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The IMPACT OF DIVIDEND POLICY ON FIRM PERFORMANCE IN MANUFACTURING SECTOR OF PAKISTAN.

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Abstract: This research has given significant information on the various correlations between Dividend Payout Ratio, Earnings per Share (EPS), Price to Earnings Ratio (P/E), ROA (ROA), and ROE (ROE) regarding the companies being assessed. Data were collecting using annual reports of 10 companies and 10 years Data. From the correlation analysis, Dividend Payout Ratio and EPS had positive correlation coefficients with ROA and ROE, and this proved that they were influential variables in the firm's financial performance. In contrast, there was no clear relationship between the P/E ratio and changes in the value in ROA and ROE and that makes this measure rather ineffective in the given context. We used IBM SPSS for multiple regression analyses further vindicated these findings but EPS stood out as the most significant determinant in both models for ROA and ROE. The DPR also influenced the returns on assets and equity most especially and therefore was an important factor in the model. Nevertheless, the variable of the P/E ratio was also non-significant in the regression models, which confirms the conclusion that common financial ratios can sometimes fail to reveal peculiarities of the financial performance of the companies in the given sample.

INTRODUCTION

In the context of Pakistani manufacturing companies, the objective of this study is to analyze the impact that dividend policy has on the success of the company. Increasingly, dividend policy is becoming an extremely important subject in the world of business (Rahma & Syarif, 2020). When it comes to the capital marketplace, the dividend policy of Pakistani companies is causing a lot of problems. Numerous economists have conducted research on the dividend policy during the past few decades (Rahmadi, 2020).

The more we examine the dividend picture, it becomes apparent that it appears to be a puzzle, with components that do not make sense when put together. However, the dividend policy also has an impact on the profitability of the company. The announcement of a dividend payment to a shareholders is referred to as a dividend policy decision (Sebastian & Siauwijaya, 2021). The transfer of a company's profits to its shareholders is referred to as a dividend. One of the benefits that a shareholder receives as a result of the risk that they take is the dividend. Management is the one who makes the decision on the proportion of profits that are distributed to shareholders in accordance with the amount of money they have invested (Rahmawati, 2020). In terms of describing the performance of the company, dividend policy is a relatively minor element. Among the four components of finance, the choice on the distribution of dividends is one of the most essential areas. In Pakistan, temperance and industrialization are having a well-organized and rapid success in it, which is providing knowledge specifically to the firm. In the contemporary business world, there is a demand for increased innovation (Sanjaya & Rahayu, 2020). From a fundamental standpoint, it is absolutely necessary for companies to develop a dividend policy in order to enhance the success of the company. The framework has the ability to maximize the impact of the business to advance through the use of dividends. By taking use of the dividend, the magnitude of the agency's costs can be reduced (Yulia et al., 2023). A possible classification for the dividend is. A surplus of counsel and counsel. It was believed by the administration that the dividend policy constitutes a substantial impact and directly influences the market price of a share. The most favorable policy was one that reduced the excessive use of pricing and offered direction to reduce the amount of the shareholder's inheritance. The dominance of dividends has an influence on the quality of the company, which is changed into (explode of streaming) sermonized operating. This resulted in the feature of a company's field of vision being improper, and its policy was in opposition to the effectiveness of bringing home the goods (Shabrina & Hadian, 2021). When it comes to purchasing resources that are accessible, such as dividends or other advantages, shareholders are quite tenacious in their pursuit of a fantastic market. The agency theory that was proposed by Jonson and Mackling in 1976. As long as there is no accompanying constitution of applicable issue and actual disparity, the conductor may not be sufficient to increase the overabundance of shareholders. According to Sebastian & Siauwijaya, (2021), a thorough allocation of profit compensated dividends has the potential to enhance the evaluation of the company. This is because it allows for the authorization of insufficient free of cost investment gains that are retained by the managers. As long as the dividend is well-known to be advantageous for business commitment and long-term situations examination of companies, dividend policy implies that the association will continue to be appointed.

