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THE IMPACT OF EFFICIENCY MANAGEMENT ON THE PROFITABILITY OF THE FIRMS: TEXTILE COMPOSITE SECTOR

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Abstract

The objective of this study is to find out the impact of efficiency management on the performance of Pakistani textile firms. Efficiency management is considered an independent part, consisting of receivable turnover, payable turnover, inventory turnover, total asset turnover, capital employed turnover, cash turnover, fixed asset turnover, and working capital turnover. At the same time, performance is dependent on efficiency and measured by return on asset. The scope and date of 31 textile composite companies registered in PSX are taken from their financial reports for the period of five years (2015-2019). Panel regression test is used to fulfill the objective of this research through E-Views. Statistics of the results show that receivable turnover, inventory turnover, and capital employed turnover have a significant and positive impact on a firm's performance. In contrast, payable turnover, total asset turnover, fixed asset turnover, working capital turnover, and cash turnover have an insignificant impact on a firm's performance. After analyzing the results, it was suggested that the firm's management focus on receivables, inventory, and employment of capital. Through proper management of these three factors, firms can enhance their performance, earn more profits, and maximize their capital in the textile composite industry.

Keywords: Efficiency management, Return on asset and textile Composite industry

Introduction

Pakistan's textile sector has one of the highest growth rates in terms of the wider industrial sectors and is gauged as one of the most stable and earliest industries in Pakistan. It has largely contributed to the GDP of Pakistan (40% of the export earnings and 64% on average in terms of GDP in the period of last ten years, as well as contributed to Employment and value creation) (DPS PSX, 2019) therefore efficient management of the operation in the textile sector is necessary for the long-term growth prospects of the economy. Considering the significance of this industry, a clear and articulated assessment is needed to understand the effective components of efficiency and its relationship to the performance determinants. Pakistan's textile industry is divided into three categories, which include textile composite, textile spinning, and textile weaving. However, in this article, the efficiency management of the textile composite industry is examined. The textile composite industry consists of all three

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three production units (spinning, weaving, and fabric finishing), all happening under a single roof, which also includes the production of both cloth and yarn.

Efficiency is a necessary aspect as it helps to utilize as limited resources as possible for fulfilling the goals. Therefore, performing activities through optimality and exercising greater productivity with the least amount of liabilities in the shortest course of time. “Efficiency management” refers to the systematic process that ensures that the inputs, which may come in terms of inventory, debts, credits, and assets, all have a likeability to become scarce; thus, through efficiency improvement in the finances and operations, an industry can flourish without any hurdles. It is a concept that is in the minds of the stakeholders, shareholders, and managing employers. Therefore, control over efficiency to increase profits is an essential constituent in the industrial sector, including the textile industry, which is one of the largest contributors to Pakistan's productive capacity.

Efficiency management is an integral part of working capital management, as well as incorporating improved revenue for the firms. An efficiency manager has to play two important roles. Firstly, it has to ensure the management of improved inventory control on a day-to-day basis. Secondly, it has to define a balanced turnover of the assets and liabilities with the least number of resources. Therefore, the following variables into play form the basis of our research. Profitability refers to the company’s ability to earn maximum sales revenue.

Prior research has been undertaken to determine the effect of the performance metrics on textile firms with the help of activity and asset management ratios. However, in this context, we are examining efficiency, which is a subpart of the activity ratios; for that reason, we have included all the turnover ratios that form the basis of our research as they have not yet been collectively analyzed in the previous study, particularly in Pakistan's textile composite sector. The textile industry has a pivotal share of 37% in terms of overall industrial sectors and includes 140+ companies (28% of all the listed firms in PSX). (DPS PSX, 2019) Pakistan is known as the fourth largest textile producer in the world. Several determinants are important for ensuring profitability. This includes the efficiency turnover ratios as the most significant. Therefore, efficiency is the primary factor taken into account in this study.

Objectives

The objective of the study is to develop an understanding:

1. To determine the significant components of efficiency

2. The extent of influence of the components of efficiency

3. Fulfill the theoretical and managerial implications with the help of this research and provide recommendations.

To measure profitability, the variable used in this context is the ROA, which is the dependent variable, and to measure the efficiency of the firms, the variables used include the inventory turnover, total Asset turnover, account receivable turnover, account payable turnover, capital employed turnover, cash turnover, fixed asset turnover and working capital turnover which are the independent variables in this research. The relationship between the independent variables and the dependent variables will be further discussed in the literature review of the study.

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Research Problem

The purpose of this research is to determine the impact of efficiency management on the profitability of the firms in the textile composite industry of Pakistan for the period of 5 years (2015-2019).

This research would be carried out to identify the efficiency factors in the textile composite industry's business operations and to determine their effect on the firm's ability to operate effectively while ensuring a maximum stream of revenue. Therefore, this research will study efficiency as a core principle underlying the growth and profitability prospects through various turnover ratios. This study would be important in forming a consensus in defining the rule of thumb related to efficiency outcomes in the practicality of business activities and ensuring improvements in operational proceedings. Therefore, our study would form necessary implications for financial and efficiency managers and analysts.

Research Questions

This research seeks to justify the following research questions:

1. Does efficiency management affect the profitability in the textile composite industry
2. What is the effect of Inventory turnover on the Return on assets in the textile composite companies?
3. What is the effect of Total Asset turnover on the Return on assets in the textile composite companies?
4. What is the effect of Accounts Receivable turnover on the return on assets in the textile composite companies?
5. What is the effect of Accounts Payable turnover on the return on assets in the textile composite companies?
6. What is the effect of Fixed Asset turnover on the return on assets in the textile composite companies?
7. What is the effect of Cash turnover on the return on assets in the textile composite companies?
8. What is the effect of Working Capital turnover on the return on assets in the textile composite companies?
9. What is the effect of capital-employed turnover on the return on assets in textile composite companies?

