

**AN EMPIRICAL INVESTIGATION OF FIRM-LEVEL FACTORS  
AS DETERMINANTS OF DIVIDEND PAYOUT POLICY IN THE  
TEXTILE SECTOR OF PAKISTAN: APPLICATION OF FIXED  
EFFECT PANEL REGRESSION MODEL**

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**ABSTRACT**

This study suggests the key determinants of dividend payout policy in the textile sector of Pakistan. The study used a sample of 30 listed Textile Companies in the Pakistan Stock Exchange and analyzed data from 2011 to 2020. The fixed effect panel regression model was applied to investigate the impact of firm profitability, size, earnings, growth, lagged year dividend, financial leverage, liquidity, risk and taxation on dividend payout policy. Findings revealed that firm size, earnings and lagged year dividend have a significant and positive impact on dividend payout policy. Firm growth, financial leverage, liquidity and taxation have an insignificant but positive effect on dividend payout policy. Firm profitability and risk showed a negative effect; however, profitability is insignificant, but the firm risk has a significant impact on dividend payout policy. This study is a major contribution to the literature on determinants of dividend payout policy with such factors in a single study undertaken in the textile sector of a developing country in Asia. The study findings have practical implications for financial analysts, academicians, textile companies, investors and policymakers.

**KEYWORDS**

Determinants of Dividend Payout Policy, Bird in Hand Theory, Textile Sector, Fixed Effect Panel Regression Model, Pakistan Stock Exchange.

**1. INTRODUCTION**

Pakistan Stock exchange is the security market that enables investors to invest in equity or debt securities. In return for investment, investors may require dividends or can demand capital gain. Graham and Dodd (1996) first signified that investor perception is more focusable on dividend instead of capital gain as it involves more uncertain events. The firm basic motive is to offer a dividend to shareholders to fulfill their purpose of wealth maximization. But the managerial personnel focus the upcoming welfare more significantly than dividend payout, so the firm adopts a conservative dividend policy. Under this strategy, only a few amount for dividend is allocated for shareholders, and a large amount is retained for reinvestment, which leads to future profitability. This strategy

enhances the dissatisfaction of risk-averse investors as they are not willing to wait for long-term returns.

Abiola and Bhadmus (2015) argued that investors suffer from uncertain company events, so there should be compensating money for them. All specifications of dividend allocation and payment are stated in the dividend policy. A dividend policy agreement is among top organizational financial agreements that management makes to specify the procedure and amount of dividend. This policy defines the payment of dividend to the investor either in the current year or by adding an extra money in upcoming years. Baah et al, (2014) described this policy as an exchange among the firm's reserves and paying it to them or reinvesting in financially profitable projects. This termed as a method of dividing money in reserves or to investors. So dividend agreement states the process of how dividend will be distributed to shareholders and policy principles explaining the reward of shareholders on their investment.

The basic motive behind the firm's all settlements is to guarantee shareholder wealth magnification. An accountable financial manager, while deciding for profit allotment to shareholders or retained money, observes the firm's upcoming investing opportunities and notices the possible impact of the decision on the firm's share value. Three major decisions come under dividend payout policy which should be made wisely. First is whether to offer dividend or not. Most firms with high growth and maturity wouldn't offer dividend if they planned to avail their investment opportunities. Secondly, what should be a favorable amount of dividend? Payment of large dividends enlarge financial difficulties, while offering low dividend leads to misconception of investor's behaviour regarding the firm's image. Thirdly in which form should dividend be distributed? Firms may offer dividend in cash, stock or other forms. Mainly, the cash dividend is offered to investors as a certain portion of profits, while the stock dividend involves the investor's ownership of extra shares as dividend. The company is more concerned about the second option as it enhances the firm's capital growth opportunities. The cash payout is made if a firm has a muscular liquidity condition. Regardless, if a firm has any liquidity problem, then alternative types of dividend will be given.

