Assessing the effect of dividend decisions on financial performance: A study of firms listed on the Dar es Salaam Stock Exchange (DSE), Tanzania

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ABSTRACT

The goal of investing in shares is to generate capital gains or dividend income. The dividend policy of the business determines how much is distributed to investors. This study's goal was to investigate the connection between the financial performance of 28 listed companies on Tanzania's Dar es Salaam Stock Exchange and dividend decisions. A number of theories, including signalling theory and the Modigliani-Miller dividend irrelevance hypothesis, were used. The study adopted a quantitative method, analysing panel data from twenty-eight institutions spanning 2016 to 2024. It employed a panel regression model along with correlation analysis to investigate how various determinants influence firms' financial performance. The 28 financial companies listed on the DSE as of December 31, 2024, were the study's target population. All businesses that were actively trading between 2015 and 2024 were examined. During the study period, both dividend payout ratio ($t = -0.25$, $p > 0.05$) and dividend yield ($t = -1.52$, $p > 0.05$) had a negative and statistically insignificant effect on dividend payouts. These findings indicated a negative relationship between dividend payout ratios and dividend yield and financial performance represented by ROA among Tanzanian firms. The estimated coefficient for dividend yield is -0.018520DP, suggesting a negative relationship. However, with a t-statistic of -0.249740 and a p-value of 0.8921, the result is not statistically significant at the 0.05 level. Therefore, we fail to reject the null hypothesis, concluding that the dividend payout ratio does not have a significant impact on firm earnings in Tanzania. The estimated model shows a dividend yield coefficient of -0.928870, indicating an inverse relationship between dividend yield (DY) and firm financial performance, measured by ROA. This implies that as dividend yield increases, firms' return on assets tends to decrease. However, the t-statistic of -1.517780 and a p-value of 0.1389 suggest that this relationship is not statistically significant at the 5% level. As a result, the null hypothesis (H_{02}) was rejected, meaning there was insufficient evidence to support a significant link between dividend yield and ROA in Tanzanian firms during the study period. In conclusion, the study finds that dividend-related decisions, specifically the pay-out ratio and dividend yield, do not significantly improve earnings performance among Tanzanian firms. As such, companies may benefit more from focusing on strategies that support profitability and sustainable development rather than emphasizing dividend distributions. While dividends can signal confidence to investors, firms should carefully balance shareholder returns with the need to retain earnings for future growth.

Keywords: Dividend Decisions, DSE, Firm Size, Leverage, Liquidity, ROA

I. INTRODUCTION

Dividend payments made by companies listed on the stock exchange have shown positive results in the financial performance of some companies. The dividend relevance theory is generally supported by the substantial impact that dividend decisions have on financial performance and stock valuation in listed financial institutions (Yesaya & Bingireki, 2023). High dividend payments, which indicate company stability, frequently raise share prices and boost investor confidence. Excessive payouts, however, may limit reinvestment, putting shareholder wealth maximization and growth sustainability at odds (Lyimo, 2024).

Earning dividends as a return on investment is one of the main motivations for investing in shares (Chua & Jacob, 2019). The rise in market value per share brought about by taking on profitable projects is known as a capital gain. As a result, investors purchase shares in order to generate capital gains or dividend income. The company's dividend policy determines how much is paid to investors (Njuguna et al., 2016). The assurance of which portion of income should be retained in the company for reinvestment and which assets are distributed to financial experts from either current or total held income is known as a profit arrangement (Yesaya & Bingireki, 2023). According to Gitman (2006), a company's dividend policy determines whether to distribute its profits or keep them for future investments. Since the payout ratio establishes how much should be kept in the company as a source of internal funding, it is a crucial component of a company's financial decision.

The data substance or flagging hypothesis, the profit unimportance hypothesis, and the winged animal close by hypothesis served as the study's guiding principles. Profit strategy, according to Modigliani and Miller (1958), has no bearing on a firm's cost of capital or its estimation. In response to Modigliani and Miller's profit insignificance

hypothesis, Gordon (1963) developed Winged creature In Hand Theory, which states that profit strategy is unnecessary and that the firm's estimation is controlled by its basic income control and its hazard class dot. According to the hypothesis, financial experts are generally opposed to risk and attach greater risk to capital additions and assured future profits than to present profits. As a result, streams profits (Bird in the Hand) reduce the instability of financial specialists and raise the value of the association's stock. Financial experts view profits as indicators of administrations, according to Data Content or Signaling Theory. According to the Bird in Hand argument, which was put forth by Myron Gordon and John Lintner in the early 1960s, investors would rather receive assured dividend payments now than larger but unpredictable capital gains in the future. This hypothesis, which is based on the proverb "bird in the hand is worth two in the bush," contends that high-dividend companies are less risky, which raises their valuations and lowers their cost of capital.

