The Impact of Financial Management Decisions on Firm Value: The Moderating Role of Profitability

Mwambuli, Erick Lusekelo
Accounting and Finance Department,
Institute of Finance Management (IFM), Tanzania

Anselim, Gasto
Customs and Excise Department,
Tanzania Revenue Authority (TRA), Tanzania.

Correspondence:
ifmmwambuli@gmail.com

https://dx.doi.org/10.4314/ajmr.v31i1.6

Abstract

The study was conducted to determine the moderating role of profitability on the influence of financial management decisions on firm value at the Dar es Salaam Stock Exchange (DSE). The study was guided by four specific objectives derived from two independent variables named financing decision and dividend decision, while considering profitability as the moderating variable. The study was guided by the positivism philosophy, employed a causal inference research design, and adopted a deductive approach. The study utilized quantitative secondary data spanning a ten (10) year period from 2013 to 2022, sourced from the DSE database and annual reports of specifically chosen companies. The study population comprised twenty-eight (28) listed companies, and by a sample of ten (10) non-financial firms listed at DSE was selected through the purposive sampling technique. Data analysis was carried out using E-View software version 12, and a fixed effect panel regression model was employed for the study. The study found financing decision do not influence firm's value while dividend decision has a positive influence on firm's value. Furthermore, Profitability has a positive moderating role on both the influence of financing decisions and dividend decisions on firm value. Based on the findings, it is recommended that listed companies to enhance their dividend policies and prioritize profitability strategies to strengthen shareholder value, while capital market authorities should encourage prudent dividend policies and promote transparency.

Key words: Financing Decision, Dividend Decision, Firm Value, Profitability

Introduction

The influence of financial management decisions on firm value has deep roots in classical economic discussions. Early economists like Adam Smith and David Ricardo emphasized the importance of efficient resource allocation and prudent financial

management as essential to a firm's success and growth (O'Connell & Ward, 2020). Their work laid the foundation for understanding that a firm's value is inherently tied to its financial decisions, setting the stage for future theories and models that would explore this relationship in greater detail (Sneirson, 2019). The shareholder wealth maximization theory emerged as a dominant framework in financial economics, positing that the primary objective of a firm is to maximize the wealth of its shareholders (Battilana *et al.,* 2022). This theory incepted by Adolf Berle and Gardiner Means in the 1930s to provide a clear and compelling rationale for financial decision-making, suggesting that all financial actions should be evaluated based on their potential to enhance shareholder value (Yan, 2019). In the pursuit of wealth creation, achieving a delicate equilibrium among various facets of financial management becomes imperative (Park, 2021). Key among these components are the decisions pertaining to financing, investment, and dividend distribution, each playing a pivotal role in shaping the overall financial health and value proposition of a firm (Gitagia, 2020).

Financing decisions dictate how a company secures capital to fund its operations and growth initiatives, while investment decisions revolve around the allocation of these resources to maximize returns and foster sustainable growth (Agung *et al.,* 2021). Financing decisions play a crucial role in shaping a firm's capital structure where by the choice between debt and equity financing involves a delicate balance of risks and returns (Chaleeda *et al.,* 2019). The trade-off theory suggests that firms must balance the tax advantages of debt against the potential costs of financial distress (Madubuike & Ebere, 2023). The pecking order theory posits that firms prefer internal financing first, and then debt, before opting for equity due to asymmetric information concerns (Ahmad et al. 2023). Signalling theory also indicates that financing decisions can convey critical information to investors about a firm's future prospects, thereby affecting its valuation (Wardani & Subowo, 2020). Dividend decisions reflect a company's strategy regarding profit distribution to shareholders, serving as a crucial aspect of investor relations (Triani & Tarmidi, 2019) Dividend irrelevance theory proposed by Modigliani and Miller suggests that in a perfect market, dividend policy does not affect a firm's value (Banerjee, 2018). However, in reality, market imperfections such as taxes, agency costs, and information asymmetry make dividend policy significant where by the bird-in-hand theory and signalling theory argue that dividend payments can positively influence firm value by signalling financial health and reducing agency costs (Murtaza et al., 2018). Investors often perceive consistent and high dividends as indicators of a firm's profitability and stability, which can enhance its market valuation while investment decisions are fundamental to a firm's growth and its effectiveness ensure that a firm allocates its resources to the most profitable opportunities (Triani & Tarmidi, 2019).

