

MANAGING EARNINGS V/S STRATEGIZING DIVIDENDS: SECTORAL EVIDENCE FROM PAKISTAN STOCK EXCHANGE

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ABSTRACT

This paper means to inspect the regression between the Price to Book ratio as a proxy for earning management and payout proportion as a proxy to dividend policy. This paper utilizes multivariate analysis to examine the relationship between the price to book ratio and dividend policy. Using 11 years' annual data from 2006-2016, this paper delivers new confirmation demonstrating that timely payment of dividend has a positive impact on the reputation of the company in the market. Dividend payment boosts up investors' confidence to invest in the company. This study helps the corporate superintendents and stock financial experts to focus on the relationship of the dividend. No past review has handled the issue of the contingent relationship between the price to book ratio and payout proportion in Pakistani Industry and specifically on cement, food and oil and gas sectors.

Keywords: price to book, debt to equity, earning per share

ABSTRAK

Tulisan ini bermaksud untuk meneliti regresi antara Price to Book Ratio sebagai proksi untuk manajemen penghasilan dan proporsi pembayaran sebagai proksi untuk kebijakan dividen. Penelitian ini menggunakan analisis multivariat untuk menguji hubungan antara Price to Book Ratio dan kebijakan dividen. Dengan menggunakan data tahunan selama 11 tahun dari 2006-2016, artikel ini memunculkan suatu konfirmasi yang menunjukkan bahwa pembayaran dividen tepat waktu memiliki dampak positif pada reputasi perusahaan di pasar. Pembayaran dividen meningkatkan kepercayaan investor untuk berinvestasi di perusahaan. Studi ini membantu pengawas perusahaan dan ahli keuangan saham untuk fokus pada hubungan dividen. Belum ada penelitian sebelumnya yang menangani masalah hubungan kontingen antara Price to Book Ratio dan proporsi pembayaran dalam Industri di Pakistan dan khususnya pada sektor semen, pangan dan minyak dan gas.

Kata kunci: Price to book, debt to equity, earning per share

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1. Introduction

In the context of today's contemporary world, dividend policy and earnings management are the utmost priorities of every corporation because these both are the pillars of an organization and heavily rely on these for their success. In modern business manager plays an important role in setting up dividend policy and earnings management of the corporation. Many vital choices are confronted by managers in their customary business life, procuring administration and profit arrangement likewise goes under. Before moving towards gaining administration we ought to have a thought that what profit is. Income is the benefit of the firm which organization gets by putting resources into various areas or stocks and keep up this income by doing broadening when required. Income can be certain, low and negative. Presently how about come up with acquiring administration for the most part organizations attempt to deal with their income by offering out purposeless resources, securing new innovation and evacuating abundance stock. Sometimes organizations take trade from stores accounts out a request to make income positives and numerous more unique strategies are utilized to have leveled income. The second essential term in this research is the profit strategy.

The manager should come across about internal and external dynamics of the market. Every corporation wants to utilize their net earnings in an efficient way. Corporations utilize their net earning either by investing in new opportunities or by paying a dividend. In the event that there are no investment opportunities then it is the duty of administration to disseminate those assets as profit. The nature of earning keeps important for companies when resources are used in an efficient manner. Companies mostly used

generally accepted accounting standards to manage their earnings.

Miller and Modigliani's "Irrelevance Theorem" stated that market is perfect and states that dividend policy does not play any role in firm's value. In reality, the perfect market does not exist. (Miller & Modigliani, 1961). There are a number of theories e.g. Clientele theory, bird-in-hand theory, agency theory and signaling theory, all that shows that value of equity increase with the dividend. Thus investors are more attracted towards dividend paying and showing their willingness to make an investment in those firms which are paying a dividend. Besides it, investment protection plays a very great role in the investment. Investors show their interest in willingness to interest in those countries where they get investment protection. The growth of the firm depends on earnings. Earnings increase the value of the company and vice versa (Lev, 1989). It can be said that there is a direct relationship between the firm's earning and equity value. However, when a company pays a dividend then financing can be done by increases funds in investing capital market and due to the payment of dividend equity value decreases. Shareholders are more interested in the profitability of the firm. They show their willingness to invest in those firms whose growth and earning is high.