Dividend policy decisions also impact the investment and debt decisions of a firm. If a firm offers more dividends, its retained earnings will be decreased, enhancing its reliance on external debts. In contrast, if a firm offer less dividend, it will result in more retained earnings and less reliance on external debt, so dividend policy is considered one of the crucial management policies of a firm. The structure of dividend policy is different in each company as every company makes a different analysis for when and how to offer a dividend. The query of how to settle dividend by companies and when to offer determines a problem in dividend policy. Researchers still consider the dividend policy a "Puzzle" even though they have tried to resolve this problem many times. They are unable to find a final destination. Limited research is available in emerging countries like Pakistan concerning determinants of dividend policy. This study contributes to fulfilling this theoretical gap.

The main purpose of this study is to identify firm-level determinants of dividend payout policy in the textile sector of Pakistan. The secondary purpose is to investigate the impact of profitability, firm size, earnings, growth, lagged year dividend, financial leverage,

liquidity, firm risk and taxation on dividend payout policy. An optimal policy can be defined by taking the consequences of observed factors for the dividend. This study has significance for management as this throws light on what factors determine dividend policy. It also provides educationists with a better foundation for more research on dividend payout. The study will enlarge shareholders' conceptual information to prepare them for non-payment of dividends under stressful financial situations. It also helps legal authorities form dividend rules in a suitable way that enhances reliability in connection between management and shareholders.

Section 2 includes the literature background. Section 3 presents the methodology of research, variables and technique to analyze results. Section 4 demonstrates the results of analysis to elaborate determinants of dividend payout policy and to define relationship of dependent and independent variables in textile sector of Pakistan. Section 5 matches hypotheses with results, conclusion, policy recommendations and implications.

## 2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Bird in Hand Theory “*Better a bird in the hand than two in the bush.*” (John Linter, 1956) This theory is called a game of uncertainty where investors only prefer to have cash dividend rather than capital gains in future. Investors are mostly risk-averse. Capital gains involve more risk because of uncertainty, as stock prices may be lower after some time, so investors like to have cash in hand. Dividend also affects share price and investors' attitude. Firms with more risk offer less dividends to shareholders compared to firms with smooth working and less uncertainty.

### 2.1 Profitability and Dividend Policy

Profitability can be defined as how much a firm can generate returns. Investors make investments keeping in view the profitability ratio. John Linter (1956) presented “Linter's model of dividend”, took a dataset from American companies and found firm's profitability as a firm-level factor affecting dividend payout. According to Gupta and Walker (1975), data from 980 banking firms proved that dividend is positively affected by the firm's profits in the current year. Benavides and Preciado (2016) used data from Latin American companies and found that profitability positively affects dividend policy. Profitability can also determine dividend payments because if the return on equity and return on assets are large, the company will pay more dividends. Ahmad and Fahid (2016) took a dataset from the stock market of Pakistan for the year 2006-2014 and found a significant connection between dividend payout with profitability. They used multiple linear regression model and proved that a firm's profit has a significant and positive impact on dividend payout policy. Therefore, it is hypothesized that:

***H1:*** There is a significant and positive impact of profitability on dividend payout.

### 2.2 Firm Size and Dividend Policy

Financial reports of companies apprise criteria under which a firm's size can be explained as the firm's total assets. Patra, Poshakwale and Ow-Yong (2012) studied 63 Greek firms, taking data from 1993 to 2007. Their results indicated that the company's size positively correlates with dividend policy. Khan, Naeem, Rizwan and Salman (2016) argued size of the firm is a significant indicator of dividend policy. It means if the

company's structure is large, it can easily enter the security market because it has more maturity than other small firms. Thus mature firms put dependence on internal finance to offer high dividend payments. There is a positive relationship between profitability and a firm's size. By accepting these results, researchers stated firm's size is positively associated with dividend payout. Gul et al. (2012) established research in Karachi, Pakistan, using data from 2006 to 2011 from 18 banking firms listed on the Karachi Stock Exchange market. They evidenced that a firm's size positively and significantly influences dividend payout. Hence, it is proposed that:

**H2:** There is a significant and positive effect of firm size on dividend payout.

### **2.3 Earnings and Dividend Policy**

Adaoglu (2000) explained that the firm's earnings are a key predictor of dividend payout. He assessed the amount paid to investors according to the percentage of money the company earned and found that earnings have a strong and positive relationship with the dividend payout. Charitou, Clubb, and Andreou (2000) collected data from Japanese companies, and their study showed a positive relationship between the earnings of the firm and dividend payout. He argued that if a firm is going through losses, it will not prefer to announce dividends. Sen (2014) made his research empirically on Indian companies by using data from 1988 to 2000; results stated that dividend policy significantly impacts the share's price while the firm's earnings per share lightly affect the share's price.