The declaration of dividends is made by a corporation whenever it generates a profit; however, the company is not distributing all of the earnings to its shareholders in the form of dividends. "Retained earnings" refers to the portion of a company's profits that are not released in the form of dividends (Pertiwi & Wiagustini, 2020). Utilizing these earnings, the corporation either reinvests them or uses them to pay off the financial obligations. When it comes to the distribution of dividends, Pakistan does not have a regulated or standard framework in place. Because of this, the corporation is free to choose the amount of dividends it should pay to its shareholders as well as the timing of when those dividends should be distributed (Septiani et al., 2020).

Information regarding dividend policy can be gleaned from the actions of shareholders and the dynamics of the stock market. When there is an increase in the dividend payment, there is also an increase in the price of the shares of the company, along with the opposite being true. There have been past studies that have investigated the dividend paying policy (Bustani, 2020). The majority of the theories demonstrate that any modifications in the dividend payment policy are dependent on the knowledge regarding the profitability of the company and the earnings that it will have in the future. The vast majority of them demonstrate that the policies regarding dividend payments are interconnected with the anticipated future revenue and financial viability of the company of the company (Azhariyah et al., 2021). It is possible for investors and managerial staff to obtain the same knowledge regarding future predictions through the use of such a hypothesis.

The investors assert, on the basis of this knowledge, that dividends are utilized as a direct source of data on potential earnings outcomes. According to Nurwendari, (2022), investors are required to pay a higher amount of taxes in comparison to the amount of capital gain they receive. As stated by Sebastian & Siauwijaya, (2021), the most significant signaling cost is connected to the issuance of fresh stock by a company that is facing a lack of revenues. As a result of the fluctuations in share price, it has been observed that the future predicted distribution payment policy coincides directly with the anticipated earnings of the company. Furthermore, such a signaling hypothesis has a beneficial impact on the share price of the company in question.

In the manufacturing industry of Pakistan, a dividend policy by the firms is a very important factor that influences their financial performance. But the special impact of these policies on the firms' performance in this sector has remained largely under-explored. This study aims to address this knowledge gap by investigating the influence of dividend policies on the financial and overall performance success in manufacturing firms for Pakistan. The analysis will focus on the determinants of dividend policy choices made by these firms, and also how such decisions impact their overall performance. It could give firms and also industry stakeholders the important information, improve strategic decision-making, as well as increase investor confidence.

Research Objectives:

1) To identify the impact of dividend payout ratio on ROA.
2) To identify the impact of dividend payout ratio on ROE.
3) To identify the impact of EPS on ROA.
4) To identify the impact of EPS on ROE.
5) To identify the impact of price to earnings ratio on ROA.
6) To identify the impact of price to earnings ratio on ROE.

Research Questions:

1) Does the dividend payout ratio has an impact on ROA?
2) Does the dividend payout ratio has an impact on ROE?
3) Does the EPS has an impact on ROA?
4) Does the EPS has an impact on ROE?
5) Does the price to earnings ratio has an impact on ROA?
6) Does the price to earnings ratio has an impact on ROE?

LITERATURE REVIEW

1. Price to Earnings Ratio:

In connection with stock market forecasts, the outcomes of the stock exchange and the prevailing price of sharing (EPS) of a firm are considered to be influenced by a number of external factors (Sunaryo et al., 2023a). These factors include the state of the economy, political climate, inflation, unemployment rate, and the supply of wealthy individuals investments, the consequences on alterations in world events, and the internal characteristics of the organization, including the size of the organization and its position in the marketplace, the return on investment revenue of the organization, its advancement amount, and many other different factors (Sunaryo et al., 2023b). An investor is able to make an informed choice concerning investing in a company with the assistance of an assessment that determines which variables will impact the estimation of a business's stock and to what degree those elements will affect it.

H1: There is a significant impact of price to earnings ratio on return on assets. H2: There is a significant impact of price to earnings ratio on return on equity.

2. Earnings per Shares:

Studies that have been conducted recently on the trajectory of profits growth over time have raised questions about the capability of past increases to explain changes in price-earnings combinations the ratios (Kumar, 2021). The growth of the next decade is either impossible to forecast or speculators choose to base their forecasts on information that is not based on the growth of the historical period. After dividing common companies into accounts according to their price-earnings ratios, the authors discover that the initial price-to-earnings ratio discrepancies between the portfolios continue to exist for a period of up to fourteen years (Birhanu et al., 2023). Nevertheless, it seems that growth does not explain a significant portion of the persistent P/E discrepancies.

