders don't prefer the uncertain dividends in the future, rather they prefer the profits share to them today. On the contrary, the signally theory proposed that dividends are merely source of the signals in order to ensure about the loyalty and long term interest of investors with the company.

2.4.2 Dividend payment and net profit

Mubin, Ahmed, Aslam, Lal, & Hussain (2014) have research about the dividend policies and dividend payout methods of textile industry of Pakistan, however, it has concluded that the dividend payments and net profit plays an effective role in the financial decision making. The researcher took the data sample from 225 companies and documented the information regarding

the adjustment process as these companies moved to another level of dividend payouts. However, the results concluded that there are number of factors and identifiable effects that affect the payouts of the firm, it includes the corporate governance as well. Large size companies declares the large dividends, however, the small companies declare smaller dividends despite of their profitability and net income.

A recent research study by Ahmed, Advani, and Kanwal (2018) proposed that companies used the regression analysis most often and a dividend payout as a dependent variable. Thus, the researcher concluded that the listen companies of all sectors depends on the current earning and their previous dividends in order to set their dividend payout ratio rather than getting influence by any sector policy. Moreover, the author suggested that the gearing ratios, dividend determinants, and previous payout levels are the measures that influence the profitability and current dividend payout ratio.

Zhou and Ruland (2006), document that those firms who pay higher dividends to their shareholders have strong earnings in future. Also Arnott and Asness (2003) explains that there is significant association between the higher dividend and future earnings rather than the less dividends. However, a negative relationship has been explained between the growth of the firm and dividend payout ratio. In simple words, the higher dividends would ultimately lead to the lower resources for the growth and expansion of business, while the lower dividends would be an opportunity for higher growth of the business.

Nnamdi (2009), examined the relation between the future profits and dividend for the corporations and explained that there is a strong connection exist between the profitability and dividends. According to the viewpoint of Brigham (1995), the performance of the firm can be strongly determined by the dividend payout as these dividends illustrate the financial stability of a firm.

2.4.3 Relationship between Profitability, Dividends, and Policies

In accordance with the research studies of Dilawer, (2012); Hashemijoo, Mahdavi Ardekani, & Younesi, (2012), the researchers argued that the relationship between the measurement policy, dividend and the volatility of the share price were negative. Waithaka, Ngugi, and Kirago (2012) have argued in their research papers that the growth of Earning per Share, Price Earnings ratio, and sales growth are the factors which positively influenced the dividend payout and its policy while debt to equity ratio and profitability are negatively interlinked with dividend payout.

In accordance with the research paper of Ouma (2012), the company's performance and dividend payout have a positive and strong relationship. There are several factors which influence the dividend payout policy in developing and emerging the market. Hence the companies follow several dividend payout policies in developed and emerged market (Ali, Fengju, Andrade, & Saeed, 2015; Al-Kuwari, 2009).

Kohli (2011) stated that there is a direct and positive relationship between dividend payout policy and the profitability. The companies become able of paying dividends in a good amount on time if they earn more enough from their goods and services. It is very important for the shareholders to put their eyes on the company's financial conditions and if the earning capacity of a company is in a better condition or not. Unsteady and unreliable earnings might be negatively affected the dividend payout. Profitability ratio is used to measure the earning capacity of the assets of an organization. Furthermore, the authors also used the Earning per Share ratio as an indicator of an organization's current and in future earning structures. Okpara (2010) have found the negative but significant relationship between the dividend payout ratio and current profit.

2.5 Textile Policy of Pakistan

The basic aim of the current policy revolves around the sector growth and increase in exports. The policies are set by the government of the state. The textile policy 2014-19 set by the current government which states majorly about the growth and long term profitability of the sector through producing a certain quality of the products.

The previous textile policy 2009-14 was aimed to provide a direction through which the entire industry can achieve higher profitability. The policy had given a direction to the textiles industry Ministry and created an agenda for the further development. It also provided the identification of potential issues that hinders the growth of textile value chain. Not only this, the policy included some intervention schemes which were approved by the Cabinet of the State. But, Due to the limited budget for the industry and other financial constraints, much less support was provided to the textile industry which was insufficient to attract more investors.

The previous textile policy was not effectively beneficial for the profitability of the textile industry which ultimately led to the lower dividend ratio. As compared to other regional competitors, the governmental support provided was not enough to attract to attract the investors so enhance and developed the machinery and equipment.

The adversity was the slow growth of industry during the execution of previous policies as the infrastructure projects were slow to develop due to the basic problems like shortage of funds, inadequate supply of electricity and water, litigation, and non-supply of gas. Business Recorder (2018) mentioned the latest PTI policy of textile industry in which the political party mainly focused on the industry's betterment plan, the document covered mostly on issues which are currently hampering textile industry growth in Pakistan. The objectives include increment in value-added exports, in cotton production and making strengthened small and medium enterprises.