Oloidi and Adeyeye (2014) carried a study in Nigeria and collected data from fifty Nigerian listed companies from 2011 to 2017. They concluded that every year's dividend amount was determined with that year's earnings. A study by Ahmed and Javid (2008) explained the components of dividend payout in listed companies of Karachi by taking data from 2001-2006. They used all previous dividend models to enhance the significance of their research and found that earnings influenced Pakistani non-financial firms' dividend during these years. Therefore, it is hypothesized that:

**H3:** There is a significant and positive impact of earnings on dividend payout.

### **2.4 Firm Growth and Dividend Policy**

According to Singla and Samanta (2018), firm growth is an increase in the firm's current year total sales compared to the past year. They evidenced that firm growth is a key factor influencing dividend payments. They suggested that a firm's growth affects investment activities suffered from the share's price that resultantly bring a change in profits and thus has an impact on dividend payout. La Porta (2015) suggested firms with high growth pay less dividend because they use this protective advantage to enhance their goodwill, thus getting loans from outside at a low-interest rate. These firms put more money into investments.

Gaver et al. (1993) evidenced that firms with advanced growth offer low dividends. He investigated 237 firms having growth and without growth to determine a connection between investment chances and debt. On the other hand, the compensation plan effect was checked out for dividend policy, stating that a firm with growth has less leverage and dividend payout compared to a firm with no growth. In contrast, firms with growth offer more compensation plans and share option policies to top management personnel than

firms without growth. (Afza & Mirza 2011) established a negative link between firm growth with dividend payout policy by observing the 30 banking institutions listed on Stock Market and considering data from 2006-2012. Findings were based on multiple regression technique to find the connection between different factors in dividend payout. Therefore, it is proposed that:

**H4:** There is a significant and negative impact of firm growth on dividend payout.

### **2.5 Lagged Year Dividend and Dividend Policy**

Past year dividend is defined as the dividend paid before the current year. Kennedy, & Nunnally, (1986) studied large commercial banks in America and concluded that lagged dividends significantly and positively affect dividend policy. The output of Dewasiri et al., (2019) was based on the Binary Logistic regression method by observing 191 companies in Sri Lanka where lagged dividends were pointed out as a key determinant of dividend payout. Khan et al. (2011) clarified the difference of opinion of managers in Pakistan regarding dividend policy. They collected data of 23 management personnel. Results showed no statistical difference between dividend policy decisions in Pakistani and American firms, and lagged year dividend doesn't affect dividend in present year.

Boloupremo and Ogege (2018) established their research to add factors to Linter's study in the Stock Exchange of Nigeria using a database of the year 2006 to 2015. The findings showed that lagged year dividend significantly associates with dividend policy. Thus, it is proposed that

**H5:** There is a significant and positive impact of lagged year dividend on dividend payout.

### **2.6 Financial Leverage and Dividend Policy**

Financial leverage is termed as collecting funds from external parties and thus investing these external funds to increase shareholder wealth. According to Jensen and Meckling (1976), external funding sources enhance a company's expenses, such as interest to creditors, and decrease the company's profitability. As a result, firms pay fewer dividends in case of outsider ownership. Some researchers denoted financial leverage has a significant negative association with dividend payout. Lily (2009) stated risk becomes higher with a higher level of leverage; thus, it negatively and significantly affects dividend.