Before the International Accounting Standard, it was hard to uncertain that whether accounting standards dealt with account provisions or not. There is an issue with managers and external users' asymmetric information. The users give permission to managers to make a report for their own personal benefits, whereas, management of companies will want to show their accounting result in the most favorable ways by making great

provisions in the years, where higher underlying will be generated.

This paper attempts to explore whether earnings management influences the profit arrangement. Profit paying firms tend to keep up a consistent profit pay-out history and jump at the chance to maintain a strategic distance from enormous varieties in the profit pay-outs. To keep up consistency in payout there ought to be consistency in the profit. Firms appear to oversee income to lessen the varieties in the profit over a timeframe, along these lines keeping up a consistency in the firm's income. It is conceivable to oversee income firstly by adjusting the optional accumulations or beside by controlling genuine working exercises, for example, giving rebates to incidentally expand deals, over creating to report the lower cost of products sold and lessening optional costs like R&D, promotion use etc. Firms' income includes money from operations and aggregate collections. The aggregate collections are the whole of the optional accumulations and non-optional gatherings. Optional collections are those gatherings where a firm has the freedom to choose 'what and what amount' ought to be regarded as gatherings in a specific circumstance. The investigations of profit administration ordinarily manage the optional gatherings, which are utilized as a measure of income administration.

Profits speak to the essential and dynamic choice variable of a company. Yet, this profit pay-out is influenced by different elements like income administration, firm possession, free money flow and beta. Despite the fact that there have been studies that have considered the effect of these elements exclusively, which have been contemplated in developed markets, we are yet to run over any far-reaching paper concentrate the relationship of all these factors with profit pay-out in creating

markets like Pakistan. The main impact of this research is of all those numerous factors on the profit pay-out with an uncommon concentrate on optional gatherings of the Pakistani organizations. The factual consequences of this paper confirm that profit administration spoke to by optional collections is without a doubt an influencing variable in the profit pay-out choices.

Earnings management is the utilization of bookkeeping procedures to create monetary reports that present an excessively positive perspective of an organization's business exercises and financial related position. Many bookkeeping guidelines and standards require organization administration to make judgments. Income administration exploits how bookkeeping principles are connected and make budgetary explanations that expand profit, income or aggregate resources. Organisations utilize income administration to smooth out vacillations in income and present more predictable benefits every month or year. Expansive variances in salary and costs might be an ordinary piece of an organization's operations, however, the progressions may caution speculators who want to see strength and development.

An organization's stock cost frequently rises or falls after an income declaration, contingent upon whether the profit meet or miss the mark concerning desires. Management can feel the weight to control the organization's bookkeeping practices to meet money related desires and stay with the firm's stock cost up. Numerous officials get rewards in view of income execution, and others might be qualified for investment opportunities that produce a benefit when the stock cost increments. Many types of profit control are in the long run revealed, either by a cost-profit analysis firm playing out a review or through required SEC exposures. We can also control to change

organization arrangement by capitalization of excessive cost than expensive immediately. Underwriting costs as resources defer the acknowledgment of costs and expand benefits for the time being. Accept, for instance, the organization approach directs that each cost under \$1,000 is quickly expensed and costs over \$1,000 might be promoted as resources. On the off chance that the firm changes the approach and begins to underwrite significantly more resources, costs diminish for the time being and benefits increment.

An adjustment in bookkeeping arrangement, in any case, must be disclosed to money related proclamation peruses, and that revelation is normally expressed in a commentary to the budgetary reports. The divulgence is required in view of the bookkeeping guideline of consistency. Money related proclamations are equivalent if the organization utilizes a similar bookkeeping arrangement every year, and an adjustment in strategy must be disclosed to the monetary report pursuer. Therefore, this kind of income control is normally reveal.