The signaling theory of dividend policy was mainly developed in the late 1970s and early 1980s by Bhattacharya (1979), followed by Miller and Rock (1985) and John and Williams (1985). According to the signaling theory of dividends, management attempts to lessen information asymmetry by using changes in payout policy to communicate confidential information about a company's future prospects to investors. Share prices move in response to dividend increases, which indicate positive future cash flows (good news), and dividend decreases or omissions, which indicate possible financial difficulties (bad news). The majority of publicly traded financial, service, and business organizations pay dividends primarily in the form of bonus shares and cash dividends. In Tanzania, buybacks of shares as dividends are uncommon. In any given fiscal year, cash dividends are typically paid twice: once at the end of the second quarter and once at the end of the fiscal year. Businesses occasionally pay an additional dividend in certain years due to unforeseen revenue, which is then regularly paid in the following years. The majority of institutions that are listed on the DSE have dividend policies that are well-defined and consistent with industry norms (Dar es Salaam Stock Exchange, 2024).

The dividend pay-out ratio, which directs the distribution of profits, is an essential component of business financial decisions in Tanzania (Mpanju, 2025). The DSE, a major force in Tanzania's financial scene, gives listed businesses a way to negotiate the regulatory and economic environments that affect dividend decisions (Yesaya & Bingireki, 2023). Tanzanian businesses, particularly commercial banks, service providers, and manufacturing companies, must balance the preservation of earnings with shareholder rewards when allocating capital (Mpanju, 2025). In light of these complexities and challenges, the present study endeavors to delve into the effects of dividend pay-out ratios on the stock price performance of commercial banks, service and manufacturing firms listed on the DSE. Although the literature has examined the connection between dividend policy and stock prices in a number of settings (Kiangi et al., 2022). As a result, there is a noticeable lack of local research on the particular context of Tanzanian manufacturing, service, and commercial banks.

The dividend payout policy adopted by Tanzanian commercial banks listed on the DSE has a substantial impact on the performance of their stock prices, which in turn affects investor perceptions. However, it is still unclear how exactly dividend pay-out policies, like cash dividend pay-out ratios, affect the stock prices of the banks (Mpanju, 2025). Investors are keen to understand how these dividend decisions affect the attractiveness of bank stocks and the possible returns on their capital. Additionally, Tanzanian commercial banks face particular difficulties when allocating capital (Mpanju, 2025). The decision-making process for dividend distribution becomes complex and requires careful consideration due to shifting economic conditions and regulatory frameworks (Ushahidi, 2018). In order to maintain investor confidence and loyalty, banks must, on the one hand, address the necessity of rewarding shareholders with consistent and alluring dividends. However, they must maintain enough retained earnings for reinvestment in the company to support expansion and take advantage of new opportunities in order to achieve a strategic balance (Mpanju, 2025). Due to these intricacies, a thorough analysis of the impact of dividend payout ratios on the stock price performance of commercial banks listed on the DSE is imperative (Chua & Jacob, 2019). Government agencies, legislators, and the academic community can all benefit greatly from this study.

1.1 Statement of the Problem

Investment is becoming more and more relevant in today's world. The majority of investors seek additional returns on their investments, which typically take the form of dividend income or capital gains. Due to Tanzania's financial transformation that took place in the early 1990s, investors are searching for more user-friendly investment options, and the stock market is a clear choice.

Tanzania has conducted a number of studies on dividend policy. Chindengwike (2023) investigated the relationship between dividend payments from manufacturing companies listed on Tanzania's Dar es Salaam Stock Exchange and financial leverage. A total of 105 firm-year observations from seven manufacturing companies between 2006 and 2020 were used in the study. To gather the information needed for the study, document review was used. Panel data regression was used to analyze the study's data both descriptively and inferentially. The study discovered that

dividend payments were impacted by manufacturing companies' financial leverage (P < 0.005). However, the study only looked at dividend payments and left out other listed businesses, such as banks and service providers.