Gupta and Banga (2010) made a factor analysis and evidenced that a firm's leverage significantly affects dividend payments and negatively links with the dividend payout. Gul et al. (2012) conducted a study in Karachi, Pakistan, by taking data from 2006 to 2011 from 18 banking institutions listed on the Karachi Stock Exchange market. He concluded that banking institutions offering a high dividend percentage are more successful and have less uncertainty in operations. He found a negative connection between firm's leverage and dividend payments. Thus it is proposed that

**H6:** There is a significant and negative impact of financial leverage on dividend policy.

### **2.7 Liquidity and Dividend Policy**

Kuo et al. (2013) suggested that a firm capacity to meet its current liabilities is called liquidity. If the percentage of current assets is high, then the company is in liquidity and

can pay obligations on time. He took European and American Companies for study and derived the firm's liquidity as a significant predictor of dividend payout. A study by Aivazian et al. (2019) took a database from the 1986-2003 Stock Market of America to elaborate on the connection between liquidity and a firm's dividend payout. They suggested firms with liquidity offer a large amount of dividend, and a positive association was found between them.

Olowe (2017) conducted an empirical study on Nigerian banks using a pool regression strategy from 2001 to 2006 to suggest a significant relationship between liquidity and dividend policy and concluded that the firms with high liquidity ratios paid more dividend than others. Ahmad and Yasmin (2015) studied 18 American government banks and collected data from 2005 to 2012. They suggested with their findings that liquidity significantly and positively affects dividend payout. So, it is proposed that

*H7*: There is a significant and negative effect of firm liquidity on dividend payout policy.

## **2.8 Firm Risk and Dividend Policy**

Al-kuwari (2009) studied non-financial firms on the GCC country stock exchanges. He collected data from 1999 to 2003 and determined the negative association between dividend payout and the firm's risk. Firms with high market earnings are treated as less risky and thus pay a large dividend. The firm's risk is elaborated as unpredictability concerning forecasting financing returns. Dickens, Casey and Newman (2002) took data of 3 years from 1998 to 2000 of 4,112 U.S. companies and showed negative dividend results with the risk of a firm.

Kania (2005) collected data from 10,000 trade firms and analyzed it using Ordinary Least Square. He argued that dividend policy is strongly affected by a firm's risk. Khan and Ahmad (2017) studied medical firms and collected data from 2001 to 2014. Their study proved a significant negative relationship between dividend policy and firm risk. Hence, it is hypothesized that

*H8*: There is a significant and negative impact of risk on dividend payout policy.

## **2.9 Taxation and Dividend Policy**

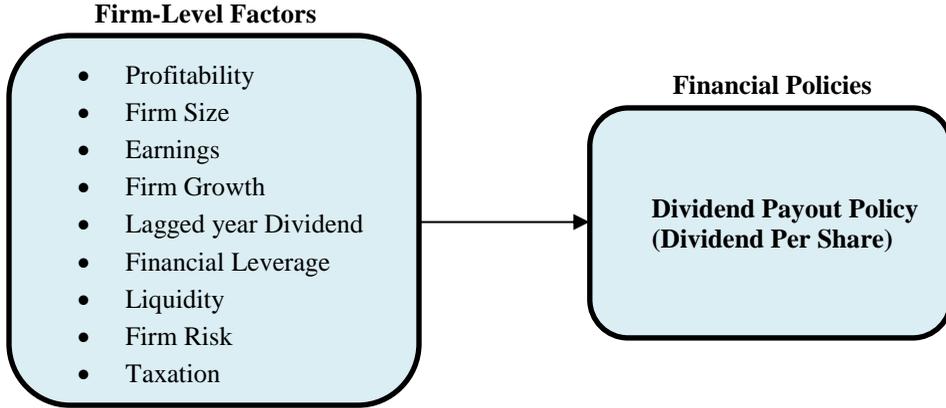
Taxation can be calculated as a company's tax over net returns before tax amount. Adeyeme (2009) examined the relationship of tax with dividend. He analyzed data from 44 listed Nigerian companies using OLS and concluded that tax positively and significantly influenced dividend payout. Al-Malkawi (2007) suggested tax has no significant impact on dividend policy. Most of the studies regarding tax influence are still confusing and mixed.