Earnings management has put negative affects income quality and may debilitate the creditability of money related reporting. Furthermore, in a 1998 discourse Securities and Exchange Commission administrator Arthur Levitt called income administration "widespread". Despite its inescapably, the multifaceted nature of bookkeeping guidelines can make profit administration troublesome for individual speculators to identify. The main issue of this study is whether those firms who pay dividend manage their earnings in a better way are not.

Dividend policy and earnings management possess a great important role in every corporation success.

Moreover, investors are keen on both things. They make an investment decision on that basis. The aim of the research is to see how the earning management of companies affects the dividend policy in the emerging market of Pakistan, in addition to that study aims at to compare, whether dividend paying firm manages their earning in an efficient way or non-dividend paying firm.

This paper is organized into different sections, in the first section introduction and objectives of the study are discussed. In second and third sections detailed review of literature and research methodology are discussed respectively. In the fourth section, empirical analysis and the fifth section consist of conclusion and future research directions are given.

2. Literature Review

In this section of the paper, a detailed review of the past studies is given from various economies in the area of dividend policy and earnings management.

2.1. Dividend policy

To devise a competent dividend policy is the toughest challenge for the finance manager. It tells investors what portion of earning corporations retrain for the future and how much they are going to announce (Goshen, 1995). It boasts the interest of shareholders to invest in the company. According to Jensen and Mackling(1976), company transaction cost would be more when the agency cost is low and dividend distribution chances are high. The study of Bhattacharya (1979) suggests that Dividend policy is the guideline tools for the shareholders. Shareholders easily acknowledge the dividend policy and things about investment. Moreover, dividend policy is also predicted by the profitability of corporation for example; Adelegan

(2003); Afzal and Mirza (2010) and Imran (2011) studied tells us that profitability had a positive relationship dividend policy. However, if firms do not announce dividend policy shareholders look into the history of firms for the payment pattern of the dividend. So a firm manager who decides to pay a dividend has fewer chances of making accounting fraud.

The dividend payment is strongly associated with the minority shareholders' rights. It purports the right of minority shareholders legal right. Currently, in Pakistani setting, Ahmed and Javed (2009) investigated deciding elements of profit strategy in the rising economy of Pakistan on a specimen of 320 firms listed at KSE from 2001 to 2006. Initially, they broke down Lintner, Fama and Babiak Proposed models, which were the expansion of incomplete alteration show utilizing panel regression and found that Pakistani organizations depend more on current profit and past profit to settle their profit installment. They dissected the determinants of profit payout and found that organizations with stable positive net profit pay bigger profits. Moreover, the possession, fixation and market liquidity are decidedly related to profit payout proportion, yet growth openings had no effect on profit installment and size of the organizations observed to be contrarily and essentially related with payouts.

The investigations of Ayub (2005); Ahmed and Javed, (2009) have given the benchmark for our review. Ayub (2005) concentrated on the part of corporate administration related figures planning profit arrangement, though, Ahmed and Javed (2009) examined the effect of general corporate characters on profit payouts. Osamwonyi and Ebueku (2016) studied the Nigerian market and found that there is a significant relationship between dividend payout, advantage and cash flows on earning management.

M'rabet and Boujiat (2016) studied the relationship between dividend payments and firms performance in Morocco. They found that dividend policy plays an important role in enhancing the performance of the firm and have a significant role. Money streams are more helpful than accumulations in anticipating profit changes since money streams are a more straightforward liquidity measure (Charitou & Vafeas, 1998). As to structure, Ayub (2005) contended that expanded possession by supervisors builds the corporate profit payouts, be that as it may, in Pakistan where the greater part of organizations have concentrated family proprietorship structures and administration practices are not unequivocally checked, administrative proprietorship is relied upon to have a negative association with profit payouts. In this manner, the present review endeavors to investigate the effect of proprietorship structure, income affectability and working money streams on profit payout conduct of organizations in developing the economy of Pakistan.