As a response to the global trend, the DSE has witnessed a positive trend in performance, particularly in value creation. According to Tanzania Invest (2024), during the 39th trading week ending 20th September 2024, the total market capitalization of listed shares at the DSE amounted to TZS 17,769 billion (approximately USD 6,347.04 million), which reflects an increase of 0.66% in total market capitalization compared to the previous week's close figures of TZS

17,500.65 billion (approximately USD 6,250.23 million). Also, at the close of the 40th trading week ending October 2024, the total market capitalization of listed shares at the DSE amounted to TZS 17,848.37 billion (approximately USD 6,370.13 million), which reflects an increase of 0.44% in total market capitalization compared to the previous week's close figures of TZS 17,769 billion (approximately USD 6,347.04 million) (Tanzania Invest, 2024).Despite the fact that the market value of listed companies at DSE is increasing over time, which is a positive trend for firm values, there is a scarcity of empirical studies confirming the influence of financial management decisions on value creation in the context of Tanzania. Notably Ayo and Muba (2021) investigated the impact of capital structure on the performance of firms listed on the DSE. Similarly, Assey *et al.* (2020) examined the relationship between working capital management and financial performance (return on equity and return on assets) among non-financial companies listed on the DSE. Kundy and Shah (2024) explored the effect of financing decisions on the performance (return on assets and return on equity) of non-financial firms listed on the DSE. Kasoga (2020) conducted a study to analyse the impact of investing in intellectual capital on firm performance (return on assets, asset turnover, and Tobin's) for service and manufacturing sectors firms listed at DSE.

Given the positive trend in the market value of listed companies on the DSE and the limited empirical research available, there is still a gap in understanding how financial management decisions, specifically dividends and financing decisions, influence firm value in Tanzania, especially when moderated by profitability. This study aims to fill that gap by exploring the complex relationship between these financial decisions and their impact on firm value in the Tanzanian context. By examining this issue, the research provides important insights for both theory and practice in financial management, focusing on concepts such as maximizing shareholder wealth and signalling theory.

This paper is organized according to sections. The introduction is covered in Section 1. Section 2 contains the literature review and the development of hypotheses. Section 3 describes the methodology used to collect and analyze data. Section 4 presents the findings and results discussion. Section 5 presents the study's conclusion and recommendations.

Relevant Literature Review and Hypotheses Development

Financial management decisions involve strategic choices by a company's management aimed at achieving financial objectives and maximizing shareholder value (Sihwahjoeni et al., 2020). These decisions include efficient allocation of financial resources, balancing risks and returns to optimize performance and sustainability (Ginanjar et al., 2021). Key areas include investment, financing, and dividend decisions. This study focused on financing and dividend decisions with profitability as a moderator. Many empirical studies have been conducted to examine the influence of financial management decisions on firm values, resulting in inconclusive findings. Empirical studies investigating value creation for listed companies reveal diverse findings on dividend decisions. Margono and Gantino (2021) found a positive influence of dividend policy on company value in the food and beverage sub-sector, supported by Hasanuddin (2021) and Diana and Munandar (2023), who also identified

positive effects in various contexts. Ginanjar et al. (2021) and Agung et al. (2021) confirmed these positive associations among food and beverage firms. However, Murniati et al. (2019) and Putri (2023) reported negative impacts of dividend policy on firm value. Sondakh (2019) noted a significant negative relationship in financial services, while Triani and Tarmidi (2019) and Sihwahjoeni et al. (2020) found no significant effects of dividend policy on firm value in the property and real estate and food and beverage sectors, respectively. Ahmad et al. (2020) identified positive impacts of leverage on firm value in the food and beverage sectors in Nigeria, indicating that debt financing can enhance firm value. Similarly, Chaleeda et al. (2019) found a significant positive relationship between both short-term and long-term debt and firm value in Malaysia, while Aboagye-Otchere and Boateng (2023) reported a positive association with total debt financing in Nigeria.