H3: There is a significant impact of price to earnings ratio on return on assets. H4: There is a significant impact of price to earnings ratio on return on equity.

3. Dividend Payout Ratio:

According to Tjipta, (2022), the achievement of dividend policy is one of the most contentious issues in the field of commercial financing, and it continues to hold a prominent position in both known and new markets. It is important to note that the following characteristics are significant influences on the total amount of dividends conducted, incomes from both the current year and the preceding year, the difference of revenues from one year to the next, and the rise of profits and preceding times' awards.

H5: There is a significant impact of dividend payout ratio on return on assets. H6: There is a significant impact of dividend payout ratio on return on equity.

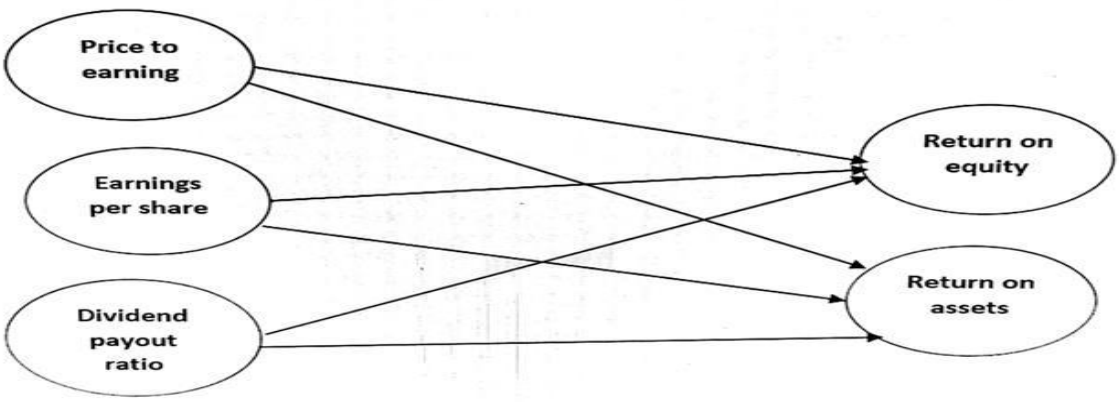
4. Return on Equity:

ROE measures a company's profitability by revealing how much profit a company generates with the money shareholders have invested. It's calculated by dividing net income by shareholder equity. In your research, you'd explore how dividend policy influences ROE, as dividends affect both net income and shareholder equity.

5. **Return on assest:**

ROA measures how efficiently a company utilizes its assets to generate profit. It's calculated by dividing net income by average total assets. In your study, you'd investigate how dividend policy affects ROA, considering that dividend payments can influence both net income and asset allocation decisions within the firm.

THEORETICAL FRAMEWORK



RESEARCH METHODOLOGY

3.1 Population and Sample

The target population of this study is manufacturing companies operating in Pakistan. This selection guarantees that the study is directed only the firms within the manufacturing sub-sector, making it relevant to this particular industry. The sample size of 10 manufacturing companies is determined based on practical feasibility and the scope of analysis. Convenience sampling is the sampling technique used for its availability and convenience in selecting companies that are readily available and willing to participate in the study.

3.2 Data and Sources of Data

Annual reports (as a data collection tool) are used for the research. These reports will include general financial figures such as dividend payout ratio, earnings per share, price ratio to earnings, and other financial measures. To make financial data of manufacturing companies in Pakistan reliable and consistent, annual company reports are used

4.1 Descriptive

Table 1: Descriptive

	Minimum	Maximum	Mean	Std. Deviation
Dividend Payout ratio	-37.26000	80.8500000	25.393600000	24.10910983
Earnings Per Share	-16.53000	203.8400000	15.0180549993	27.607345
Price to earnings ratio	-62.220000	197.1800000	11.7735999999	27.8356323
ROA	-7.57000000	53.72000000	10.4965000000	10.356010636
ROE	-18.830000	46.05000000	14.52989999	12.8560818

The table provides descriptive statistics for six financial variables: In this case the key indicators include: dividend payout ratio, earning per share (EPS), price-to-earning (P/E) ratio, return on asset (ROA) and return on equity (ROE). Payout of the dividends has a very wide range as is evident by a minimum of -37. With an average 26% and maximum of 80%. 85%. The negative figure imply that some firms may have been engaged in buying back of its shares or paying out more in dividends than its net income. The maximum recorded payout ratio is forty and the minimum recorded payout ratio is ten while the average payout ratio for the company is twenty five. On average, therefore, companies are paying out 39% or a quarter of their profits to shareholders as per the given data.