2.2 Earning Management

Corporations earn a net profit and try to utilize it in an efficient way. Prior studies suggest that manager needs extensive literature to utilize earnings of the firm in an effective way (Jensen & Murphy, 1990; Bushman *et al.*,1993; Sloan, 1993; Sloan, 2001). McKee (2005) states that earning management is a reasonable and legal decision-making process to get a desirable financial decision. Earning management can be calculated by discretionary accrual (Jones, 1991) model. Moghri and Galogah (2013) explored the impact of income earning on profit arrangement. The review used information from 140 firms recorded in Tehran stock trade over the time of 2006 to 2011. In this review, to decide the fitting technique for

evaluating the relapse model and testing the fundamental research theory.

F-Limer test and Hausman test was connected for picking between settled impacts and arbitrary impact demonstrate. The settled impacts model has assessed the model test after effects of the primary research. Speculation has demonstrated that there is a certain and huge connection between profit administration and profit strategy. These outcomes show that with expanding in optional gatherings of organizations, their profits rate will increment.

Few reviews demonstrated no connection between profit arrangement and income administration. For instance, Shah *et al.*, (2007) investigated the effect of income administration on profit arrangement of Pakistan and China. The review used information from recorded firms of Pakistan over the time of 2003 to 2007 and 2001 to 2007 from recorded firms of China. The outcome uncovered no proof that optional gatherings have an impact on profit strategy in both economies. Besides proprietorship structure, organization's money related and liquidity position additionally assumes an imperative part in deciding the level of profit. In the event that an organization is confronting liquidity issue then it might want to pick stock profit as opposed to money profits. As per Jensen (1986), Free Cash Flow Hypothesis, organizations favor to utilize their trade assets to contribute out productive activities first and profits are paid out of leftover. Profit and premium installment lessens the free income accessible to administration, thus diminishing the shot of utilizing it in less gainful tasks or on directors' requirements.

From organizations' perspective, money produced from operations assumes a vital part in choosing the measure of payout, organizations having more noteworthy income produced from

operations are required to be in a superior position to pay money profits as opposed to organizations having negative working money streams. From income affectability perspective earlier reviews revealed that fiscally obliged firms gather higher money possessions and hold more noteworthy part of the money earned amid the period, which implies that liquidity is more essential when firms can't raise stores from outside market and fluid assets are required for interest in future gainful undertakings (Khurana *et al.*, 2006). Moreover, companies having good earning payment rate have fewer chances of discretionary accruals. Hosseinian and Ramzani (2016) attempted to study the rapport between earning management and profit earning capacity of the Tehran stock exchange. They found a positive connection between firms' growth and earnings management.

2.3 Dividend policy and earning management

Several studies show that earning management is affected by dividend policy. Ahmed *et al.*, (2018); Farinha and Moreira (2007) stated that there is a positive relationship between earning management and dividend yield of listed companies in the US during 1987-2003. However, dividend non-paying firm prone to misuse of corporate resources for personal benefits. However, in an imperfect market, managers use dividends for resolving agency problems (Jensen, 1986). On the fillip side, Aurangzeb and Dilawer (2012) found that earning management has a negative impact on a dividend payout of listed companies in Pakistan during 1966-2008.

In another opinion, it is feasible to say that investment policy and earnings management varies from country to country level of investors' protection and transparency measures especially in

underdeveloped countries like Pakistan. Moreover, the increasing trend of literature suggests that corporation find out alternatives ways to convey their commitment to shareholders in order to protect their interest and market mechanisms. Furthermore, in order to understand why dividend policy and earnings management are more noticeable in the firms having weak institution structure and less transparency. We need to focus on the firm's capital market access for external funds. According to the study of (La Porta *et al.*, 2000) tells us that those firms who employ dividend policies with an intention to reduce private control benefits are inclined to decrease manipulate earnings, these firms trying to raising their external equity.