Moreover, no major differences can be seen in the policy of both time period. Thus, the textile policy 2014-19 has failed to accomplish its target including the goal of value addition of cotton bales, increasing of textile exports, and creation of 3 million employment opportunities in previous five years. This was explained by the senior official of textile division. Hence, this policy is soon going to be expired by June 2019. However, a revised new policy will be established where all the stakeholders would be taken to the board for the enactment of new policy. The major reason behind the failure of the policy is the financial crunch for the various schemes also the unavailability of energy resource at a reasonable cost. Further sources have explained about the release of Rs 10 billion only in the policy against the estimated finance of Rs 64 billion as per the announcement of Federal Minister for Textile Industry.

The policies of other countries vary from the policy of Pakistan in the context of their financial budget. Despite of mentioning in the current policy, the government failed to invest in the sector as according to the manifesto.

3. METHODOLOGY

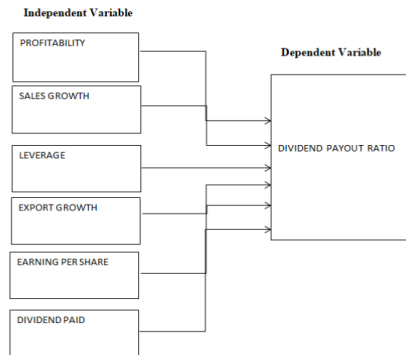
This section comprises of the research design consist of source of data, theoretical justification of variables, and analytical approach.

3.1 Source of Data

The yearly pool data has been used for the independent and dependent variables. However, the data will be of nine years from 2009 to 2018. Also, the data from the listed companies i.e. Crescent Textile Mills Limited, Gul Ahmed Textile Mills Limited, Nishat Mills Limited, SFL Limited, and Shams Textile Mill Limited were gathered from the official websites of the companies. The data was gathered from the financial statements of the companies.

3.2 Research Framework

The given illustration is the framework of independent and dependent variables.



3.3 Analytical Approach And Methodology

3.3.1 Multiple regression

In this study, the multiple regression will be used to check the individual and overall impact of independent variables on the dependent variable. Moreover, the multiple regression analysis is used to check the variation of the independent variables on the dependent variable. Also, the Ordinary Least Square test of the multiple regression analysis is applied. As it is the simpler test other than econometric test. According to Akonnor (2016), the multiple regression is widely used by numerous researchers to find the impact of macroeconomics variables in the stock market.

So, the following model is established to test the hypothesis.

$$DPO = \beta_0 + \beta_1P + \beta_2L + \beta_3SG + \beta_4EG + \beta_5EPS + \beta_6DP + \beta_7DUM + U$$

Where, DPO represents the Dividend Payout Ratio, P represents the Profitability, L represents the Leverage, SG represents the Sales Growth, EG represents the Export Growth, EPS represents the Earning per Share, and DP represents the Dividend Paid, DUM is a dummy variable for

measuring impact of policy before and after 2015 and U is an error term.

4. ANALYSIS, RESULTS, AND FINDINGS

4.1 Descriptive Statistics

The descriptive statistics on the data comprise of mean, minimum, maximum, standard error of estimate, kurtosis, and skewness. According to Cooper and Schindler (2008), the Mean in a descriptive statistics is basically a measure of central tendency that illustrate the typical value in the entire set of values. Moreover, the standard error measures accuracy. The kurtosis illustrates the nature of data that whether it is peaked or a flat relative to normal distribution. Lastly, the skewness in the descriptive stats appears a measure of symmetry or a lack of symmetry. Thus, the results of descriptive statistics are presented in the table 1.

Table 1: Descriptive Statistics of the Variables

	LDIV	EPS	LLEV	LPRO	PDP	SALE	EX
Mean	-1.0679	20.97480	3.15626	10.45949	3546734	6.265441	527016.4
Median	-0.53999	6.87500	0.98182	10.79616	64000.00	2.659000	27.00000
Maximum	2.250871	135.520	12.97713	15.23997	5.62E+08	58.98000	7051745.
Minimum	-10.319	-9.65	-2.52573	4.605170	65.59000	0.000000	6.000000
Std. Dev.	2.28799	29.6294	5.05960	2.571107	1.01E+08	10.03647	1807668.
Skewness	-1.68084	2.07206	1.071195	-0.49995	3.652936	3.301677	3.130383
Kurtosis	7.102259	7.097515	2.723817	2.866525	17.18805	16.51380	10.87409
Jarque-Bera	58.60314	70.75714	9.721074	2.120020	530.5760	471.3065	210.8300
Probability	0.000000	0.000000	0.007746	0.346452	0.000000	0.000000	0.000000
Observations	50	50	50	50	50	50	50

Source: Author (2019)

The descriptive stats shows that the mean of listed companies for Dividend payout is -1.06 which is a dependent variable and the maximum and minimum were 2.25 and -10.39 with the standard deviation of 2.287 respectively.