EPS also has a large dispersion, the minimum is equal to -16. All a mean of 53 and a maximum of 203. 84. The negative scores indicate that some firms depreciated their assets during the year through posting of losses. The average of EPS is 15. 02 This suggests that companies ‘generated an average of $15, revenue for each patent. 02 per share. The P/E ratio range is wider than that of the EPS, with a lowest computed value of -62. The minimum number of daily cases has been 22 and the maximum has been 197.

18. The negativity of this figure implies that some firms might have made losses. The ratio is less than in the global average, the overall average P/E is equal to 11. It says that values of investors in this stock are $77 saying that they are willing to pay $11. 77 for each dollar of earnings a company produces.

The above table shows that while ROC has a range of -7 (minimum) both ROA and ROE are in a similar range. It is 57% with maximum 53%. As for the ROA, 72% for ROA, and minimum -18 for ROE. Where it is at minimum 83% and a maximum of 46. 05% for ROE. The negative values refer that some of the firms had their losses. The average ROA is 10 percent. 50% and this means for every dollar of assets, dollar 0 was produced. 10 in profit. A relatively low average ROE of 14 has been calculated for the companies included in the sample. 53 percent, this means for every dollar in equity that 53 cents were used by the company to generate the profits. 15 in profit.

4.2 Correlation

Table 2: Correlation

Dividend Payout ratio			Earnings Per Share	Price to earnings ratio	ROA	ROE
Dividend Payout ratio	Pearson Correlation	1	-.094	-.087	.348**	.379**
	Sig. (2-tailed)		.355	.390	.000	.000
	N	100	100	100	100	100
Earnings Per Share	Pearson Correlation	-.094	1	-.094	.598**	.427**
	Sig. (2-tailed)	.355		.355	.000	.000
	N	100	100	100	100	100
Price to earnings ratio	Pearson Correlation	-.087	-.094	1	-.160	-.106
	Sig. (2-tailed)	.390	.355		.112	.296
	N	100	100	100	100	100
ROA	Pearson Correlation	.348**	.598**	-.160	1	.812**
	Sig. (2-tailed)	.000	.000	.112		.000
	N	100	100	100	100	100
ROE	Pearson Correlation	.379**	.427**	-.106	.812**	1
	Sig. (2-tailed)	.000	.000	.296	.000	
	N	100	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

The dividend payout ratio shows a significant, positive correlation with ROA ; r= 0. 348, when significant at 0. 01 percent level ROA and r = 0. 379 for ROE statistically significant at 0. 01. This suggests that the firms and organizations which have relatively high dividend paying ability may be observed as having better ROA and ROE rates. Interconnection is also relevant; thus, concerning this issue, money payout ratio is considered the most appropriate measure of a company's performance. EPS and Financial Profitability (ROA & ROE) Earnings Per Share and Financial Performance (ROA and ROE): It was found that EPS has positive relation with both the measures and the coefficients 'r' between them are either very close to or are equal to each other, namely 0. 598 for ROA at 0. 01 level of significance and 0. 427 for ROE at 0. 01 level of significance. This means that with increased eps there are proportional increase in rate of returns on both the assets and equities. The correlations revive the EPS back again as one of the strongest key performance indicators. P/E Ratio and Financial Performance : Gross & Net Operational Profit Vehicle's ROA & ROE Price-to-Earnings Ratio and Financial Performance (ROA and ROE): Like raw earning figures, P/E ratio is also inversely related with ROA, which is -0. 160 and ROE, which is -0. 106; however, the correlation coefficients are insignificant at p > 0. This means that when one compares P/E ratios and CPA, there is comparatively small bias in favor of firm's performance with low P/E ratio though this result is not statistically significant. Interrelationships among Independent Variables: Essentially, it can be postulated that the DPR aligns tremendously negatively with the EPS though the correlation is substantially insignificant since p > 0. 094. 05. The same can be said with the P/E ratio that at most has only a negative very weak correlation to the D/P ratio (.0027, p-values of 0.8327) and to the EPS (-0.055, p-values 0.6851) underscore the insignificance of this correlation.