Studies examining the relationship between financing decisions and firm value present varied findings across different contexts. Nazir et al. (2021) further indicated that both short- and long-term debts adversely affect firm performance in Pakistan, with Fujianti et al. (2020) highlighting a negative impact of debt policy on firm value. Additionally, several studies, including those by Murniati et al. (2019), Triani and Tarmidi (2019), Hasanuddin (2021), Yulianti et al. (2024), and Ginanjar et al. (2021), found no significant impact of financing decisions on firm value, emphasizing the context-dependent nature of these effects as revealed by Akhmadi and Robiyanto (2020). Studies on the relationship between profitability and firm value present mixed findings. Wijayaningsih and Yulianto (2021), Markonah et al. (2020), and Jihadi et al. (2021) all found a positive correlation, suggesting that higher profitability enhances firm value. Conversely, Bon and Hartoko (2022) found no significant influence of profitability on firm value, while Yulianti et al. (2024) reported a negative effect specifically within the technology sector. Similarly, Hechmi and Saanoun (2024) indicated that profitability adversely impacted value creation in Saudi real estate companies. In the food and beverage sector, Panjaitan and Supriyati (2023) noted a negative effect of profitability on firm value. In contrast, Ariyanti et al. (2024) found that profitability positively influences the effect of dividend policy on firm value, and Yulianti et al. (2024) suggested that higher profitability could moderate the relationship between financing decisions and firm value, potentially amplifying negative impacts from financing choices. In light of position of previous empirical studies, the following hypotheses were developed and tested by the study:

H1: There is a positive influence of financing decision on the value of listed firms
H2: There is a positive influence of dividend decision on the value of listed firms
H3: There is a positive moderating role of profitability on the influence of financing decision on the value of listed firms
H4: There is a positive moderating role of profitability on the influence of dividend decision on the value of listed firms.

It is important to consider the moderating role of profitability in the relationship between financing and dividend decisions on firm value due to its significant impact on financial outcomes and stakeholder perceptions. Profitability serves as a critical indicator of a firm's financial health and operational efficiency, influencing how

effectively a company can manage its capital structure and allocate resources. High profitability may enhance a firm's ability to undertake debt financing, as it indicates strong cash flows and reduced risk, leading to improved firm value. Furthermore, profitable firms are often better positioned to meet shareholder expectations regarding dividends, balancing the need for reinvestment with the desire for income generation. Given these dynamics, profitability may amplify the positive effects of financing and dividend decisions, as it reflects a company's capacity to optimize financial management practices while mitigating risks associated with capital structure choices.

Research Methodology

The study focused on a population of twenty-eight (28) publicly listed companies on the DSE. From this population, a sample of ten (10) listed firms were selected, specifically from the non-financial sectors. The study used a purposive sampling technique to select ten (10) listed non-financial companies from a total of twenty-eight (28) at the DSE, following criteria outlined by Mwambuli (2016). Financial institutions, including banks and insurance companies, were excluded due to their highly regulated nature, allowing for a focus on less regulated industries. This approach aimed to yield results that are more applicable to a broader range of non-financial businesses. The final sample consisted of ten (10) companies from various sectors, ensuring that the findings are representative of the population and generalizable to other non-financial firms.

The study utilized secondary data collected from the annual reports of selected listed companies, covering a period of ten (10) years' timeframe from 2013 to 2022. The study was guided by independent variable, dependent variables and moderating variable as indicated by Table 1.