4.2 Correlation Matrix

The correlation matrix is meant to show how strongly the variables are related to each other. However, this correlation

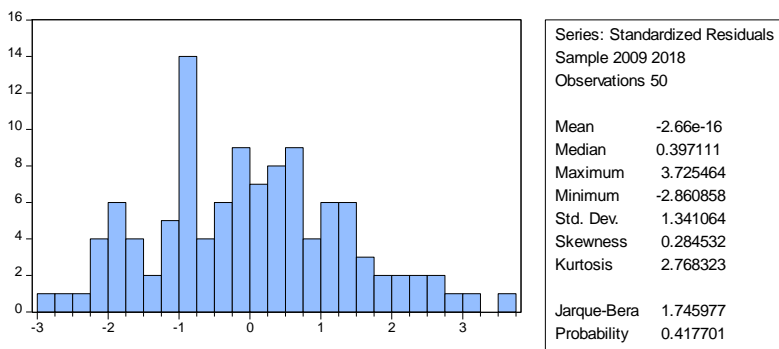
matrix has been established from the pool data of the listed companies.

	LDIV	EPS	LLEV	LPRO	PDP	SALE	EX
LDIV	1						
EPS	-0.2911**	1					
LLEV	0.304631**	-0.326977**	1				
LPRO	0.110725	-0.141124	0.136683	1			
PDP	-0.53697***	0.64416***	-0.28874**	-0.21109	1		
SALE	-0.150346	0.476962***	-0.196707	-0.12417	0.078526	1	
EX	0.168512	-0.186871	-0.174095	0.134293	-0.1037	-0.0863	1

The values with **, *** is significant at 5%, and 1% respectively

4.3 Normality Test

Table 3



Probability Value of jarque-bera test is greater than 5%. Which means we can accept the hypothesis of normality. Thus our regression model is specifically correct and results are not biased. Hence, the model passes the stability test.

4.4 Regression Analysis

To establish the relationship between the independent and dependent variables and to check the effects of textile policy change on the profitability and dividend payout ratio of companies listed at KSE. For the purpose to evaluate whether there is a significant relationship between the independent variables and dependent variables we have chosen to conduct a

regression analysis. Since, there are more than one independent variables are involved so we conducted a multiple regression which was most suitable in our case. It included all the selected independent variables of selected listed companies in a single test then these were compared with the dependent variable i.e. dividend payout ratio.

The table given beneath shows the results of multiple regression of the impact of textile policy change on the profitability and dividend payout ratio of textile industry in Pakistan. So, the following model is established to test the hypothesis.

$$DPO = \beta_0 + \beta_1P + \beta_2L + \beta_3SG + \beta_4EG + \beta_5EPS + \beta_6DP + \beta_7DUM + U$$

Table 4: Panel EGLS (Period random effects)

Variable	Coefficient	t-Statistic	Prob.
C	-1.2418	-0.6260	0.5347
EX	0.0000	1.7123	0.0942
LLEV	0.1080	2.2059	0.0329
PDP	0.0000	-3.4135	0.0014
LPRO	-0.0374	-0.2520	0.8023
SALE	-0.0499	-3.4429	0.0013
DUM	0.5268	0.9477	0.3487
EPS	0.0276	2.4183	0.0200
R-squared			0.39409
Adjusted R-squared			0.2931
Durbin-Watson stat			1.59603
F-statistic			3.90241
Prob(F-statistic)			0.00233

Swamy and Arora estimator of component variances

White cross-section standard errors & covariance (d.f. corrected)

Export growth has positive statistically significant relationship at 10% level of confidence. One unit increase in export growth will increase dividend pay-out ratio by 3.01E-07 percent. Leverage has positive statistically significant relationship at 5% level of confidence. . One percent increase in leverage will increase dividend pay-out ratio by 0.11 percent. Previously dividend paid has negative statistically significant relationship at 1% level of confidence. One unit increase in previously dividend paid will decrease dividend pay-out ratio by 1.45E-08

percent. Profit has statistically insignificant relationship at 1, 5 and 10% level of confidence. Sales growth has negative statistically significant relationship at 1% level of confidence. One unit increase in sales growth will decrease dividend pay-out ratio by 0.05 percent. Earnings per share has positive statistically significant relationship at 5% level of confidence. One unit increase in EPS will increase dividend pay-out ratio by 0.028 percent. Thus, the overall impact of Policy change in 2015 on dividend pay-out has statistically insignificant relationship at 1, 5 and 10% level of confidence.