Pakistan is developing the country and the idea of corporate administration is not extremely old for it. With the vast majority of the substantial enterprises possessed and controlled by families and with relatives holding key administrative positions, notwithstanding, the real office issue exists not between the administration and proprietors by and large, however between the administration (the controlling family) and minority shareholders. Other corporate administration practices are likewise not conformed to their actual pith in Pakistan. It gives a perfect situation to administrators for rehearsing income administration to profit themselves at the cost of shareholders. The study conducted by Shah *et al.*, (2009) about earnings management and corporate governance practices in Pakistan reveals that corporate practices have a positive relationship with discretionary accruals.

A study by Ahmed and Javed (2009) shows that in a dynamic environment profit arrangement in Pakistan held that profit payout for Pakistani recorded non-budgetary firms

relies on both the change in profits and change in net income. However, profit affectability towards current income is higher than the past profits. A number of different determinants of profit were likewise found and because of the family claimed organizations in Pakistan, nepotism is generally taken after at the season of the arrangement of executives and consequently, they are paid overwhelming pays and incidental advantages. This additional cost lessens the net benefit of the firm thus firms think that it is hard to announce profits.

2.4 Dividend Theories

a) Dividend Irrelevance theories:

The MM profit immateriality hypothesis expresses that the company's profit strategy has no effect on firm esteem or its stock cost. The doubtful arrangement of presumptions whereupon this hypothesis is based is that money-related markets are impeccable and shareholders can develop their own profit approach by purchasing or offering offers in the market as they craving. On the off chance that they need money, they can (without financier costs) offer shares; in the event that they don't, they can clutch their shares. The superfluity hypothesis likewise accepts that there are no financier expenses or capital additions charges. At last, they expect away such things as voting control inclinations and any flagging impacts coming about because of profit installments. Once these suppositions are casual, we see that profits without a doubt to make a difference. Given these suspicions, however, they infer that the company's esteem is resolved exclusively by its essential gaining force and it's business chance that is its capacity to create hazard balanced money streams going ahead. Hence the estimation of the firm depends just on the efficiency of its benefits, not

on how the income from these advantages is part amongst profits and held a profit.

b) Signaling Theory:

Dividend declaration fills in as a flag about the execution of the firm. The declaration of the firm is nearly viewed by the shareholders as a characteristic of the possibilities of good undertakings. A profit increment bigger than desire is translated by the speculators as higher income later on and on the other hand, a lower profit payout than desire would demonstrate some less good future income. It is one of the approaches to pass on the data about the firm however it is not the productive and financially savvy method for correspondence.

c) Clientele Approach:

The shareholders have a tendency to put resources into the organizations whose profit approach coordinate with their inclinations. While shareholders who have a place with high duty sections are skewed towards stocks which give capital thankfulness than consistent profit pay. The shareholders who are low citizens are agreeable to customary profit paying organizations. This gathering of shareholders in organizations with profit approaches coordinating with their inclinations is known as demographic impact. The organizations will have the speculator base which like their profit strategies. Henceforth it is troublesome for the organizations to change its profit approach. In the meantime, the firm's esteem won't be influenced by their profit payouts as each arrangement of firms have their own arrangement of speculators whose separated inclination is adjusted to the organizations' approaches.

d) Bird in the hand theory of Dividend:

Modgiler and Millani theory's superfluity contention is that stockholders are impassive between profits today and capital picks up tomorrow. That is financial specialists utilize a similar

rebate rate inputting a present an incentive on these two surges of income despite the fact that these distinctive streams are portrayed by various hazard levels. The feathered creature in-the-hand hypothesis of profits takes an on a very basic level diverse perspective of things. Specifically, this hypothesis holds that speculators are not uninterested between profits today and an equal measure of capital picks up later on. Or maybe they lean toward an increasingly certain profit today to a more unverifiable capital pick up tomorrow. What the flying creature in-the-hand hypothesis says is that financial specialist's markdown the normal capital pick up yield at a higher rate than the profit yield. Along these lines, firms that take part in a high-profit payout (and in this way have a low expected capital pick up yield) can pay stockholders who incline toward high current payout a lower add up to the rate of return than firms that take after a low-profit payout. A lower required return brings about a higher stock cost for firms that match the high current payout design sought by winged creature in-the-hand financial specialists.