Gill et al. (2010) conducted research on US capital market manufacturing sector discovered a positive correlation between corporate tax rates and dividend payout ratios. Tahir and Osegbue et al. (2014) discovered that the level of taxes paid by corporations had a favorable impact on dividend payout ratio. Mushtaq (2016) studied Pakistani firms to examine the relationship between tax and dividend payout policy. They collected data from the listed firms in Karachi Stock Exchange 100 index. Findings showed that tax is highly correlated with dividend payout. Furthermore, the tax payments structure has a significant

and positive connection with dividend payments in Pakistan because shareholders prefer to have a high amount of dividend. Hence, it is proposed that

**H9:** There is a significant and positive impact of tax on dividend payout policy.

## 2.10 Theoretical Framework



**Figure 1: Research Model of Determinants of Dividend Payout**

Figure I elaborates firm-level factors on left side including profitability, firm size, earnings, firm growth, lagged year dividend, financial leverage, liquidity, firm risk and taxation that all are influencing dividend payout policy of firm. This research model is designed to examine the impact of all independent variables on dependent variable of dividend payout policy.

## 3. RESEARCH METHODOLOGY

### 3.1 Population and Sample

The present study targeted the textile sector of Pakistan. The textile sector of Pakistan includes a total of 423 companies, and only 56 are listed on Pakistan Stock Exchange, out of which 30 large textile companies are taken to identify the determinants of dividend payout policy in Pakistan. Ten years of data from 2011 to 2020 is taken; therefore,  $N=30$  and  $t=10$ , which state a total of 300 ( $30 \times 10$ ) observations, are taken to analyze determinants of dividend payout policy in the textile sector of Pakistan. The main reason to choose the textile sector of Pakistan is the limited studies available in Pakistan under this sector. Tahir and Mushtaq (2016) conducted their research in Pakistan but took the oil and gas sector as a target population. Similarly, Ullah, et al, (2019) determines the factors affecting dividend policy in the food sector of Pakistan.

Fewer past studies are available for textile industries in Pakistan for determinants of dividend payout policy. According to a 2020 survey by the Pakistan Bureau of Statistics, the textile sector of Pakistan got an increment in textile exports, recording \$1.272 billion in 2020 and \$1.112 billion in 2019. Thus textile sector is an important participant in

boosting economic growth. Investors mostly put their focus on investing there. So it is crucial to show the outcomes of firm-level determinants of dividend policy in the textile sector of Pakistan. The purposive sampling technique is selected to draw the sample from the target population.

### 3.2 Sources of Data

Secondary data is used to conduct this research and collected from annual reports available on Pakistan Stock Exchange official website [www.psx.com.pk](http://www.psx.com.pk). Data of financial statements is obtained from Open doors official website <https://opendoors.pk/>.

### 3.3 Data Analysis Techniques

Quantitative data is used to extract the outcomes by using Electronic Views technique. This technique is user-friendly, comprehends statistical data in efficient manner. Fixed effect model is applied to collected secondary data. Three different tests descriptive statistics, correlation test and regression test are used to figure out the results of selected variables. Descriptive test describes data in a meaningful way stating average of data. Correlation test is for to check either problem of multicollinearity exist in variables or not. Regression test is used to investigate the significance and relationship of independent variables with dependent variable.

### 3.4 Econometrical Equation

This research focuses to examine the determinants of dividend policy payout in textile sector of Pakistan. The impact of firm profitability, firm size, current earnings, firm growth, lagged year dividend financial leverage, firm liquidity, firm risk and taxation on firm dividend policy payout is studied. The regression equation for this study is discussed below:

$$DPS = \beta_0 + \beta_1 ROA + \beta_2 SIZ + \beta_3 EAR + \beta_4 GRO + \beta_5 LYD \\ + \beta_6 LEV + \beta_7 LIQ + \beta_8 RIS + \beta_9 TAX + \varepsilon$$

where:

DPR= Dividend Payout Ratio

$\beta_0$ = intercept of regression

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5, \beta_6, \beta_7, \beta_8, \beta_9$  = partial coefficient of regression