In a similar vein, Chindengwike (2025) investigated the connection between industrial companies listed on Tanzania's Dar es Salaam Stock Exchange's profitability and dividend payments. The study's conclusions demonstrated a significant positive correlation (P < 0.005) between the profitability of manufacturing companies and dividend payments. All things considered, the results show that industrial companies listed on the DSE are driven mainly by financial gain. According to the study, manufacturing businesses should increase their profitability in order to draw in more funding and increase dividend payments. However, other listed businesses, such as banks and service providers, were not included in the study, which only examined dividend payments.

Mazengo (2021) conducted a study to investigate the impact of company size, profitability, and liquidity on the dividend payout of financial firms listed on the Dar es Salaam Stock Exchange (DSE). Explanatory research design was employed in the study. Every financial company that was listed on the DSE between 2015 and 2019 was used. Regression analysis, correlation, and descriptive statistics were used to analyze the data. The findings indicate that three independent variables - profitability, liquidity, and company size—have a positive and significant relationship with financial companies' dividend payouts. However, other listed businesses, such as banks and service providers, were not included in the studies, which only looked at dividend payments. This research is guided by the body of existing research on the problem area, which has produced conflicting findings. Therefore, the goal of the research was to determine the relationship between dividend decisions and the financial performance of financial, service, and manufacturing institutions listed on the Dar es Salaam Securities Exchange, identify the policies they employ, and recommend dividend policies that maximize shareholder wealth while simultaneously resolving agency issues between the management and shareholders.

1.2 Research Objectives

The study had two main objectives:

(i) to evaluate how the dividend payout ratio influences financial performance, measured by return on assets (ROA), in 28 companies listed at the Dar es Salaam Stock Exchange (DSE), and

(ii) to analyze the impact of dividend yield on financial performance, also assessed through ROA, across the same groups of firms.

II. LITERATURE REVIEW

2.1 Theoretical Review

A number of theories have been developed in the past to explain/describe the effect of dividend policy on firms' financial performance. For this study we discuss two theories.

2.1.1 Modigliani-Miller Dividend Irrelevance Theory

Nobel laureates Franco Modigliani and Merton Miller created the Modigliani-Miller Dividend Irrelevance Theory in 1961. The core of the arbitrage argument, according to Miller and Modigliani, is the dividend's irrelevance. Setting off or balancing two simultaneous transactions is referred to as the arbitrage process. Dividend payments and obtaining outside funding to support further investment initiatives are the two transactions. The company will need to sell new shares to raise money for financing activities if it distributes dividends. By issuing new shares, the arbitrage process will stop the growth in share value (due to profits). Because the share value is more dependent on the company's future earnings than on its current profit structure, speculators become disinterested in profit income and capital increases.

Empirical research presents varied outcomes, frequently calling the irrelevance claim into question. Investigations in sectors such as telecommunications and banking have indicated that dividends per share positively and significantly impact stock prices, directly opposing M-M theory. For example, various studies (e.g., Lyimo, 2024; Ajayi et al., 2025; Budagaga, 2017) have demonstrated that when management effectively utilizes profits for dividend payouts, it positively influences the share prices of commercial banks and publicly listed companies. Conversely, some research (including Nguyen et al., 2021; Irum et al., 2012; Jakata & Nyamugure, 2015), which advocates for irrelevance, has discovered no significant correlation between dividend policy and annual returns, implying that in certain timeframes or markets, M-M theory may still be applicable.

2.1.2 Signaling Theory

Nobel laureate Michael Spence was the main developer of signaling theory in 1973. He presented the idea in relation to job market signaling, showing how more knowledgeable people (e.g. The job applicants) share information with those who lack knowledge (e.g. The employers) to lessen information asymmetry, such as by signaling ability with

educational credentials. Although it was created for labor markets, it is now widely used in management, marketing, and finance. While fundamentally intuitive, a critical analysis reveals significant regional variations and empirical inconsistencies in how these signals translate to actual performance outcomes. The dividend signaling model was reinforced by recent research such as Michaely et al. (2021); Kanojia and Bhatia (2023); and Karunarathne et al. (2021), especially for stable and mature enterprises. Additionally, they demonstrated that the dividend pay-out ratio had a negative and negligible impact on return on assets and a positive and negligible impact on return on equity. Dividend changes frequently do not correlate with future profitability, which calls into question the signaling theory of dividends, which holds that dividend changes forecast future earnings. The findings of Grullon et al. (2005) and Deng et al. (2024), who found little to no evidence that dividend increases foreshadow subsequent earnings growth, are important examples of contradictory evidence.