3. Research Method

The study aims to analyze the influence of earnings management on developing dividend strategies. So this is explanatory study, having panel data of 352 sample size containing data of 32 companies listed on Pakistan stock exchange from Cement, Food and Oil & Gas sectors taken over a period of 11 years i.e. 2006-2016. Data has been obtained from the website of Pakistan Stock Exchange and Thomson Reuters DataStream. The study is cross-sectional and quantitative approach applied, based on positivist philosophy. This study has applied a panel regression model in order to explain the impact of earnings management on dividend strategies. The

dependent variable for the study is a price to book ratio, used as a proxy for earnings management. As investors consider the price to book ratio as a measure of companies' efficiency in managing earnings because it tells the market price of stock in relation to the book value of the stock. Higher price to book ratio is desirable as it indicates that the company is efficiently managing its earning. However, debt to equity, dividend yield, earnings per share, equity risk premium, market capitalization and return on equity are considered as independent variables.

3.1. Hypothesis Developed

- H₁: There is no significant impact of ROE on price to book ratio.
H₂: ERP and EPS are negatively related to PBR.
H₃: DTE, DY, MC, and ROE are positively related to PBR.

3.2. Panel Least Square Regression Equation

The panel least square regression equation is given as :

$$PBR = \alpha_{it} + \beta_1 DTE_{it} + \beta_2 DY_{it} + \beta_3 EPS_{it} + \beta_4 ERP_{it} + \beta_5 MC_{it} + \beta_6 ROE_{it} + \epsilon_{it} \quad (i)$$

Whereas ;PBR_{it}: Price to Book Ratio; DTE_{it}: Debt to Equity; DY_{it}: Dividend Yield; EPS_{it}: Earning per Share; ERP_{it}: Equity Risk Premium; MC_{it}: Market Capitalization; ROE_{it}: Return on Equity; α_{it} : constant component; and ϵ_{it} : Error term.

4. Results and Discussion

In this chapter, authors have analyzed the data of cement sector, food sector and oil and gas sector. The detailed analysis is given below as,

4.1 Analysis of Cement sector

The given below are two tables of the cement sector. In Table 1, debt to equity is 101.648%, which represents the average of debt to equity, Moreover, the average dividend yield which cement sector pays is 2.304% and average earning per share is 6.011%. Moreover, the deviation from the dividend yield is 3% and earning per share deviation is 7.863%.

Table 1.Descriptive Statistics

	DTE	DY	EPS	ERP	MC	PBR	ROE
Mean	101.648	2.304	6.011	31.976	17163774	1.420	13.590
Median	71.930	1.075	3.110	33.370	6301138	1.185	14.825
Maximum	516.540	10.890	45.320	64.520	2.09E+08	4.530	56.680
Minimum	0.000	0.000	0.000	0.000	273372	0.140	-94.140
Std.Dev	92.499	3.004	7.863	18.630	29880641	0.941	21.176
Skewness	1.234	1.167	2.232	-0.056	3.835	0.879	-1.313
Kurtosis	5.048	3.163	9.482	1.947	20.752	3.315	7.774

These tables show the descriptive statistics of the cement sector of the all the variables from 2006 to 2016.

Table 2. Panel Least Square

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.026936	0.112385	0.239677	0.8110
DTE	0.000874	0.000616	1.419794	0.1582
DY	0.017383	0.010789	1.611238	0.1097
EPS	-0.00371	0.007684	-0.483232	0.6298
ERP	-0.00065	0.003345	-0.196493	0.8445
MC	3.16E-09	1.71E-09	1.853520	0.0662
ROE	0.006592	0.001725	3.820943	0.0002