Scope

The subject matter of our study is to measure the effect of efficiency on profitability through empirical analysis. The variable used in this context is the ROA, which is the dependent variable, and to measure the efficiency of the firms, the variables used include Inventory turnover, Total asset turnover, Account receivable turnover, Account payable turnover employed turnover, cash turnover, fixed asset

turnover, working capital turnover which are the independent variables in this research. These form the basis of the theoretical scope of our research, as this study would provide further explanation in determining the various abstract ideas related to efficiency management. This study would take place within the variable scope of efficiency and performance parameters. The relationship between the independent variables and the dependent variables will be further discussed in the literature review of the study.

This research analyzes whether efficiency influences the profits of the firms within the textile composite sector. The target population of our study includes all the firms listed in the PSX under the textile composite industry category. All the defaulted companies under the textile composite category are excluded from the research to avoid future biases that may occur due to lack of information. The geographical boundary of our study is the 31 textile composite companies listed on the Pakistan Stock Exchange. The data gathered from these listed companies are from 2015 to 2019, which is equivalent to the last five years. The research paper implies providing the financial experts and efficient managers of the companies with a clear interpretation of how they can utilize the operational performance and finances for maximization of the profits in the long run through efficient allocation. Moreover, this research would be beneficial for stakeholders as it will prolifically help determine ways to improve the government's financial planning, future forecasting, and policy-making, as well as determine the relationship between performance and efficiency on the investor's sentiments.

Significance of Research

The importance of the research proponent lies in the conclusion drawn from the findings of this research, which will contribute to the benefit of the stakeholders, especially managers (the secondary beneficiary) and the organization (the main beneficiary), in considering the role of turnover in the business as per the historical and statistical context in the work environment today. The volatility in turnover ratios implies its significance to the managers. This research would be important in ensuring and justifying the managerial implications by underlying which factor outweighs the (antecedents to problem consequences) of inventory control, assets and liabilities turnover in an organization, identifying, rectifying and providing further solutions to the broader problems and its relevance at a larger scale. Thus, managers would be able to take actions towards improvement of business turnover and will guide them on what possible emphasis is to be given to support efficiency objectives and goals of the firms while improving the business performance, which forms the basis of the rationale of our study.

This research would further uncover critical areas in the activity process of an organization that previous researchers were not able to explore specific to the textile composite sector. The critical barrier of efficiency separately from the activity is addressed in our study. This proposed study would improve the technical and practical capabilities of the managers creatively. Therefore, the following research would have an important implication as it will be able to devise better solutions to the managerial aims and goals and prevent any further problems arising in the context of the efficiency of business operations and wider manufacturing industries after analyzing the result. Thus, this research will further give a detailed outlook on the policy requirements followed by the firm. Therefore, it helps to execute wise and profitable decisions.

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The conducted study is beneficial in determining to what extent the manager's preferences are changing toward the efficiency outcomes of the firms. It will help redesign financial strategies. It will hinder the firm from exhausting its efficiency in operations by exhausting assets, borrowings, and inventory from poor suppliers, revenue streams, and lenders. This study would further provide the implications that efficiency management can have in different manufacturing sectors and, therefore, be of great importance to future researchers.

Limitation

Firstly, the finding emphasizes the implications of efficiency ratios specific to the textile composite sector; therefore, this research is delimited to the manufacturing industry and cannot be related to the wider non-manufacturing sector. However, it can form the basis of evaluation in future research by providing a conclusive background. This is mainly because the dynamics of efficiency changes in different business and operational environments. Secondly, this study is being tested in Pakistan, and the results may vary in different countries as per the policies, procedures, and laws followed in regard to efficiency management.

The other limitation of this research is the time constraints, as this research was done within four months. The cost constraint is another factor, as this research had no budget to make this study a success whatsoever. Apart from that, this research only examines Pakistan's textile composite industry from 2015 to 2019, which is equivalent to 5 years. Therefore, it cannot be related to the empirical and statistical calculations given prior to this period. The textile composite sector is a high-production benchmarking sector of Pakistan and is highly dependent on the growth prospects; therefore, the results in this sector cannot be related to wider non-manufacturing sectors as they consist of different levels of efficiency, performance and risk parameters.

This study further takes into consideration companies listed in the Pakistan stock exchange while assuming the empirical data can be compared while excluding the other factors of activity. In order to avoid bias, the research also excludes the defaulted companies that are in the textile composite sector and forms a conclusion based on the results of 31 companies. Moreover, this research does not include other driving factors, such as liquidity and earnings, which may have a drastic effect on the performance of the industry and firms.

The results of this study are limited to the textile composite companies, which is a subpart of the wider textile sector and do not take into account the two other subparts, namely the spinning and weaving companies, which are also listed on the PSX. Moreover, the study has included data from secondary sources; therefore, it might have inherent limitations regarding the accuracy of the numerical data published in the annual reports of these firms.

Literature Review

The efficiency of the business should be managed by adopting conservative and aggressive policies for the maximization of shareholder return. The relationship between IRT, ART, and CCC on the business profits further outlines the negative interrelation with the profitability measuring variables (Amponsah-Kwatiah & Asiamah, 2020).

The research from Wang, Akbar & Akbar (2020) states that by investing largely in the liquid asset base, the companies can benefit by following a consistent production regime and lower average costs derived from economies of scale.

Chalmers, Sensini & Shan (2020). As discussed in the study of small-cap firms, these operations are inefficient in utilizing the WC as they intend to be more vulnerable to the undercapitalization defined by the liquidity of the cash in hand. Hence, they are less likely to generate the needed performance in comparison to large-cap firms.

The WCM derived from the efficiency factor concludes that the efficiency ratios are one of the essential elements (Jia et al., 2020).

Efficiently controlling and planning the assets and inventory control for greater profitability is one of the most influential problems that have been raised in industrial businesses, including the textile and cotton sectors. It has been articulated that these factors may constrain the profitable outcomes of the firms by limiting operational integrity. Therefore, measuring these potencies through efficient management can lead to the smooth viability of the operations (Arthur & Appiah-Kubi, 2020).