2.1.3 Financial Performance Determinants

A company's financial performance is influenced by a number of factors, including financial leverage, firm size, dividend policy, and liquidity, as will be discussed below. *Dividend Policy:* rom a broad standpoint, a company's ability to generate profits, when it pays dividends, and how it does so can all influence how well it operates. This is due to the fact that the aforementioned requires investor confidence and courtship in order to increase the firm's funding. Gordon (1963) proposed a theory that illustrates the relationship between a company's market value and dividend payments. They proposed that there is unquestionably a direct correlation between an association's profit strategy and its fair value. The bird in hand theory subsequently supports it. According to Walter and Gordon (1963) school of thought, which believes that current profits are less risky than future capital increases, financial experts favor companies that pay standard profits, which have an impact on the market cost of shares.

Firm Size: Several academics have argued that one of the factors that most significantly affects a company's stock costs is its size (Ross et al., 2025). Larger businesses typically have better access to capital and more resources, which boosts profitability. *Financial Leverage:* Levarage refers to a company's capital structure's level of obligation to value. Although using debt can increase returns, it also raises financial risk; higher performance is frequently linked to balanced leverage. Because it affects the arrival and risk of shareholders as well as the firm's market value, the financing or influence decision is an important administrative decision. The shareholders' profits and risk are suggested by the debt-to-equity ratio, which affects the firm's cost of capital and market valuation (Ross et al., 2022). *Liquidity:* A key factor in determining dividend policy is liquidity, which is defined as a company's capacity to meet short-term obligations (Keya, 2016). Companies are immediately able to pay greater dividends when they have more cash on hand. On the other hand, improved stock market liquidity, the ease of trading shares, can frequently lessen the requirement for large dividends to indicate quality, enabling businesses to pay less (Mpanju, 2025).

2.2 Empirical Review

2.2.1 The Influence of Dividend Payout Ratio on Financial Performance

Various studies have been conducted in recent years, particularly in Tanzania, involving the effects of dividend payout and corporate performance. For example, a study by Jonathan (2024) sought to examine the factors influencing dividend payout decisions among financial and non-financial companies listed on the Dar es Salaam Stock Exchange (DSE) of Tanzania. The study specifically examined how profitability, liquidity, and firm size affect dividend payout within these institutions over the study period of 2016-2022, including a sample of nine companies. The results show a positive and statistically significant relationship between profitability—measured by earnings per share—and dividend payout decisions, with a correlation coefficient of 0.277. This is consistent with the regression results, confirming profitability as an important factor in shaping dividend distribution policies. In contrast, firm size and liquidity showed weak, non-significant associations, with correlation coefficients of -0.12 and 0.177, respectively. The study concludes by showing that profitability, especially return on equity, plays a significant role in determining whether financial and non-financial firms pay dividends.

On the other hand, a study conducted by Ushahidi (2018) aimed to assess how dividend payouts affect firm performance, focusing specifically on analyzing dividend policies, payout ratios, and distribution frequencies among firms listed on the Dar es Salaam Stock Exchange (DSE). The study also aimed to examine the relationship between dividend payout ratios and firm performance, and ultimately to assess the magnitude of its impact. The results showed that each firm in the study follows a different approach to dividend policy, level, and frequency. Furthermore, the analysis showed a weak and statistically insignificant relationship between dividend payout ratios and firm profitability. However, multiple regression results revealed that dividend payout ratios, total assets, firm growth, and profitability significantly affect firm performance on the DSE. In comparison, company size and investment levels appeared to have no significant impact.

2.2.2 The Influence of Dividend Yield on Financial Performance

Various studies have been conducted in this area at a global level. For example, a study by Adeiza et al. (2020) aimed to assess how dividend payouts affect firm performance, with a specific focus on analyzing dividend policies, payout levels, and distribution frequencies among firms listed on the Dar es Salaam Stock Exchange (DSE). The study also aimed to examine the relationship between dividend payout ratios and firm performance, and ultimately to assess the magnitude of its impact. The results showed that each firm in the sample of firms studied follows a different dividend policy approach, level, and frequency. Furthermore, the analysis showed a weak and statistically insignificant relationship between dividend payout ratios and firm profitability. However, multiple regression results showed that dividend payout ratios, total assets, firm growth, and leverage significantly affect firm performance, while firm size and investment levels did not show significant effects.