4.3 Regression (ROA)

Table 3: Regression (ROA)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.726[a]	.527	.512	7.236498084759838

a. Predictors: (Constant), Price to earnings ratio, Dividend Payout ratio, Earning Per Share

From the model summary it looks like the predictors (Dividend Payout Ratio, Earnings per Share, and Price to Earnings Ratio) explain variation of 52%. The importance of the collected information can be expressed in terms of the 'R Square' of 0.07 which means that the model accounts for 7% of the ROA variance. 527. The Adjusted R Square value 0.512 which also gives an indication of number of predictors in our model gives a slightly lower picture of how much of the variance has been explained by the model. The value of standard error of the estimate is 7. 236, this shows the extent of fluctuation of the observed ROA with that predicted from the model in the normal sense.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5590.226	3	1863.409	35.584	.000[b]
	Residual	5027.223	96	52.367		
	Total	10617.449	99			

a. Dependent Variable: ROA
b. Predictors: (Constant), Price to earnings ratio, Dividend Payout ratio, Earning Per Share

The overall significance of the model is tested using the ANOVA in Table 3. More to the point, an F-value of 35. 584 and a significance level or p <0. 000 imply that the established model is statistically significant. This therefore implies that the overall model of predictors (Dividend Payout Ratio, Earning Per Share as well as the Price to Earning ratio) have a significant potency of explaining ROA.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.861	1.230		2.326	.022
	Dividend Payout ratio	.173	.030	.402	5.667	.000
	Earnings Per Share	.236	.027	.629	8.872	.000
	Price to earnings ratio	-.025	.026	-.066	-.931	.354

a. Dependent Variable: ROA

Constant (B = 2. 861, p = 0. 022): Intercept term equals to the mean of ROA which is anticipative of the results while all the predictors take a zero value. This is not logical in this perspective but we need it for the regression equation of IQ & grade point average. Dividend Payout Ratio (B = 0. 173, p < 0. 001): likewise, use the positive sign of the unstandardized coefficient (B = 0. Apparently implying that for one unit shift in the Dividend Payout Ratio, there is an expected shift in ROA of 0. Because of this, since the p-value = 0.00 <α = 0.05, then we concluded in high significant level that support the hypothesis that there is a relationship between DPR and ROA. Earnings per Share (B = 0. 236, p < 0. 001): The presented results revealed positive unstandardized coefficient (B = 0. 236) that indicates when Earnings per Share increases by one unit, there will be expected change of. The above estimate also reveals that given other factors held constant Fosters was poised to raise occupancy by 236 units. The above-identified subjects have captured the following beta coefficients; predictor 2 with the highest beta coefficient of 0. 629, meaning that it impacts on ROA of all the predictor variables with most strength. In addition, p-value is also less than the conventional level of significance (0. 001). Price to Earnings Ratio (B = -0. 025, p = 0. 354): The unstandardized coefficient which is obtained in the foregoing analysis is negative and minuscule and it divulge that for every unit increase in the PER, there is expected a unit decrease in the Return on Asset (B = 0.025). Expressing measure in terms of amount, a dependent variable can be said to become larger 025 with all other factors standardised. However, this relationship is not significant at (p = 0. 354), this mean that; the Price to Earnings Ratio is not an efficient variable in explaining ROA in this model.

4.4 Regression (ROE*)*

Table 4: Regression (ROE)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.600[a]	.360	.340	10.4453439687

a. Predictors: (Constant), Price to earnings ratio, Dividend Payout ratio, Earning Per Share

From the above model summary it is evident that the selected predictors; Dividend Payout Ratio, Earnings Per Share, and Price to Earnings Ratio explain 36 % of the variation. However, the subject model meet no regression of 0 percent to the variation of the ROE as post by the R Square of 0. 360. The Adjusted R Square that was based on number of predictors in the model is slightly lower than the former and is equal to 0.340, which implies a fair fit of the model. Given that the standard error of the estimate is relatively large (10.445), this indicates that there is variability between the Recorded Actual ROE as estimated and the actual ROE as could be predicted from the regression equation.