The study employed EViews software version 12 for data analysis, utilizing a panel regression model based on the framework developed by Franc-Dbrowska and Mądra-Sawicka (2020). To determine whether a fixed or random effects model was more appropriate, a Hausman specification test was conducted. This test operates under the null hypothesis that a random effects model is suitable, meaning there is no correlation between the unique effects and the independent variables. If the p-value from the Hausman test is less than 0.05, the null hypothesis is rejected, indicating that a fixed effects model is more appropriate due to the presence of correlation between the unique effects and the regressors. In this study, as shown in Table 2, the p-value is below 0.05, leading to the rejection of the null hypothesis and confirming that the fixed effects model was the most suitable choice for the analysis. Using a fixed effects panel regression model offers several advantages over a random effects model. First, fixed effects models effectively control for unobserved heterogeneity by accounting for individual-specific characteristics that do not change over time, which helps mitigate omitted variable bias. This is particularly beneficial when these unobserved factors are correlated with the independent variables, leading to more reliable estimates. Additionally, fixed effects models focus solely on within-unit variation, providing clearer insights into the impact of time-varying predictors on the dependent variable. This approach is especially useful in contexts where the relationship between variables may be influenced by stable characteristics unique to each unit

Table 1: Study Variables Measurements

Variable	Measurements	References
Firms Value	Tobin's Q= $\frac{\textbf{Market Value of Firm}}{\textbf{Replacement Cost of Firm's Assets}}$	Malahim et al. (2022); Sadiq *et al.* (2020)
Financing Decision	Debt to Equity (DER) = $\frac{\textbf{Total Debt}}{\textbf{Total Equity}}$	Setiawanta *et al.* (2021); Alghifari *et al.* (2022c)
Dividend Decision	Binary variable $\boldsymbol{DIV_{it}}$= (1 if Dividend>0) (0 If Dividend=0) $\boldsymbol{DIV_{it}}$ is the binary variable indicating whether a dividend was paid (1) or not (0) for firm *i* at time *t*.	Franc-Dbrowska and Mądra-Sawicka (2020)
Profitability	Return on Equity (ROE) = $\frac{\textbf{Net Income}}{\textbf{Shareholder's Equity}}$	Chabachib *et al.* (2019); Setiawanta *et al.* (2021); Alghifari *et al.* (2022b)

Source: Researcher (2024)

Table 2: Hausman Test

Test Summary	Chi-Sq. Statistic		Chi-Sq. d.f.	Prob.
Cross-section random	14.787		4	0.005
Cross-section random effects test comparisons:				
Variable	Fixed	Random	Var (Diff.)	Prob.
Financing Decision	0.099	0.082	0.000	0.206
Divided Decision	0.901	0.881	0.000	0.023
Financing Decision Moderated by Profitability	0.049	0.014	0.000	0.013
Dividend Decision Moderated by Profitability	0.122	0.112	0.000	0.002

Source: E-View Calculations (2024).

The study fixed effect panel regression model specified as follows for non-robust and robust test after model specification tests;

$$\boldsymbol{FV_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 DD_{it} + \beta_3 (PRO_{it} * FD_{it}) + \beta_4 (PRO_{it} * DD_{it}) + \beta_5 FS_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots Model\ 1}$$

where:

$\boldsymbol{FV_{it}}$ *represents the Firms Value as Tobin Q*

$\boldsymbol{FD_{it}}$ *represents the Financing Decision*

$\boldsymbol{DD_{it}}$ *represents the Dividend Decision*

$\boldsymbol{PRO_{it}}$ *represents the Profitability*
$\boldsymbol{FS_{it}}$ *represent firm size as a control variable*
β1, β2, β3, β4 β5; Beta coefficients indicating sensitivity of the variables
$\boldsymbol{\varepsilon_{it}}$ *represents the error term for firm.*

$$\boldsymbol{FV_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 DD_{it} + \beta_3(PRO_{it} * FD_{it}) + \beta_4(PRO_{it} * DD_{it}) + \beta_5 FS_{it} + \varepsilon_{it} \ldots\ldots\ldots\ldots Model\ 2}$$