ROA= Firm Profitability

SIZ= Firm Size

EAR= Current Earnings

GRO= Firm Growth

LYD= Lagged Year Dividend

LEV= Firm Financial Leverage

LIQ= Firm Liquidity

RIS= Firm Risk

TAX= Firm Taxation

$\varepsilon$ = error term

### 3.5 Measurement of Variables

**Table 1**  
**Measurement of Variables**

Variable Name	Description	Source of Data	Empirical Evidence
Profitability	ROA	Data Stream	Wahjudi (2019)
Firm Size	$L_n$	Data Stream	Onobruke (2020)
Earnings	EPS	Annual reports	Musiega (2013)
Growth	Annual sales	Annual reports	Elyasiani (2019)
Lagged Dividend	Lagged DPS	Annual reports	Hartono (2020)
Leverage	D/E ratio	Annual reports	Narindro & Basri (2019)
Liquidity	Current ratio	Annual reports	Franc et al. (2020)
Firm Risk	D/C ratio	Annual reports	Kaźmierska (2015)
Taxation	Tax/EBIT	Annual reports	Kumar (2018)
Dividend Payout	DPS	Annual reports	Tahir & Mushtaq (2016)

Table 1 provides the summary of dependent and all independent variables proxies that are used to determine the quantitative results of these variables. Source of data explains the site where secondary data is taken. Empirical evidence states the names of researcher who used the same proxies of variables for data analysis.

Firm life cycle, growth opportunities and investment opportunities are control variables. According to Harish and Kumar (2018), firm cycle positively influence dividend policy payout. Taking growth opportunities, Bushra and Mirza (2015) stated a significant and negative relationship by calculating it with market value of equity over book value of equity while Ahmed and Javid (2008) elaborated negative and significant relationship between investment opportunities and dividend policy payout.

## 4. DATA ANALYSIS AND RESULTS

Panel data regression tests application is made on collected data from 30 companies of textile sector of Pakistan using 10 years data from 2011 to 2020. Fixed effect model is used to determine the significant effect of independent variables on dependent variable. Moreover, descriptive analysis test, correlation test and regression test are used to prove the outcomes empirically.

**Table 2**  
**Descriptive Analysis**

Variables	Mean	Maximm	Minimum	SD	Skewness
DPS	1.799800	10.00000	0.00000	2.536646	1.550429
ROA	0.026344	7.366277	-7.997175	0.638894	-1.542697
SIZ	22.29759	25.48996	17.27884	1.451800	-0.067908
EAR	2.218650	10.97000	-10.90000	5.039009	-0.390061
GRO	0.056443	1.951780	-1.000000	0.325158	0.668737
LYD	1.873667	10.00000	0.000000	2.531736	1.505077
LEV	1.945740	9.480000	-9.680000	2.184037	-0.276785
LIQ	1.092435	4.770000	0.001100	0.675060	1.520207
RIS	0.567596	0.796180	0.313390	0.129223	-0.250399
TAX	0.096101	3.080923	-5.298152	0.624694	-2.805472

Table 2 gives synopsis for one dependent variable dividend per share and for nine independent variables as profitability, firm size, current earnings, lagged year dividend, financial leverage, firm liquidity, firm risk and taxation from the year 2011 to 2020.

Table 2 quantitatively narrates the standard deviation, minimum, maximum, skewness and average values of all selected variables. The average value of dividend per share is 1.79% which means textile companies of Pakistan are giving 1.79% dividend on total amount of share price. Return on asset shows mean value 0.026 that is 2% on total amount of assets. Natural logarithm of total assets has mean value of 22.29 while earnings show 2.21 mean value. Average value of firm sales growth is 5% of total 100% sales every year. Lagged year dividend has average value of 1.87% and leverage 1.94. Liquidity mean value is 1.09, firm risk 0.56 and taxation has 0.09 average value.