A study by Al-Oshaibat (2025) focused on examining how dividend policy affects the financial performance of economic institutions listed on the Amman Stock Exchange. Using panel data from a sample of 37 institutions between 2018 and 2021, the analysis uses a fixed effects framework. The results show that cash dividends and dividends per share (DPS) negatively and significantly affect return on assets (ROA). On the other hand, retained earnings are positively and significantly associated with ROA. Furthermore, the results show that high financial leverage is associated with low ROA for these institutions.

Similarly, a study by Chawla and Madaan (2019) in the pharmaceutical industry aimed to examine how dividend payout ratios affect the financial performance of leading companies within the sector. The analysis included the top 10 pharmaceutical companies, using Return on Equity (ROE), Current Ratio (CR), and Return on Assets (ROA) as indicators of financial performance. Data were collected over a five-year period from 2014 to 2018, with Dividend per Share used as a proxy for dividend payout ratio. The results showed that dividend payout ratio significantly affected company performance in both the short and long term, showing a significant relationship with Current Ratio and Return on Assets. However, the study did not find a significant relationship between dividend payout ratio and Return on Equity.

The results of Zulbahri et al. (2026) show that financial performance, as measured by ROA, does not significantly affect stock prices. On the other hand, dividend policy, as represented by DPR, has a statistically significant negative impact on stock prices. Similarly, economic growth, as measured by GDP, does not show any significant influence on stock prices. However, when considered together, financial performance, dividend policy, and economic growth together have a significant impact on stock prices. The coefficient of determination shows that these three variables together explain 13.8% of the variation in stock prices, with the remaining 86.2% attributed to other factors not examined in this particular study.

2.2.3 Other Studies

In order to estimate the relationship between dividend policy and share price valuation of Tanzanian listed commercial banks, Lyimo (2024) employed the Panel Corrected Standard Error (PCSE) regression estimator. The results showed that Tanzanian commercial banks' share prices are significantly positively impacted by dividend per share, dividend payout ratio, and dividend payment propensity. The results demonstrated that the share price of commercial banks is positively impacted when management effectively uses profit to pay dividends. Only a significant inverse relationship between dividend yield and Tanzanian commercial banks' share prices was discovered. This suggests that the share price of commercial banks is considerably impacted negatively by an increase in dividend yield. The results generally support the dividend relevance theory, and corporate managers are encouraged to maximize dividend payments in order to raise commercial banks' share price valuation.

Similar to this, a study by Yesaya and Bingireki (2023) looks into how the cash dividend payout policy affects the performance of commercial banks' stock prices that are listed on Tanzania's Dar es Salaam Stock Exchange (DSE). Five commercial banks were purposefully chosen from the eight financial reports of commercial banks listed on the DSE that made up the study population. These financial reports were used as secondary data sources to assess how the dividend payout policy affected the stock price performance of the selected banks between 2016 and 2022. The results show that the cash dividend pay-out ratio and stock price performance have a moderately positive relationship. Similarly, the cash dividend payout ratio has an equal impact on stock price performance and is statistically significant at the 5 percent significance level. This suggests that the performance of stock prices is significantly impacted by the dividend pay-out ratio, which is consistent with the fact.

Puspitaningtyas (2019) conducted a study to evaluate the financial performance and impact on dividend policy of banking companies listed on the Indonesia Stock Exchange between 2014 and 2017. The methodology used in this study is quantitative. The study's findings demonstrated that leverage significantly and negatively impacts dividend policy at the 0.05 significance level. In the meantime, dividend policy is unaffected by profitability and profit growth. The research was based on the theories that underpin the dividend policy, specifically the theory of residual dividends and smoothing theory, in order to explain the influence between variables. The study's findings lend credence to the

residual dividend theory, which states that a company's dividend policy is decided by taking the target capital structure into account before paying out dividends using just the remaining profit.