where:
$\boldsymbol{FV_{it}}$ *represents the Firms Value as PE ratio*
$\boldsymbol{FD_{it}}$ *represents the Financing Decision*
$\boldsymbol{DD_{it}}$ *represents the Dividend Decision*
$\boldsymbol{PRO_{it}}$ *represents the Profitability*
$\boldsymbol{FS_{it}}$ *represent firm size as a control variable*
β1, β2, β3, β4, β5; Beta coefficients indicating sensitivity of the variables
$\boldsymbol{\varepsilon_{it}}$ *represents the error term for firm.*

Findings and Discussion of Results

Table 3 presents descriptive analysis results for non-financial companies listed on the DSE, focusing on firm value, dividend decisions, financing decisions, and profitability. The average firm value, measured by Tobin's Q, is 1.251, indicating a slight premium over replacement costs, reflecting positive market sentiment. The maximum value of 5.673 suggests some firms are significantly overvalued, while a minimum of 0.019 indicates instances of substantial undervaluation. Approximately 47% of the firms paid dividends, as indicated by a mean of 0.470 in the binary measure. This shows a moderate level of dividend distribution, with a maximum value of 1 for firms that paid dividends and a minimum of 0 for those that did not. The average below 0.5 suggests many companies prefer retaining earnings for reinvestment. The average debt-to-equity ratio stands at 66%, reflecting a moderate reliance on debt among the firms. The maximum gearing level of 188% points to heavily leveraged firms, while a minimum of 0% indicates some companies adopt a conservative financing strategy with no debt. Profitability, measured by return on equity (ROE), averages 13%, suggesting respectable returns for shareholders. The maximum ROE of 61% highlights strong performance in some firms, while a minimum of -50% raises concerns about significant losses in certain companies.

Table 3: Descriptive Analysis Results

	Firm Value	Dividend Decision	Financing Decision	Profitability
Mean	1.251	0.470	66%	13%
Median	0.851	0.000	46%	22%
Maximum	5.673	1.000	188%	61%
Minimum	0.019	0.000	0%	-50%
Std. Dev.	1.245	0.502	0.454	0.314
Skewness	1.769	0.120	0.998	-0.393
Kurtosis	5.795	1.014	2.944	1.975
Jarque-Bera	4.697	1.668	6.602	2.954
Probability	0.445	0.092	0.248	0.309
Sum	125.090	47.000	66.040	12.794
Sum Sq. Dev.	153.394	24.910	20.417	9.790
Observations	100	100	100	100

Source: E-View Calculations (2024).

The study evaluates the predictive power of the fixed-effect model through key statistics, as presented in Table 4. The model exhibits a high R-squared value of 0.996, indicating that approximately 99.6% of the variance in firm value is explained by the independent variables, including financing decision, Dividend decision, and their interactions with profitability. The adjusted R-squared of 0.995 reinforces the model's effectiveness while considering the number of predictors. A small standard error of 0.121 suggests that the observed values align closely with the regression line, indicating enhanced predictive accuracy. The F-statistic of 1755.288, with a p-value of 0.000, confirms the model's overall statistical significance, demonstrating that the independent variables have a substantial impact on firm value. Collectively, these results highlight the robust ability of the fixed-effect model to explain variations in firm value, particularly concerning financial and dividend decisions and their interplay with profitability.