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5888.505	3	1962.835	17.990	.000[b]
	Residual	10474.100	96	109.105		
	Total	16362.605	99			

a. Dependent Variable: ROE
b. Predictors: (Constant), Price to earning ratio, Dividend Payout ratio, Earning Per Share

Since ANOVA tests whether or not the regression equation aids in predicting the dependent variable, ROE in this particular case, the statistic is displayed below Results. F-value of the study is 17. 990 while the level of significance (probable error) is 0. From the result of the coefficients of estimates it can be concluded that p values obtained from the model 000 is less than 0.05 hence it can be conclude that the model is statistically significant. This can just be an implication that Dividend Payout Ratio, Earnings Per Share and Price to Earnings Ratio respectively have a dependent relationship with ROE of the firm.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.740	1.775		3.234	.002
	Dividend Payout ratio	.224	.044	.420	5.095	.000
	Earnings Per Share	.216	.038	.464	5.628	.000
	Price to earnings ratio	-.012	.038	-.026	-.312	.756

a. Dependent Variable: ROE

Constant (B = 5. 740, p = 0. 002): Intercept term in the estimation model refers to the predicted value of ROE if all the independent variables have their average values. This scenario, therefore, is not practically feasible, although done for expected values. Dividend Payout Ratio (B = 0. 224, p < 0. 001): Since Dividend Payout Ratio is not standardized and its coefficient is positive (B = 0.224) it means that for each unit change in the Dividend Payout Ratio, ROE will increase by 0. 224, all things being equal, for units. The calculated value of p is 0. 001 which strongly indicates that there is a significant positive relationship of Dividend Payout Ratio and ROE. Earnings Per Share (B = 0. 216, p < 0. 001): Probably because of this the coefficient of all the independent variables is positive though significantly different from each other, B for Earnings per share = 0.216 meaning the expected change in ROE associated with one unit increase in Earnings per share is one unit or 216 units. All other variables. Among predicts this predictor has the highest value of standardized beta coefficient (0. 464), thus holds highest or most influential on ROE of predicts. Here, it is pointed out that the achieved values, connected with the observation of the linkage, are very high and the coefficient that characterizes the relation is significant at the level of p << 0. 001. Price to Earnings Ratio (B = -0. 012, p = 0. 756): Other things being equal, the coefficient for Price to Earnings Ratio is negative (B = -0. 012), so it means that as the P:E ratio increases the ROE declines slightly. However, this is not statistically significant, p = 0. 756, thus the effect of the Price to Earnings Ratio does not predict ROE in this mode.

5.1 Conclusion

Overall, this research has given significant information on the various correlations between Dividend Payout Ratio, Earnings per Share (EPS), Price to Earnings Ratio (P/E), ROA (ROA), and ROE (ROE) regarding the companies being assessed. From the correlation analysis, Dividend Payout Ratio and EPS had positive correlation coefficients with ROA and ROE, and this proved that they were influential variables in the firm's financial performance. In contrast, there was no clear relationship between the P/E ratio and changes in the value in ROA and ROE and that makes this measure rather ineffective in the given context.

The regression analyses further vindicated these findings but EPS stood out as the most significant determinant in both models for ROA and ROE. The DPR also influenced the returns on assets and equity most especially and therefore was an important factor in the model. Nevertheless, the variable of the P/E ratio was also non-significant in the regression models, which confirms the conclusion that common financial ratios can sometimes fail to reveal peculiarities of the financial performance of the companies in the given sample.

In general, the proffered analysis re-emphasizes the significance of profitability and dividend policies to understanding the fortunes of companies in the country. These companies have higher earnings and have paid more constant dividends than others, thus their assets and equities are more effective. This supports the notion that there is a positive correlation between profitability and shareholder returns with the use of dividends of communicating the firms' status to shareholders.

Furthermore, it is identified that in the context of investors the common approach to performance assessment such as the P/E ratio can be misleading. Perhaps, therefore, it may be more useful to measure core profitability indicators and dividends policies in order to reveal the company's capacity to generate returns better. Therefore, this paper supports that both EPS and DPR are essential factors affecting the financial performance and at the same time questions the reliability of P/E ratio in the selective circumstances. The findings of the study can hence contribute to the development of theory in economics as well as to the more practical application of its guidelines to investors and firms.

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