Keya (2016) assessed the impact of dividend decisions on the financial performance of listed financial institutions in Kenya using secondary data from audited financial reports of the 15 firms for the years 2011 to 2015 that were obtained from the Dar es Salaam Stock Exchange (DSE). To determine whether a dividend decision (an independent variable) had an impact on a company's financial performance (a dependent variable), regression analysis was done on the data. The joint significance of all coefficients was tested using the F-test, while the test significance of individual coefficients was tested using the t-test. The regression model's significance was assessed at the five percent significance level and 95 percent confidence interval. According to the study, listed financial institutions' performance is positively impacted by dividend policy. There is no denying that financial institutions would perform better if they paid close attention to their dividend policy.

III. METHODOLOGY

3.1 Research Design

This study uses panel data to analyze how dividend yield affects firms' return on assets (ROA) in Tanzania. The analysis proceeds through a systematic econometric process: first, unit root tests are conducted to ensure data stationarity; next, cointegration tests assess whether a long-term relationship exists between the variables; finally, the Panel Estimated Generalized Least Squares (GLS) method is applied to estimate the model.

3.2 Study Area

The study was conducted at the Dar es Salaam Stock Exchange (DSE), Tanzania, in which all 28 listed companies, financial and non-financial, were involved. It covered the period 2016-2024.

3.3 Model Specification

To meet the study's objectives, a model was developed to provide a structured way of representing economic relationships and simplifying real-world financial dynamics. The model is built around key financial econometric variables, with dividend yield serving as a central component in its design.

The empirical analysis is carried out using the following econometric model:

$Y = f\{DP, DY, EPS\}$ …….. (1.1)

The econometric form of the above equation is shown below:

$Y_{it} = \beta_0 + \beta_1 DP_{it} + \beta_2 DY_{it} + \mu_{it}$……...…….. (1.2)

Where:

Where Y = Firm performance measured by Return on Assets (ROA).

DP = Dividend pay-out ratio.

DY = Dividend yield.

it = represents cross sectional and time units respectively.

β_0, β_1, β_2= parameters estimate

β_0= intercept.

β_1, β_2= regression parameters

μ = error term.

3.4 Estimation Technique

To ensure reliability, the analysis proceeds through three main stages: Unit Root Test: A panel unit root test is performed to assess whether the variables are stationary, thereby avoiding misleading regression outcomes. Johansen Cointegration Test: This step examines whether a long-term equilibrium relationship exists among the variables. Panel Estimated Generalized Least Squares (GLS): Due to the panel structure of the data, GLS estimation is employed to address possible heteroskedasticity and autocorrelation, improving the accuracy and consistency of the estimates.

3.5 Data Sources

The study relies on data from the Dar es Salaam Stock Exchange (DSE) Statistical Bulletin, supplemented by annual reports of 28 listed companies.

3.5 Data Analysis

The study used correlation analysis and a panel regression model to examine the relationships between dividend pay-out ratio, dividend yield and firm performance measured by ROA.

IV. FINDINGS & DISCUSSION

The available search results show inconsistent findings regarding the link between financial performance, as measured by Return on Assets (ROA), and dividend policy, indicated by the Dividend Payout Ratio (DPR) or yield. Some studies report a significant relationship, while others find no clear effect, with outcomes varying across industries and specific contexts.

4.1 Findings

Table 1 presents the descriptive statistics for the variables. The dividend payout ratio has a mean of 49.6500, a median of 35.3900, and a standard deviation of 76.32. The table also includes the Jarque-Bera and Kurtosis values for this variable.

Table 1

Descriptive Statistics of the Variables

Statistic	Firm Performance (ROA)	Dividend Yield (DY)	Dividend Payout (DP)
Mean	79.43	4.76	49.65
Median	12.47	2.99	35.39
Maximum	1577.99	89.89	820.00
Minimum	0.45	0.00	0.00
Std. Dev.	210.37	8.23	76.32
Skewness	5.11	7.53	6.88
Kurtosis	32.63	74.60	68.16
Jarque-Bera	6241.80	36553.81	29673.31
Probability	0.000	0.000	0.000
Sum	13548.98	756.36	7868.97
Sum Sq. Dev.	6980158.00	11469.81	889820.00
Observations	3,330	3,330	3,330

4.1.1 Unit Root Tests

Prior to conducting multivariate co-integration analysis, it is important to assess whether the variables are stationary. To determine the order of integration, the Augmented Dickey-Fuller (ADF) test was applied to both the level and first-difference forms of the variables, with results reported in Table 2.