The probability of favorable outcomes measured through success is highly based on the top management's effectiveness in managing receivables, payables, and inventory (Boisjoly et al. IV, 2020).

Sutjiadi, Syah, Indradewa & Fajarwati, (2020). Defined that the liquidity and the performance outlook of the firms are substantially affected by the WCM and suggest that these firms should imply the improved policies measures towards efficiency for net income creation.

The study from Hossin & Begum (2020) states that the textile sector is one of the least efficient in terms of the management of the working capital positions and activity outlooks; however, it suggests that there is a positive correlation between WC efficiency ratios (IR, AP, AR) in days on the profitability ratios (ROA). American manufacturing companies suggested that by decreasing the accounts receivable in days, the value creation component of shareholders can be improved. It also defined that there is a positive connection between the WCM and the profits of the textile firms. This study also further outlined that the less profitable textile firms are more likely to depend on the credit generated by the suppliers and greater dues payables (Mohammad et al., 2020).

The link between the inventory and operational performance with the capability of the company to administer its variation in the inventory turnover is a metric to maintain the performance quality through its management (Akgün & Karataş, 2020). Operational efficiency factors and performance can be significantly extended by decreasing receivables and increasing payables (Khan, 2020). Receivable turnover, current asset turnover, inventory turnover, payable turnover, and working capital turnover are significantly affecting Pakistan's textile sector and its profitability and earnings per share. The researcher analyzed 30 textile companies of Pakistan listed on the Pakistan stock exchange and have the maximum market share. Results indicate the dependency of earnings per share on receivable turnover, inventory turnover, and payables turnover (Sheikh et al., 2020). The relation between the receivable turnover and profitability is positive, while payable turnover is negatively correlated with profitability. Researchers also suggest that management must try to maximize the

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receivable turnover and minimize the payable turnover for value creation. This research further states that the business involved in leveraging profits for the maximization of the market capitalization should influence a strict collection narrative without reducing the time required to cover these receivables. The results of working capital turnover also stress the strictness of the financing policy regime followed by the highly aggressive textile firms. However, states that such analysis may be subjective to vary on an industry-to-industry basis. Investment in current and fixed assets is of great importance. It is seen as a consequential indicator of Working capital management and efficient allocation of the returns for the creation of value in the firm (Wang et al., 2020).

Melani, Suroso, and Musqori (2019) conducted a study to examine the impact of receivable turnover, inventory turnover, creditor turnover, and current ratio on profitability through return on assets. Researchers found a significant impact of independent variables on dependent variables except for the current ratio. Results of the study show that firms can maximize their profits by increasing inventory turnover and debtor turnover and by decreasing creditor turnover. Therefore, this study shows how WCM can be managed proficiently and efficiently to enhance profits by two tiers.

The research from Iqbal (2015) emphasizes that by increasing the deferral time for the payables, the profits of the companies remain insignificantly affected by the WCM characteristic. Furthermore, this research determined that the inverse connection between the efficiency derived from the receivables collection and holding inventory exists with the EBIT.

Zaitoun and Alqudah (2020) discussed the factors affecting the profitability of textile firms; data was collected from 111 textile companies in Pakistan from 2006 to 2011. Results were obtained by running the regression and correlation tests for sample data. Results indicate the positive impact of asset turnover and the size of the firm on profitability. In addition, the negative impact of short-term and long-term leverages. It also implies that companies should try to minimize their leverage, which could help them to increase their profits.

Asset management practices influence profitability. The study was conducted in India in 2015, and data from five companies for ten years is considered sample data for this research. The researcher concluded after analyzing the results that asset management practices only contribute 28% to profitability, while other factors affect the profitability of the firms. For asset management, fixed assets, current assets, total assets, net assets, and receivable turnover ratios are used, and for profitability, the net profit margin is used (Umadevi, 2015). Many previous types of research have taken place to evaluate the efficient practices in the firm and their relationship to financial performance. The study conducted (Umadevi, 2015) has suggested that asset management and its underlying procedures have a consistent impact on profitability. In this case, they have shown a moderate and hence not statistically significant impact with each of the variables under study, which includes total asset turnover and receivable turnover ratios and have concluded that the effect of the asset management procedures is largely influencing the firm's performance in the textile sector in comparison to the other variables. Moreover, variables such as fixed asset turnover and Working capital turnover indicate a positive and, hence, significant effect on the net profit margins. Therefore, optimum efficiency is essential for utilizing maximum profits.

The researcher studied the impact of activity ratios on the performance of the Jordanian Industrial sector, which focused on the total asset turnover ratio and fixed asset turnover ratio as activity ratios and return on asset as an indicator of performance. The study was conducted on 11 sectors, and data was collected from their financial reports for a period from 2008 to 2011. The study showed the significant impact of the total asset turnover ratio and fixed asset turnover ratio on Jordanian Industrial Sector performance measured by return on asset (Warrad, 2015).

The author aims to determine the effect of the WCM on the operational performance in Pakistan's Textile Spinning Sector. Variables such as A/R turnover, inventory turnover, and A/P turnover were taken into account to measure the administration of working capital. Return on asset and return on equity as a performance indicator. The results of the study reflect the weak and insignificant impact of A/R turnover and A/P turnover on the ROA as the firm's performance indicator. Moreover, this study emphasizes that the inventory turnover in days affects the ROA and ROE. Data was taken from the financial reports of the listed companies in Pakistan's spinning sector in PSX (Rizwan, 2015).

Fayyaz (2016) Conducted a study to determine the impact of financial ratios on the profitability and financial performance of the firm. Two companies were studied for this study. Moreover, data was taken from 2003- 2017. Two ratios (ROA and ROE) were taken to analyze the firm's performance. A regression analysis test was done to analyze the data, and the results show that in both companies, ROE and fixed asset turnover have no impact on the performance of the firms and their financial position; therefore, they should not be derived as a mediating component for determining the effect on the profits through liquidities company holds. In addition, the remaining variables (inventory turnover, total asset turnover, current and quick ratio) have a significant impact on a firm's performance.