4.5 Annova

The Annova test has used to check the data from 2009 to 2014. Whereas, for capturing the effects of textile policy in 2014, we have introduced a dummy variable in our model. If the results of the coefficient of dummy would be positive then our conclusion would be the positive impact on the dividend payout ratio of companies, which would have meant that due to the implication of the current policy the firms decided to pay dividend to their shareholders. However, here in our case, the results of coefficient appeared as insignificant which means that there is no such impact.

4.6 Dummy Variable

In the year 2014 when the new policy was not enacted then the dummy variable has taken the value of 0, however, after the year 2015 and onward, the value of dummy variable became 1 in our applied regression test.

4.7 Discussion

In the study, the null hypothesis is accepted which shows that there is no significant effect of textile policy change on the profitability and dividend payout ratio of textile industry. Moreover, the export growth has shown a positive statistical significant relationship with the dividend payout ratio which

entails that the higher export growth of the firms has ultimately tended the selected textile companies to pay dividend to their shareholders as there might be an opportunity for these firms to expand through investing from funds of their earning channels.

The positive statistical relationship of leverage on the dividend payout ratio entails that firms might want to retain their shareholders and their values which has increased the dividend payout ratio. This finding is supported by the study of Ritha and koestiyanto (2013) in which they found the similar results in terms of leverage. They proposed that the positive relationship of leverage shows that the higher debt of firm provides benefits of increase dividend for shareholders.

The negative statistical relationship of previous paid dividend on the dividend payout ratio described that the higher previous paid dividend has reduce the current dividend payout ratio. In simple words, it shows that these companies have paid dividends to their shareholders in previous time. Generally, the magnitude of the dividends of current time is based on the dividends paid in previous time. However, at the current situation the firms might not want to distribute their dividends which could have established the pressure of paying the dividend over the investment to shareholders.

There is an insignificant relationship of profits with the dividend payout ratio in the study under consideration. Similarly, the negative statistical relationship of sales growth determines that companies have preferred to reinvest in their businesses rather than paying out the dividends to their shareholders. these findings of negative relationship of growth is supported by the studies of Ritha and Koestiyanto (2013) and Alzomaia and Al-khadiri (2013) which state that larger companies' growth rate is not increased by paying out the dividends to shareholders. Moreover, companies found the opportunities for growth are more likely to cut their dividend payments.

On the contrary, the positive relationship of earning per share shows that the firm have the surplus money to either reinvest or to distribute to the shareholders. However, it depends on their financial decisions to pay out dividends to their shareholders during the higher profitability.

5. CONCLUSION

Textile sector is one of the leading sectors in Pakistan which is contributing greatly in the economy. However, in order to sustain the developed and effective operations at the industry, the experts develop the policy for the prosperity of the sector. Hence, there have found some lacking in the textile policy of 2009-14 which has affected the production and growth of the textile industry. Furthermore, a new policy was developed in 2015 in which many constructive measures were mentioned to fill the pitfalls in previous policy. Therefore, this study was conducted to evaluate the effect of policy change in 2015 which reveals that no significant impacts have found which means the dividend payout ratio remained insignificant by the measures of textile policy of the selected listed companies.

Since, the trend remain same through the current policy even after the amendments and enactment of better goals and action plan which shows that there is an immense need of an improved policy for better outcomes in the textile industry as it is a prodigious sector in the economy of Pakistan.

- The companies must maintain their export growth as it is one of the leading factor that can boost the industry
- The companies should develop some plans to minimize their debt though cost cutting
- According to the Signalling theory, it can be considered as a positive sign if a company continues to pay the dividend to shareholders. thus, so companies must continue to pay the dividends so that they could attract most of the investors

- The higher earnings per share is the sign that the firm has the ability to pay higher dividend, thus, it is a worthwhile indicator for investment so companies must maintain it.
- Since, the profitability has an insignificant effect on dividend payout ratio, the companies must develop their dividend policy wisely by keeping the business growth and expansion into consideration.

5.1 Policy Implications

This study can be significant to number of government, investors, students, and researchers in various means. As a consequence, it can provide a sound confirmation regarding the effects of textile policy on the profitability and dividend payout ratio of the textile sector of Pakistan. However, this study will be beneficial for the following recipient.

- **Government**

This study can facilitate the government in upgrading and developing the textile policy for better outcomes. Through this study, government can have an idea regarding the unexpected effects of textile policy.

- **Investors**

Investors can determine a sound idea through this research that can assist them in investment decisions in the respective sector.

- **Students**

This study will be a source of knowledge for the student who are eager to learn regarding the textile policy and how it affects the measures of profitability and dividend policies of textile sector.

- **Researchers**

This study will facilitate the researcher to continue the research in the same direction to explore the further aspects of the related industry.

5.2 Limitation of Study

As far as the limitations of the research understand consideration is concerned, the researcher will follow the limitations given beneath;

- The time span to carried out this research is limited
- The secondary data will be used to determine the results of this research
- Due to the limited availability of the journal on the selected topic, the literature will be collected from the research articles.

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