**Table 3**  
**Correlation Analysis Results**

Variable	DPS	ROA	SIZ	EAR	GRO	LYD	LEV	LIQ	RIS	TAX
<b>DPS</b>	1.00									
<b>ROA</b>	0.05	1.00								
<b>SIZ</b>	0.40	-0.01	1.00							
<b>EAR</b>	0.53	0.11	0.27	1.00						
<b>GRO</b>	0.16	0.04	0.14	0.27	1.00					
<b>LYD</b>	0.76	0.04	0.45	0.46	0.06	1.00				
<b>LEV</b>	-0.12	-0.03	0.16	-0.18	-0.03	-0.11	1.00			
<b>LIQ</b>	0.32	0.05	0.08	0.29	0.05	0.36	-0.15	1.00		
<b>RIS</b>	-0.33	-0.11	0.04	-0.31	-0.05	-0.27	0.44	-0.33	1.00	
<b>TAX</b>	0.07	0.19	-0.04	0.26	0.05	0.03	-0.12	0.09	-0.08	1.00

Table 3 explains the issue of multicollinearity as an issue in econometrical model termed as relationship between few or all selected independent variables. Correlation test is applied to check either problem of multicollinearity exist in independent variables or not.

According to Pearson correlation method, if any independent variable is affecting more than 80% to other independent variable then this independent variable should not be included in econometrical model. In table III, highest value of correlation is 0.76 (76%) between lagged year dividend and dividend per share which is below than 80% so there is no severe correlation problem occur among eight different independent variables as many correlation values are less than 10% and lowest value of correlation is 0.01 (1%) between return on assets and natural logarithm of total assets.

**Table 4**  
**Fixed Regression Results**

	<b>Coefficient</b>	<b>P-value</b>
<b>ROA</b>	-0.061105	0.6650
<b>SIZ</b>	0.140689	0.0485
<b>EAR</b>	0.084436	0.0002
<b>GRO</b>	0.112045	0.7256
<b>LYD</b>	0.632174	0.0000
<b>LEV</b>	0.026656	0.5587
<b>LIQ</b>	0.109513	0.4500
<b>RIS</b>	-1.820687	0.0296
<b>TAX</b>	0.011894	0.9356
<b>C</b>	-1.852994	0.2391
<b>R-Squared</b>	0.675985	
<b>Adjusted R-Squared</b>	0.655230	
<b>F-Statistics</b>	32.56915	
<b>Prob(F-Statistics)</b>	0.000000	
<b>Observations</b>	300	

Table 4 explains fixed effect model is an appropriate model for research as R-Squared value is high 67%. P-value finds size, earnings, lagged year dividend and risk below than 5% significance level while ROA, sales growth, leverage, liquidity and taxation are above 5% significance level. The coefficient value of ROA and firm risk is negative but firm size, earnings, sales growth, lagged year dividend, leverage, liquidity and taxation have positive relation showing in coefficient value.

In short, regression results show that firm size, earnings, lagged year dividend and firm risk are significant with dividend policy while return on assets, sales growth, leverage, liquidity and taxation are found insignificant. Return on assets and firm risk have negative association with dividend while firm size, earnings, sales growth, lagged year dividend, leverage, liquidity and taxation have positive association.

## 5. DISCUSSION AND CONCLUSION

Data is analyzed through a fixed regression model, and results empirically prove that profitability, firm growth, financial leverage, liquidity, and taxation have no significant impact on dividend payout policy, but firm size, earnings, lagged year dividend, and firm risk are proved as significant predictors of dividend payout policy in textile sector of Pakistan. Only firm risk and profitability have a negative relationship with dividend policy. In contrast, firm size, earnings, firm growth, lagged year dividend, financial leverage, liquidity, and taxation positively correlate with dividend policy payout. H2, H3, H5 and H8 are accepted while H1, H4, H6, H7 and H9 are rejected.

Regression results elaborate a negative relationship between profitability and dividend policy, showing that firms with more profitability invest their money for investment, then fewer dividend amounts are paid to shareholders. The same results were presented by Wahjudi (2019). A positive and significant relationship of size describes firms with large size offer more dividend as they already met the requirement of growth opportunities. Results are consistent with Rajesh Kumar and Sujit (2018), who also explained this connection significantly and positively. Earnings of a firm are checked as significant and positive, which explain firms with more annual earnings offer more dividend as an extra amount is also available for retained money. The same results were presented by Yusof and Ismail (2016), considering the earnings and dividend payout relationship significant and positive.