Kumar (2017) used return on assets and earnings per share as performance indicators. This study was done for Bangladesh's textile sector in 2017. Its results show that asset turnover and profit margin have a positive and significant impact on firms' return on assets, but leverage and cash holding deter it. In addition, other factors like the size of the firm and capital expenditure have no significant relationship with return on assets. On the other hand, profit margin and asset turnover are positive and significant influencers of earnings per share. At the same time, leverage and cash holding are not. The study also shows that age and the size of the firm have no connection with the firm's performance.

Ng (2017) emphasized that there is a positive relationship exists between the income and accounts payable period, which can be really significant in the provision of short-term financing sources and, therefore, can be implied that these firms can adjust WCM accordingly based on this notion. It further concluded that the greater inventory can lead to incrimination in sales maximization and stock-out risk.

Kashif (2017), the study results show a significant positive relationship between debt to asset, debt to equity ratio, and return on asset, return on equity. Sample data is collected from 60 textile companies listed in PSX for five years. ROE and ROA are dependent variables, and independent variables are growth, asset turnover, and debt ratios. Return on the asset has a significant positive impact on ROA, but with ROE, it is negatively correlated. Results also show that the size of the firms also affects their performance; the greater the size, the better the performance. The analysis from Pervej (2017) further suggests in his study of textile units that the TATR is analyzed in certain

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aspects to determine the impact. It concludes that the model is statistically insignificant in the context of ROCE. This effect has been determined through a multiple regression test.

Goel (2017) studied the 10 Indian textile firms and concluded that inventory holdings and credit payment have a high significance on the ROA in a periodic manner. Shabbir (2018) conducted a study to identify the impact of receivable turnover, payable turnover, inventory turnover, growth, and firm size on the return on assets and value of the firm. Sample data is from 30 manufacturing firms listed in PSX for 12 years. Results show that receivable turnover, inventory turnover, and firm size have a significant but negative relation to ROA and the value of firms. It means that by decreasing receivables and inventory, firms can enhance their profits. Researchers suggest that by reviewing results, firms should focus on inventory level, payables, and receivables periodically to maintain their performance.

Purwanti (2019) analyzed the impact of receivable turnover and cash turnover on the profitability of the firms in Indonesia. Thirty-two consumer goods and textile companies are considered as a sample of this research, and data is collected for 2011-2015 from the annual reports of the companies. Results of the correlation test and regression test imply that both independent variables have a positive significant relationship with profitability. Firms can increase their profitability with an increase in cash turnover and receivable turnover. The receivable turnover determinants and their effect are based upon the notion that as accounts receivable rise, the ROA will also grow over time as it has a conclusive interrelation in the Indonesian industrial and manufacturing sectors (Purwanti, 2019). This research further states that risk as a result of poor receivables can be a cost constraint and may lead to decreasing earnings and that the policies should be aligned in a way that improves the receivable turnover rates. The research analysis also implies that the companies require cash turnover as it helps in accumulating enough cash to facilitate operations. Therefore, it concludes that as the cash turnover increases a certain threshold, less cash is required. Therefore, the excess cash can be utilized to maximize profits, which can be indicated through positive and, hence, significant results.

Khan (2020) analyzes the influence of WCM on business performance. The study is based on the textile companies of Bangladesh listed on their stock exchange. Data is collected from companies' annual reports, and the period is 2000-2018. The result analysis indicates that companies with large asset bases are more profitable than small asset-based companies. It means firms with greater allocation generate more profits, unlike those firms with less accumulated assets. This is basically a result of an advantage related to economies of scale and scope. The article elicits that the higher fixed asset turnover indicates that companies that are at the initial introduction phase invest more in capital accumulation since they are younger than the older firms.

There has been a lack of studies and research performed in lieu of the direction of efficiency and the firm's performance in the Pakistani textile industry; therefore, our research is helpful in determining the essence of different ratios of efficiency and competencies in generating profits, which will be evaluated through our findings.

Theoretical framework and Hypothesis development

In this research, the theoretical framework is established through conceptual predicaments of the variables that measure the firm's ability of efficiency and

profitability. The following variables are studied in our research based on the future studies of the previous research. This includes:

Return on assets

ROA is an important indicator for the evaluation of the performance and profitability of the firms. This ratio indicates how effective the firm is in creating net income through the conversion of the money it invests. (Sugiarto, 2015) indicates that the higher the ROA, the more efficient the firm is as it is earning greater money on the least amount of investment possible. Therefore, it outlines the capital intensity and productivity of the company and the rate of return in terms of revenue on the owned resources pertaining to a firm. It emphasizes, on each unit of asset, how much the company is earning, and therefore, it helps to determine the profitability in percentage terms. It is of great importance for the stakeholders, including the investors and the managers, as most of the company operation relies on this profitability factor. According to (Ross, 2015) It is computed by **Net income/total assets.**

The elements of efficiency include ARTR, APTR, ITR, and TATR, which are as follows**:**

Account Receivable turnover (ARTR)

The ratio indicates the ability of the company to assess the effectiveness in collecting the money owed over the credit sales. This ratio is used in business accounting, and it outlines the management of credit controls and the ability to collect the outstanding leverages as quickly as possible (Houston, 2016). This makes the cash flow of the business clearer and more predictable and is an efficiency ratio as it implies how productively a firm uses the current assets in the firm (Sakti et al., 2020). A low ratio means poor collection policies and vice versa. It is computed by **Credit Sales/ average accounts receivable.**

H_0. Account receivable turnover has no impact on the ROA

H_1. Account receivable turnover has an impact on the ROA

Account Payable Turnover (APTR)