Table 2

Results of Unit Root Test

Variable	1% Critical Value	5% Critical Value	10% Critical Value	ADF Statistic	Order of Integration
ROA	-3.4709	-2.8796	-2.5787	-13.5782	I(0)
DY	-3.4709	-2.8796	-2.5787	-13.4447	I(0)
DP	-3.4709	-2.8796	-2.5787	-14.1800	I(0)

ADF refers to the Augmented Dickey-Fuller Test, which tests the null hypothesis that a unit root is present in a time series. According to the results presented in Table 2, all variables are found to be stationary at their level forms and do not exhibit unit roots. This implies that each series is integrated of order zero, denoted as I(0), and therefore stationary. Since the variables are I(0), they can be used directly in co-integration analysis., following Gujarati (2009).

4.1.2 Johansen Co-Integration Test

The Johansen cointegration test was conducted to assess the presence of a long-term association among the variables (refer to Table 3).

Table 3
Johansen Co-Integration Test

Hypothesized Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**	No. of CE(s)
None *	0.305406	150.0242	47.85613	0
At most 1 *	0.248663	93.53782	29.79707	0
At most 2 *	0.158312	49.23234	15.49471	0
At most 3 *	0.135171	22.50958	3.841466	0

Using both the maximum eigenvalue and trace statistics from the model, the results indicate the existence of one cointegrating vector. This confirms that the variables share a long-run equilibrium relationship, as evidenced by their cointegration.

Table 4a
Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
DP	-0.018520	0.067312	-0.249740	0.8921
DY	-0.928870	0.609926	-1.517780	0.1389
C	1.059913	6.595875	0.161556	0.8987
R-squared	0.897771	Mean dependent var		78.55113
Adjusted R-squared	0.894114	S.D. dependent var		209.397

Table 4b
Regression Analysis

Statistic	Value	Statistic	Value
S.E. of Regression	68.21581	Akaike Info Criterion	12.91821
Sum Squared Resid	724219.6	Durbin–Watson Stat	2.662069
F-statistic	337.2657	Prob (F-statistic)	0.000000

Table 4a shows that the standard errors for dividend pay-out (DP) and dividend yield (DY) are less than half the absolute value of their respective coefficients, suggesting stable and reliable estimates. The t-statistics are significant at the 5% level (p = 0.00). However, during the study period, both DP (t = -0.25, p > 0.05) and DY (t = -1.52, p > 0.05) had a negative and statistically insignificant effect on dividend payouts. This aligns with Lotto's (2021) findings, which reported a negative relationship between dividend payout ratios and ROA among Tanzanian firms. Lotto explains this pattern by pointing to restrictive loan covenants that limit dividend distributions until companies achieve specific earnings levels.

4.1.3 Hypotheses

This study aims to test the following hypotheses:

Test of Hypotheses

$H0_1$: Dividend pay-out ratio has no significant effect on the firms' financial performance in Tanzania.
This is shown in the equation below:

$$Y_{it} = \beta_0 + \beta_1 DP_{it} + \beta_2 DY_{it} + \mu_{it}$$

From Table 4 above, $\beta_0 = 1.059913$, $\beta_1 = -0.018520$, $\beta_2 = -0.928870$

$$Y_{it} = \beta_0 + \beta_1 DP_{it} + \beta_2 DY_{it} + \mu_{it}$$

$Y_{it} = 1.059913 + \beta_1\text{-}0.018520P_{it} + \beta_2\text{-}0.928870DY_{it} + \mu_{it}$

The estimated coefficient for dividend yield is -0.018520DP, suggesting a negative relationship. However, with a t-statistic of -0.249740 and a p-value of 0.8921, the result is not statistically significant at the 0.05 level. Therefore, we fail to reject the null hypothesis ($H0_1$), concluding that the dividend payout ratio does not have a significant impact on firm earnings in Tanzania.