In Table 2, it is shown that debt to equity, dividend yield, market capitalization, and return on equity have a positive impact on the price to book ratio while earning per share and enterprise value has a negative impact to price to book ratio. Moreover, the R-square value is .897519. It means that there is an 89.751% variation in price to book ratio is due to DTE, DY, EPS, ERP, and MC. In the above table, if we look at the p-value, three variables are significant like MC and ROE because their p-values are less than 5%. From the above result, null hypothesis no. 1 is rejected which states that there is no significant impact of ROE on PBR. Null hypothesis number 2 is also

rejected which states that ERP and EPS are not negatively related to PBR. Furthermore, the null hypothesis no. 3 is also rejected which states that DTE, DY, MC, and ROE are not positively related to PBR.

4.2 Analysis of Food Sector

In Table 3, descriptive statistics table debt to equity is 63.241%, which represents the average of debt to equity, Moreover, the average dividend yield which cement sector pays is 2.801% and average earning per share is 66.222%. Moreover, the deviation from the dividend yield is 1.870% and earning per share deviation is 83.902%.

Table 3.Descriptive Statistics

	DTE	DY	EPS	ERP	MC	PBR	ROE
Mean	63.241	2.801	66.222	19.593	49092564	11.065	45.436
Median	40.130	2.365	29.385	17.640	12122812	4.120	33.455
Maximum	269.500	7.540	354.590	52.760	4.13E+08	69.830	192.200
Minimum	0.000	0.000	0.300	0.000	472447	0.420	-3.040
Std.Dev	73.367	1.870	83.902	18.535	93588464	14.209	42.060
Skewness	1.031	0.697	1.517	0.275	2.855	2.050	1.774
Kurtosis	2.929	2.576	4.631	1.495	10.429	7.658	6.090

These tables show the descriptive statistics of the food sector of the all the variables from 2006 to 2016.

Table 4. Panel Least Square

Variable	Coefficient	Std.Error	t-Statistics	Prob.
C	-0.467	0.914	-0.510	0.611
DTE	-0.005	0.006	-0.873	0.385
DY	-0.029	0.214	-0.137	0.891
EPS	-0.005	0.005	-0.964	0.338
ERP	-0.002	0.000	-0.649	0.324
MC	0.000	0.000	3.867	0.000
ROE	0.072	0.017	4.191	0.000

These tables show the panel regression results of the food sector of the all the variables from 2006 to 2016.

In Table 4, it is shown that debt to equity, dividend yield and earning per share have no impact on the price to book ratio, while market capitalization and return on equity are positively correlated and have a significant impact on price to book ratio. Moreover, R-square is .966832. It means that there is a 96.6832% variation on the dependent variable is due to DTE, DY, EPS, ERP, and MC. From the above result, null hypothesis no. 1 is rejected which states that there is no significant impact of ROE on PBR. Null hypothesis no. 2 is rejected

which states that ERP and EPS are not negatively related to PBR. Furthermore, the null hypothesis no. 3 is only rejected for MC and ROE while rejected for DTE and DY.

4.3 Oil and Gas Sector

In Table 5, debt to equity is 5.857%, which represents the average of debt to equity, Moreover, the average dividend yield which oil and gas sector pays is 5.409% and average earning per share is 21.276%. Moreover, the deviation from the dividend yield is 3.4% and earning per share deviation is 14.7%

Table 5.Descriptive Statistics

	DTE	DY	EPS	ERP	MC	PBR	ROE
Mean	5.857	5.409	21.276	1.832	2.55E+08	3.044	33.576
Median	0.150	4.350	17.120	0.120	1.36E+08	2.420	34.440
Maximum	94.370	15.410	53.000	15.210	1.12E+09	14.640	73.030
Minimum	0.000	0.600	1.690	0.000	4648875	0.630	8.440
Std.Dev	15.339	3.404	14.700	3.537	2.86E+08	2.378	13.400
Skewness	4.673	1.024	0.606	2.194	1.321	2.909	0.347
Kurtosis	27.110	3.652	2.287	7.251	3.933	14.276	3.266

These tables show the descriptive statistics of the oil and gas sector of the all the variables from 2006 to 2016.