This ratio indicates how consistent a firm is in paying off its suppliers. This ratio outlines the capacity of the firm to pay off the debts. The lower the ratio is, the less efficient the firm is in extending the creditworthiness and short-term liquidity to its creditors, therefore exercising slower payment. At the same time, a high ratio would indicate an improved credit rating and early payments (Droj & Tara, 2018). It shows the difference in time between purchases and payments made. Therefore, forms the basis for calculating the efficiency of the operations of the company (Shishany et al., 2020). It is computed by **Total purchases/average account payables.**

H_0. Account payable turnover has no impact on the ROA

H_2. Account payable turnover has an impact on the ROA

Inventory Turnover (ITR)

The inventory turnover ratio is the indicator of a company's performance in selling inventory or how many times in a given period a company has sold its inventory

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and replaced it with a new one (Golas, 2020). It helps decision-makers make more effective and better decisions on production, promotions, buying and selling of inventory and raw materials, and expansion (Khan J. A., 2016). Sales over average inventory can measure it. A low IT ratio indicates weak sales and access inventory, and a high IT ratio represents high sales and a shortage of inventory. Sales/Average Inventory computes it**.**

H_0. Inventory turnover has no impact on the ROA

H_3. Inventory turnover has an impact on the ROA

Total Asset Turnover (TATR)

The asset turnover ratio indicates how efficiently an asset is utilized to generate sales (Sunjoko, 2016). It can be calculated by dividing total sales by average total assets. Generally, it is calculated on an annual basis. Managers and investors can check how efficiently the company or managing team is utilizing the assets and generating sales through assets. The higher the ratio, the better the performance, and a lower ratio indicates the bad performance of a company. (Warrad, 2015) Total Sales/Average Total Assets compute it**.**

H_0. Total asset turnover has no impact on the ROA

H_4. Total asset turnover has an impact on the ROA

Capital Employed Turnover

The capital employed turnover ratio is one of the efficiency ratios, and it tells how efficiently the capital employed is used **by the organization to generate sales**. This ratio reflects the ability of an organization to create sales using capital employed. It helps the surplus unit to know whether the lending of money is worth it or not. It indicates the proper or improper use of the capital employed. Capital employed can be measured by sales divided by capital employed. Meanwhile, capital employed is the sum of net worth and long-term borrowings.

Capital Employed Turnover= Sales/ Capital Employed

H_0. Capital Employed turnover has no impact on the ROA

H_5. Capital Employed turnover has an impact on the ROA

Fixed asset turnover

The fixed assets turnover ratio emphasizes the sales generated through fixed assets. It shows the ability of a company to be efficient in utilizing fixed assets and generating sales from fixed assets. This ratio is good for industries with huge fixed assets. This can be measured through sales divided by fixed assets.

Fixed Asset Turnover Sales/ Fixed Assets.

H_0. Fixed asset turnover has no impact on the ROA

H_6. Fixed asset turnover has an impact on the ROA

Working capital turnover

Working capital turnover measures the company's ability to use working capital in support of sales. It tells how efficiently an organization uses its working capital to grow its revenues. A high ratio indicates that the company is doing well and they are using its working capital efficiently. It can be calculated by dividing net sales by working capital. Working capital is the difference between current assets and current liabilities.

Working Capital Turnover Sales/ Working Capital.

H_0. Working Capital turnover has no impact on the ROA

H_7. Working Capital turnover has an impact on the ROA

Cash Turnover

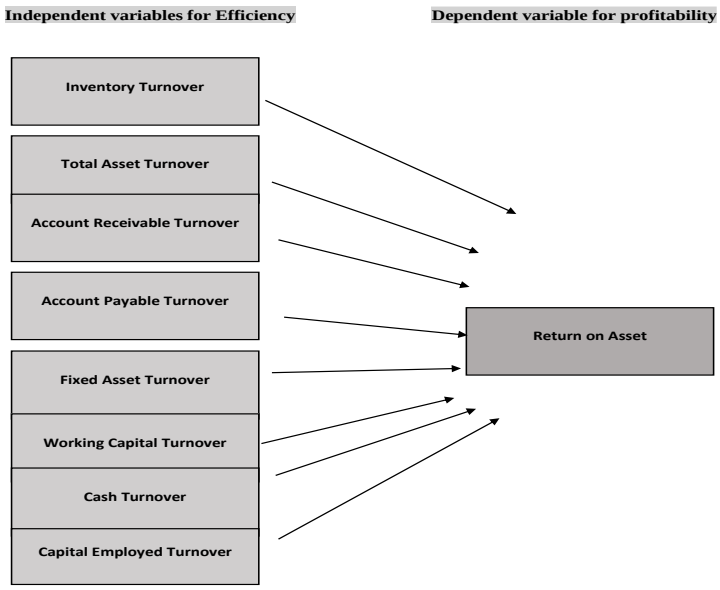
The cash turnover ratio is one of the efficiency ratios. It tells how efficient the management is in utilizing the cash to increase sales. The higher the ratio, the better it is. It is good for cash sales because it does not consider credit sales. Sales divided by cash and equivalents can be measured.

Cash Turnover Sales/Cash and Equivalents.

H_0. Cash turnover has no impact on the ROA

H_8. Cash turnover has an impact on the ROA

Figure 1: Conceptual Framework and Mapping



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Research Gap

The Hypothesis development provided knowledge on the topic-specific variables based on the statement that ‘profitable outcomes effected by efficiency incorporating firms’

Firstly, this result can be used to examine the various sectors in other emerging countries. The Pakistani stock market is a frontier for less efficient operating companies at a larger scale in comparison to other stock markets in Germany, China, the US, the UK, and the USA. Therefore, Pakistan, as the growing institutionalized economy, forms the basis of this research. Secondly, many prior studies employed efficiency management as an indirect measure evaluated through activity and working capital ratios. However, in this research, we have employed efficiency management as a direct measure for justifications specific to efficiency ratios, which is a subpart of the activity ratios. Therefore, our research is limited to a particular measurement for a better understanding of the differing variables in a specified theoretical context in order to develop a deeper understanding of the variables in a study by separately emphasizing and focusing on these determinants and factors.