$H0_2$: There is no significant relationship between dividend yield and the firms' financial performance in Tanzania.

$$Y_{it} = \beta_0 + \beta_1 DP_{it} + \beta_2 DY_{it} + \mu_{it}$$

From Table 4 above, $\beta_0 = 1.059913$, $\beta_1 = -0.018520$, $\beta_2 = -0.928870$

$Y_{it} = 1.059913 + \beta_1\text{-}0.018520P_{it} + \beta_2\text{-}0.928870DY_{it} + \mu_{it}$

The estimated model shows a dividend yield coefficient of -0.928870, indicating an inverse relationship between dividend yield (DY) and firm financial performance, measured by ROA. This implies that as dividend yield increases, firms' return on assets tends to decrease. However, the t-statistic of -1.517780 and a p-value of 0.1389 suggest that this

relationship is not statistically significant at the 5% level. The results of the study showed that the null hypothesis (H_{02}) cannot be rejected, meaning that there is insufficient evidence to support the relationship between dividend yield and ROA in the examination of companies listed on the Dar es Salaam Stock Exchange (DSE), Tanzania, during the study period 2016–2024.

The estimated model shows a dividend yield coefficient of -0.928870, indicating an inverse relationship between dividend yield (DY) and firm financial performance, measured by ROA. These findings indicate that dividend yield likely has little practical effect on financial performance over time. This is consistent with prior research suggesting that dividend yield by itself may not strongly influence profitability, as other elements such as retained earnings, investment strategies, and broader market conditions are more influential. On the other hand, this outcome contrasts with studies asserting that higher dividend yields can boost investor confidence, potentially driving up stock prices and contributing to better earnings performance.

4.2 Discussion

The results indicate that the dividend payout ratio does not have a significant impact on financial performance among firms in Tanzania. The observed negative association suggests that companies distributing a larger share of profits as dividends may retain less earnings, potentially constraining reinvestment and long-term growth. This supports prior research, such as (Lotto, 2021), which found that higher retained earnings are linked to stronger financial outcomes. However, it challenges the view of Yesaya and Bingireki (2023), who argued that dividend payments boost investor confidence, raise share prices, and improve overall firm performance. These differing conclusions imply that the influence of dividend policy may vary depending on company-specific conditions, investor behavior, or the wider economic environment.

Likewise, dividend yield appears to be inversely related to corporate earnings. Although some studies maintain that high dividend yields reflect financial strength and help attract investment, this study finds that such yields may instead signal limited growth potential. This contrasts with Jonathan (2024) findings in Tanzania, where dividend yield showed a positive and statistically significant link to share prices. The discrepancy could be attributed to differences in market dynamics, corporate strategies, or sector-specific factors across regions.

V. CONCLUSION & RECOMMENDATIONS

5.1 Conclusion

This study examined how dividend yield decisions influence financial performance among firms in Tanzania, analyzing data from 28 companies listed on the Dar es Salaam Stock Exchange (DSE) between 2015 and 2024. The results offer important insights into the dynamics between dividend policy and corporate performance within Tanzania's financial context. The analysis reveals that the dividend pay-out ratio has a minimal and negative association with firm earnings. This implies that distributing larger dividends does not reliably boost profitability, as such payouts may reduce funds available for reinvestment, potentially hampering future growth. These findings are consistent with research warning that overly generous dividend distributions can restrict a company's capacity to fund expansion and innovation. That said, some prior studies present contrasting views, arguing that regular dividends can strengthen investor trust and contribute to higher stock valuations.

Likewise, dividend yield was found to be inversely related to earnings, reinforcing the idea that high yields do not always reflect strong financial health. This challenges the conventional belief that high dividend yields are a sign of stability and investor appeal. Instead, the evidence suggests that companies emphasizing long-term reinvestment may achieve better financial outcomes than those prioritizing immediate returns to shareholders. In conclusion, the study finds that dividend-related decisions, specifically the pay-out ratio and dividend yield, do not significantly improve earnings performance among Tanzanian firms. As such, companies may benefit more from focusing on strategies that support profitability and sustainable development rather than emphasizing dividend distributions. While dividends can signal confidence to investors, firms should carefully balance shareholder returns with the need to retain earnings for future growth.

5.2 Recommendations

The study recommends allocating sufficient resources toward the planning, execution, and ongoing support of initiatives related to dividend payout strategies. It also suggests improving current financial practices, increasing awareness, and introducing cost-effective innovations to better manage financial performance and improve long-term economic outcomes. The study further suggests that investors should assess their own interests and use the findings to guide decisions about where to allocate their funds, particularly in sectors offering stronger dividend returns. By doing so, they can improve their investment outcomes. It also emphasizes the need for careful and responsible handling of dividend payout information by those involved in the sector, to ensure broader inclusion of all stock market stakeholders.

To support greater transparency and oversight, appropriate policies on the dissemination of such information should be established and made accessible.

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