Sales growth presents a positive association, showing firms with more sales growth offer more dividends because sales objectives and estimated earnings are achieved at that time. According to Shahnaz Mahdzan et al. (2016), these results are true, and the connection between firm growth and dividend payout is positive. Lagged year dividend is observed to be significantly positive, meaning firms follow dividend payments consistently and offer current dividend keeping the previous year's dividend in view. These findings are consistent with the findings of Sharma and Bakshi (2019), who also treated it in the same relationship. Leverage relationship with dividend is found positive, stating those firms which mostly invest in external debt financing offer more dividend to shareholders as they bear risk on their investment. Akhalumeh and Ogunkuade (2021) also stated that the relationship between financial leverage and dividend payout is positive.

The relationship of liquidity with dividend policy is also positive, denoting firms with a more good liquidity position have the best working capital management affairs. More utilization of working capital has a positive impact on firm earnings, which will enhance dividend payments. Tahir and Mushtaq (2016) also stated the same findings and found a negative relationship between liquidity and dividend payout. Firm risk is found to be significantly negative as the bird in hand theory says firms with more risk offer less dividend to shareholders. Riskier firms focus on large reserves for future uncertainty. According to Ahmad and Fahid (2016), these findings are true, and the relationship between firm risk and dividend payout is significant and negative. Taxation is found positive with dividend policy as more tax payment leads to more government incentives, ensuring firm credibility for attaining loans. Resultantly, better utilization of debt financing adds meaningful returns from investment. This firm offers more dividend from these returns. The study of Kumar and Kumar (2018) claims the same.

## **5.1 Conclusion**

The basic motive behind this research is to investigate the factors strongly influencing dividend policy payout while considering data from 30 listed textile sector companies in Pakistan. The present study collected data for ten years, from 2011 to 2020, and a fixed effect regression model was used to analyze statistical data. Analysis results established a significant positive relationship between firm size, earnings, and lagged year dividend with dividend payout. The association of firm growth, financial leverage, firm liquidity, and taxation is insignificant and positive with dividend payout. Profitability is found insignificant and negative, while the firm risk is significant and negative. This study has the originality of nine different relational variables in single research. Although this research has a few time and data limitations, it is still valuable in the body of knowledge for educationists, textile companies, government regulators, and policymakers.

### **Research Limitations**

This research has the limitation of only fixed panel data technique used to make analysis. Panel data sometimes has a demerit of time series sequence, which influence regression results. Secondly, the sample size is small as only 30 textile companies in Pakistan are selected. Furthermore, only 10 years of data is taken to derive results. Fourthly, specific variables are used as determinants of dividend policy payout, but countless determinants are available. Research is also limited to only the textile sector of Pakistan. Much as research is conducted with a considerable attempt, it might be feasible that annual reports of the companies under consideration have misappropriated data.

## **5.2 Future Directions**

This study urges the application of other data analysis techniques different from than fixed effect panel regression model, as this model has certain time series constraints. Sample size should also be increased because a small sample size has limited generalizability of the findings. Moreover, the researchers should study other sectors like trading, service, manufacturing, real estate, and Information Technology to investigate the determinants of dividend policy payout. A comparison can also be studied of these sectors with the textile sector. Future studies must be undertaken to investigate the impact of other variables like free cash flow, CEO duality, and management experience on dividend payout policy. These variables influence dividend policy payout, but more attention needs to be paid, so future research should determine their relationship with dividend policy payout.

## **5.3 Research Implications**

The study's findings are valuable for investors, managers, and practitioners as it provides valuable knowledge regarding the dividend payout for the textile sector of Pakistan. The study provides knowledge and powerful information to future researchers, academicians, and analysts related to determinants of dividend policy payout. Companies that prefer high dividend put more effort into those explanatory variables that increase dividend payout and vice versa. Management personnel can also use this information to acquire the shareholders' trust, increasing dividend payout payments. The present study is also helpful to shareholders and investors as it highlights what factors significantly affect dividend payout policy.

Consequently, these findings will make them capable of putting secure investment. Policymakers can review the insignificance of insignificant variables and will make policies carefully for significant variables.

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