Moreover, the other quantitative factors, such as declining earnings and negative cash flow and qualitative factors, such as the possibility of collusion in management, the likelihood of crisis occurring due to poor industrial and business climate, and a halt in production due to some other conditions, are not taken into account in this research. Therefore, these lateral determinants would have a drastic impact on the performance and efficiency of the firms, especially in the manufacturing sector, such as the textile composite industry. Moreover, some of the abovementioned qualitative factors are also omitted from our research. These factors and conditions could have been included in the conceptual framework. However, due to the quantitative stance of our research, they were excluded to avoid factorial-related biases in our study. Moreover, to further the research with greater accuracy, this study has been limited to 31 textile composite companies in Pakistan, which is the geographical scope. Although it cannot be representative of the other sectors, it can be inferred to facilitate better understanding.

After examining the other research papers, the variables under study were only limited to total asset and fixed asset turnover. The conclusion was drawn based on the results of these two independent variables. (Warrad, 2015). However, in this study, the variable scope has been increased to eight independent variables as suggested by the future studies of the referred research, namely TATR, ITR, APTR, ARTR, FATR, WCTR, CETR and CTR, specific to efficiency ratios. Through the analysis given in prior research, this study was able to identify broader factors of efficiency that were affecting the profits of the textile composite companies. Moreover, research by Fayyaz (2016) included only two textile companies (GA et al. mills) out of 10 spinning companies as they were conducted to examine at a smaller scale specific to Pakistan's textile sector. Thus, in this study, this limitation is overcome by focusing on a much larger scale and examining this area by selecting as many sample companies as possible.

Apart from this, studies by Dabo Andow (2020) recommended that future studies investigate Pakistan's textile composite and weaving industry. Therefore, based on the conclusiveness, this research has included the textile composite industry of Pakistan.

The research ambiguity is further stated through other relevant literature related to the measures affecting a firm's performance, therefore affirming the viability of this research. Also, the previous studies have not taken into account the specified relationship between the efficiency and profitability of Pakistan's textile composite industry. Therefore, the prior literature review concludes that there is less research conducted in this manner.

Methodology

The research is reiterated through statistical means as the data is gathered from the annual reports and the Pakistan Stock Exchange website. The assertion to the statistical analysis is provided through the abovementioned secondary data sources in which, with the help of panel regression testing, the reliability of the data has been evaluated.

Research Design

The following research design is adopted to draw inferences by testing the constructed hypothesis based on the research question that is developed for further evaluation of the results.

Research Strategy and Approach

This research is quantitative, and a deductive approach is used to conduct this research. The research type is causal as it determines the effect of efficiency turnover management ratios on the profits of the firm. However, it is also explanatory research as the primary focus of this study is to determine the underlying factors and their likely effect on efficiency management. The data is compiled from authentic sources and is gathered to form the basis of panel data.

Target Population

The sample size is 31 companies from the textile composite sector of Pakistan, listed in the Pakistan Stock Exchange, which is studied through this research. Moreover, our sample frame excludes all the defaulted companies and the companies that are on rental or are undergoing entity status recapitalization plans.

Data Collection and Unit of Analysis

Data will be gathered from annual reports of companies for five years (2015-2019). The unit of analysis in our research is every individual textile composite firm included in the group analysis of the research.

Credibility and Ethical Consideration

The authenticity and integrity of the research are maintained by providing timely, appropriate and derived conclusions based upon the principle of confidence model used in the quantitative data analysis. This research has ensured credibility through objectivity. The research has compelled independence by being the only research in these criteria. The competence of the research is obtained through the competence of the researcher. Moreover, looking at the ethical aspect, the research is conceded through appropriateness, confidentiality and relevance; thus, the research shall not affect the firms evaluated in the study.

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Data Analysis, Instrument Selection Techniques and Tools

The objective of the research stems from the study of the variables and their likely effect; therefore, the research provides quantitative analysis as the data collected is numeric. The data will be collected from secondary sources of the companies' annual reports and will be further tested for panel and pool regression testing. E-Views (Agung, 2019) have been used to analyze the panel data set, and regression analysis has been conducted to identify the effect of independent variables on dependent variables.

To investigate the effect of efficiency on profitability. The Return on asset is the variable for measuring profitability, while the elements of efficiency included can be determined from the illustration table below.

The following research equation was used to test the hypotheses:

$$ROA=\beta_0+\beta_1(ARTR)+\beta_2(APTR)+\beta_3(ITR)+\beta_4(TATR)+\beta_5(FATR)+\beta_6(WCTR)+\beta_7(CTR)+$$

$$\beta_8(CETR)+\varepsilon$$

Valid citations of relevant sources are included.

Measurement of variables

Table 1. Illustration of variable

No	Coding	Variables
1	ROA	Return on assets
2	ART	Account Receivable Turnover
3	APR	Account Payable Turnover
4	IT	Inventory Turnover
5	TATR	Total asset Turnover
6	FAIR	Fixed Asset Turnover
7	WCTR	Working Capital Turnover
8	CTR	Cash Turnover
9	CETR	Capital Employed Turnover

Data Analysis and Findings

Empirical Results

Table 2. Unit root results using the ADF method (Augmented et al.)

	OA	RTR	PTR	TR	ATR	ATR	CTR	TR	ETR
Level	0.098	0.798	0.157	0.540	0.060	0.410	0.000	0.000	0.000
Difference	0.010	0.016	0.000	0.000	0.000	0.049	0.000	0.000	0.032

The unit root test of each variable and its series justifies that the H_0 concludes that data consists of a unit root, which means that data is found non-stationary when

the probability value is above 0.05 (Zubair et al., 2020). Therefore, the test on unit root on level is greater than 0.05; thus, the null hypothesis is accepted. Moreover, it can be determined that the data is nonstationary for all the variables. The abovementioned situation is resolved by running test on unit root on the first difference for which the probability value is less than 0.05 (ROA=0.0104, ARTR=0.0169, APTR=0.0002, ITR=0, TATR=0, FATR=0.0499, WCTR=0, CTR=0, CETR=0.0327) therefore, test on unit root on the first difference suggest that the data is stationary and the null hypothesis is rejected.