Table 6. Panel Least Square

Variable	Coefficient	Std.Error	t-Statistics	Prob.
C	-0.301	0.310	-0.969	0.338
DTE	-0.020	0.009	-2.010	0.052
DY	-0.019	0.026	-0.726	0.472
EPS	0.002	0.005	0.371	0.712
ERP	0.067	0.044	1.508	0.140
MC	-0.530	0.000	-1.931	0.061
ROE	0.002	0.008	0.238	0.813

These tables show the panel regression results of the oil and gas sector of the all the variables from 2006 to 2016.

4.4 Regression Analysis of Oil and Gas sector

In Table 6, it is shown that debt to equity, dividend yield, and market capitalization are negatively correlated to the price to book ratio while earning per share Earning to price value and return on equity are positively correlated to price to book ratio. Moreover, the R-square value is .972169. It means that there is a 97.21669% variation on the dependent variable is coming due to DTE, DY, EPS, ERP, and MC. From the above result, null hypothesis no. 1 is rejected for ROE. Null hypothesis no. 2 is not rejected which states that ERP and EPS are not negatively related to PBR. Furthermore, the null hypothesis no. 3 is not rejected for DTE, DY, and MC while rejected for ROE.

From the previous studies, we have found that there is a positive relationship of EPS with ROE affirms the hypothesis of signaling theory that high value of EPS moves towards the market, the more value of the firm will be created. However, financial leverage has a positive relationship with the dividend policy and the results of the study are inconsistent with the study of Ahmed *et al.*, (2018).

4.5 Regression Analysis of Oil and Gas sector

In Table 6, it is shown that debt to equity, dividend yield, and market capitalization are negatively correlated to the price to book ratio while earning per share Earning to price value and return on equity are positively correlated to price to book ratio. Moreover, the R-square value is .972169. It means that there is a 97.21669% variation on the dependent variable is coming due to DTE, DY, EPS, ERP, and MC. From the above result, null hypothesis no. 1 is rejected for ROE. Null hypothesis no. 2 is not rejected which states that ERP and EPS are not negatively related to PBR. Furthermore, the null hypothesis no. 3 is not rejected for DTE, DY, and MC while rejected for ROE.

From the previous studies, we have found that there is a positive relationship of EPS with ROE affirms the hypothesis of signaling theory that high value of EPS moves towards the market, the more value of the firm will be created. However, financial leverage has a positive relationship with the dividend policy and the results of the study are inconsistent with the study of Ahmed *et al.*, (2018).

5. Conclusion

This paper means to inspect the regression between the Price to Book ratio as a proxy for earning management and payout proportion that is dividend policy. This paper utilizes multivariate analysis to examine the relationship between the price to book ratio and dividend policy. Using 11 years' annual data from 2006-2016, this paper delivers new confirmation demonstrating that timely payment of dividend has a positive impact on the reputation of the company in the market. Dividend payment boosts up investors' confidence to invest in the company. Moreover, large and highly regulated firm firms are more reluctant to pay a dividend as compared to small firms.

The above results uncover the way that corporate administrators attempt to amass subsidizes under their control to the detriment of low payouts in light of the fact that administrative practices are not entirely observed and speculators' rights are not unequivocally ensured in

Pakistan, which is by all accounts the principle reason of vanishing profits frame Pakistani securities exchange. Besides, individual investors are interested in the capital gain by short selling and buying of stocks.

5.1 Managerial Implications

This study helps the corporate superintendents and stock financial experts to focus on the relationship of the dividend. No past review has handled the issue of the contingent relationship between the price to book ratio and payout proportion in Pakistani Industry and specifically on Cement, Food and Oil & Gas sectors. This study represents the nature of dividend payment policy and earnings management trends which has direct managerial implication from stakeholders to shareholders. Furthermore, the result of this study can be further refined by increasing sample size and study period. The samples may be further classified into dividend-paying firms and non-dividend paying firms.

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