Table 3. Regression results through Pool least squares				
Dependent Variable: D(ROA_?)				
Method: Pooled Least Squares				
Date: 06/05/21 Time: 21:27				
Sample (adjusted): 2016 2019				
Included observations: 4 after adjustments				
Cross-sections included: 31				
Total pool (balanced) observations: 124				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(ARTR_?)	0.003	0.001	2.524	0.012
D(APTR_?)	0.000	0.002	0.136	0.891
D(ITR_?)	0.008	0.001	4.411	0.000
D(TATR_?)	0.029	0.025	1.130	0.260
D(FATR_?)	0.004	0.011	0.348	0.728
D(WCTR_?)	-0.000	0.000	-1.422	0.157
D(CTR_?)	-2.42E-05	1.95E-05	-1.238	0.218
D(CETR_?)	0.008	0.001	4.103	0.000

Table 4: Model Summary for Regression Analysis			
R-squared	0.373	Mean dependent var	0.004
Adjusted R-squared	0.335	S.D. dependent var	0.087
S.E. of regression	0.071	Akaike info criterion	-2.374
Sum squared resid	0.594	Schwarz criterion	-2.192
Log-likelihood	155.218	Hannan-Quinn criteria.	-2.300
Durbin-Watson stat	1.902		

In the abovementioned pool least square regression test, it can be identified that the dependent variable is ROA. The predictor variables are ARTR, APTR, ITR, TATR, FATR, WCTR, CTR, and CETR. The total number of pool-balanced observations is 124. The coefficient value is positive for ARTR, APTR, ITR, TATR, FATR, and CETR, which justifies the fact that these predictor variables positively affect the outcome variable (ROA). However, the Coefficient value of WCTR and CTR implies that these predictor variables have a negative effect on the outcome variable (ROA).

The probability value for the independent variables is (ARTR=0.0129, APTR=0.8919, ITR=0.00, TATR=0.2606, FATR=0.7285, WCTR= 0.1576, CTR= 0.2181, CETR= 0.0001) which implies that the null hypothesis is rejected for ARTR, ITR and CETR, therefore, shows that ARTR, ITR and CETR has a significant effect on the ROA, while failed to reject for APTR, TATR, FATR, WCTR and CTR as the

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significance value is more than 0.05 thus implying that these abovementioned variables have an insignificant or no effect on the ROA.

Table 5: Correlated Random Effects - Hausman Test			
Pool: Untitled			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	45.456	8	0.000
** WARNING: The estimated cross-section random effects variance is zero.			

In the abovementioned Hausman Testing (Agung, 2019), it is identified that the H_0 is insignificant at 0.05 probability or below. Therefore, it can be indicated that the null hypothesis is rejected as the probability is 0, which is less than 0.05; therefore, the estimation method should be fixed. Thus, it can be concluded that as per the cross-sectional analysis, panel regression should take place on the fixed effect model. Fixed effect means that the intercept of all selected firms is different and tells that each variable will have an individual impact on the textile firms.

Table 6. Regression results using fixed effect estimation method				
Dependent Variable: D(ROA_?)				
Method: Pooled Least Squares				
Date: 06/05/21 Time: 21:32				
Sample (adjusted): 2016 2019				
Included observations: 4 after adjustments				
Cross-sections included: 31				
Total pool (balanced) observations: 124				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.000	0.005	-0.084	0.932
D(ARTR_?)	0.005	0.001	3.433	0.000
D(APTR_?)	0.000	0.001	0.091	0.927
D(ITR_?)	0.015	0.002	7.291	0.000
D(TATR_?)	0.029	0.024	1.172	0.244
D(FATR_?)	0.003	0.013	0.302	0.763
D(WCTR_?)	-0.000	0.000	-1.452	0.150
D(CTR_?)	-0.000	0.000	-1.170	0.245
D(CETR_?)	0.005	0.001	2.643	0.009

Table 7. Model Summary for Regression using fixed effect estimation method			
Cross-section fixed (dummy variables)			
R-squared	0.628	Mean dependent var	0.004
Adjusted R-squared	0.462	S.D. dependent var	0.087
S.E. of regression	0.064	Akaike info criterion	-2.397
Sum squared resid	0.351	Schwarz criterion	-1.510
Log-likelihood	187.667	Hannan-Quinn criteria.	-2.037
F-statistic	3.784	Durbin-Watson stat	2.911
Prob(F-statistic)	0.000		

In the abovementioned pool least square regression test, it can be identified that the dependent variable is ROA. The independent variables are ARTR, APTR, ITR, TATR, FATR, WCTR, CTR, and CETR. The total number of pool-balanced observations is 124. The coefficient value is negative for WCTR and CTR, which justifies the fact that these variables have a negative effect on ROA. Apart from that, the coefficient value of ITR, ARTR, APTR, TATR, FATR and CETR has a favorable effect on the outcome variable (ROA).

The coefficient of determination in this case shows that the 1-unit change in account receivable turnover, account payable turnover, inventory turnover, total asset turnover, Fixed asset turnover and capital employed turnover increases the ROA by 0.005076, 0.000173 and 0.015673, 0.029257, 0.003990 and 0.005180 unit respectively. At the same time, 1 unit change in the Working capital turnover and cash turnover decreases the ROA by 0.000206 and 0.000022 units, respectively.

The values in the standard error of estimate show that this regression model is correctly specified in this context.

The probability value for the independent variables is (ARTR=0.0009, APTR=0.9276, ITR=0.00, TATR=0.2441, FATR=0.7633, WCTR= 0.1501, CTR= 0.2450, CETR= 0.0098) which implies that the null hypothesis is rejected for ARTR, ITR and CETR. Therefore, it shows that The ARTR, The ITR and The CETR have a significant effect on the ROA while failing to reject APTR, TATR, FATR, WCTR, and CTR as the significance value is more than 0.05, thus implying that these variables have an insignificant or no effect on the ROA.

Moreover, the R-square value is 0.6285, which shows that the average effect of independent variables on the dependent variable is 62.85% and further implies that 62.85% of the variation in the outcome variable of profitability (unexplained portion) can be determined by the predictor variables of efficiency (explained portion). The high R square indicates that more efficiency-based factors reflect the profitability.

Also, the F-stats is 3.784, which is greater than 2.5, so it can be identified that the model is significant. Moreover, the probability value of F-stats is 0, which is less than 0.05; therefore, it indicates that the joint effect of independent variables on ROA is significant (Zubair et al., 2020).

Analysis with Reference to Literature

Based upon the empirical result, it can be said that account receivable turnover shows a positive and significant effect on profitability measured through ROA. The finding of this study verifies that the higher the account receivable turnover, the higher

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the chance that the profitability and performance of the firm will improve. H_0 of hypothesis 1 is rejected. It can be determined that a firm that is able to collect larger amounts of debt quickly can increase its performance, leading to higher levels of profits due to co-movement with the receivables. Therefore being more efficient in extending credits.

On the other hand, it can be said that account payable turnover positively but insignificantly impacts profitability under the fixed effect model. The H0 of Hypothesis 2 is accepted. The finding suggests that the performance of the firm is not impacted by the payables owed to the creditor and supplier. It can be interpreted that firms' profitability and future returns are not constrained due to being inefficient in paying off their payable and short-term debts quickly.

Inventory turnover is positively and significantly impacting profitability; this significant effect rejects the H0 of hypothesis 3. The high level of inventory is one of the typical sales characteristics; therefore, it can be implied that decreasing the inventory that is on hold increases the chance of enhanced profits. It concludes that the greater the inventory is sold, the greater the profits incurred by the textile firms, therefore encouraging firms to maintain supply and not taking into account the high cost of excessive inventory.

Apart from that, total asset turnover is found to be positively but insignificantly impacting profitability. The H0 of hypothesis 4 is accepted; the finding of this study suggests that the acquired total assets have no impact on profitability or the chances that the return on assets moves together. Therefore, it can be said that a firm with less or more amount of total assets has no impact on the efficiency in generating net income by using those assets. Therefore, it can be said that the textile composite firms' consistency is not affected in generating revenue by the utilization of the assets and their compelling practices.

Moreover, fixed asset turnover is found to be positively but insignificantly impacting profitability. The H_0 of hypothesis 5 is accepted. Therefore, it can be determined that the textile companies that utilize huge fixed assets have no impact on their profitability. These fixed assets are not required to improve net income and return on assets through sales.

Working capital turnover is found to impact the ROA negatively but insignificantly. The H0 of hypothesis 6 is accepted. This suggests that the textile firms do not efficiently use their working capital to grow their revenue stream and also signifies that textile firms are incapable of meeting their financial obligations and that high solvency has no impact on profitability.

Cash turnover is found to be negatively but insignificantly impact the ROA. The H0 of hypothesis 7 is accepted. The finding suggests that the company, regardless of its quick or slow cash cycle, has no impact on the profitability measures of the firms and further implies that the management in textile firms is inefficiently using cash to increase sales due to underutilization of the cash. This further signifies that the textile firms are more dependent upon credit sales rather than sales on cash.

Capital employed turnover is found to be positively but significantly impact the ROA. The H_{08} of hypothesis 8 is rejected. The study's outcome suggests that textile firms are efficiently utilizing their capital to improve sales and, hence, increase profitability. It also signifies that the surplus unit of these firms requires lending and is

the most important determinant to improve efficiency, therefore benefiting by the fulfillment of generating more capital and hence generating high revenues for the textile firms.

Conclusion

This research is conducted with the primary objective of finding out the impact of efficiency ratios on profitability ratios in Pakistan's textile sector. For efficiency ratios, we took receivable turnover, payable turnover, inventory turnover, total asset turnover, fixed asset turnover, working capital turnover, cash turnover, and capital employed turnover. In addition, the return on assets is a profitability ratio. The textile composite sector was studied; secondary data for five years (2015-2019) was taken from the financial reports of the companies. We considered 31 companies for the research, and all are listed in PSX. All the tests for analysis run on E-views. Moreover, our data is stationary at the first difference, not at the level.

The chi-square probability from the Hausman Test is 0, which indicates that the null hypothesis is rejected and the random effect test is not appropriate for our data, so we ran the fixed effect test. The result shows that ARTR, ITR, and CETR have a positive significant impact on ROA, which implies that textile firms in Pakistan can enhance their profitability by increasing their receivables, inventory, and capital employed ratios. In addition, statistics also tell that APTR, TATR, FATR, WCTR, and CTR have an insignificant effect on ROA.

Therefore, this research emphasizes that the textile composite sector profitability is not much affected by efficiency or other relevant factors. Textile firms should formulate aggressive and conservative policies related to debt collection and inventory management, as the inventory ratio and the receivable ratio are impacting profitability. Overall, this study contributes to the hypothesis development by providing support to the statement that some efficiency factors may lead to enhanced profitability outcomes and confirms the view that performance notions are more likely to move together as the efficiently managed turnover improves the textile composite sector. Moreover, the results illustrate that to increase profits, textile composite firms should encourage efficiency management and should make an effort to create a more proficient debt collections environment since they are manufacturing-based and, for this purpose, assert that they require more efficiency-based predicaments.

Recommendations

According to the research results, we recommend that companies focus on their receivables, inventory, and employed capital to improve performance and increase profits. They can enhance their profits by increasing their receivable, inventory and capital employed ratios because results indicate that these turnover ratios have a significant and positive impact on ROA. Therefore, by creating the norms related to inventory and receivable management, productively and proficiently utilizing and handling these aspects, the textile sector can improve its performance.

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