Table 4: Fixed Effect Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Financing Decision	0.080	0.098	0.816	0.741
Divided Decision	0.911	0.012	75.917	0.001
Financing Decision Moderated by Profitability	0.052	0.008	6.500	0.000
Dividend Decision Moderated by Profitability	0.126	0.001	64.642	0.000
Firm Size	0.025	0.008	3.125	0.000
C	1.094	0.126	8.674	0.000
R-squared	0.996	Mean dependent var		18.131
Adjusted R-squared	0.995	S.D. dependent var		10.936
S.E. of regression	0.121	Sum squared resid		1.277
F-statistic	1755.288	Durbin-Watson stat		1.935
Prob(F-statistic)	0.000			

Source: E-View Calculations (2024)

To determine the influence of financing decisions on firm's value at DSE, the study findings in table 4 indicating the financing decision has a positive statistically insignificant influence on firm's value at DSE, (B=0.08, P-value>0.05). This implies that 1 percent increase of financing does not have any influence on firm's value at DSE. This lack of impact may stem from several factors, including firms potentially operating at optimal financing levels where additional funds yield diminishing returns. Moreover, market inefficiencies or a lack of investor confidence in the effective use of new financing might prevent changes in financing from being reflected in firm valuations. The current study aligns with Ginanjar et al. (2021), Agung et al. (2021), and Chaleeda et al. (2019), which confirm a positive relationship between financing decisions and firm value. However, it contradicts findings by Yulianti et al. (2024), which suggest financing decisions do not directly affect firm value. Additionally, the study diverges from Chaleeda et al. (2019), Sihwahjoeni et al. (2020), Ahmad et al. (2020), and Nurlela et al. (2019), who found no direct impact of

financing decisions on firm value. The current study findings contradict shareholder wealth maximization and signaling theories, which suggest that optimal capital structure should enhance firm value. The insignificant results imply that firms may already operate at optimal financing levels or encounter market inefficiencies. Additionally, the lack of significant impact suggests that financing actions do not effectively communicate vital information to investors, potentially due to skepticism or transparency issues regarding how additional funds are utilized. Therefore, we fail to reject the null hypothesis stating that;

There is a positive influence of financing decision on the value of listed firms

To determine the influence of dividend decision on firm's value at DSE, the results of the study presented in Table 4 indicating dividend decision has a positive statistically significant influence on firm's value at DSE (B =0.91, P-value<0.05). This suggests that, 1 percent increase in dividend decision is associated with 91% increasing of firm's value at DSE. This significant relationship can be attributed to several factors. Firstly, dividend payments are often perceived by investors as a signal of a firm's strong financial health and confidence in future earnings, thus boosting investor sentiment and firm valuation. Moreover, in markets like Dar Es Salaam, where information asymmetry may be higher, consistent and increased dividend payments provide tangible returns to investors, reducing uncertainty and enhancing firm credibility. Additionally, higher dividends can attract more investors, increasing demand for the firm's stock and thereby raising its market value. This reflects the broader investor preference for immediate returns in the form of dividends, especially in developing markets where capital gains might be less predictable. The current study findings are in line with those of Margono and Gantino (2021), Utami (2021), Triani and Tarmidi (2019), and Hasanuddin (2021), all of which confirmed that dividend policy has a positive impact on company value. The currents study's findings support both shareholder wealth maximization and signaling theories, showing that increased dividends significantly enhance shareholder value. Additionally, dividend increases signal a firm's financial health and future earnings potential, which is vital in contexts with high information asymmetry, such as Dar Es Salaam, thereby reinforcing the positive relationship between dividend decisions and firm value. Therefore, we accept the null hypothesis stating that;

There is a positive influence of dividend decision on the value of Listed Firms

To determine the moderating role of profitability on the influence of financing decision on firm value at DSE findings of the study in Table 4 indicate profitability has a positive statistically significant moderating role on the influence of financing decision on firm value at DSE (B = 0.052, P-value<0.05). This implies that 1 percent increase in profitability strengthen the influence of financial decision on firm value at DSE by 5%. This result can be attributed to several factors. Firstly, higher profitability signals strong operational performance and financial health, which can boost investor confidence and magnify the positive effects of prudent financing decisions. Profitable firms are better positioned to leverage additional financing effectively, using it for value-creating investments rather than merely covering operational deficits. This synergy between profitability and financing decisions reassures investors that the firm is capable

of generating returns on borrowed or raised capital, thus enhancing firm value. Additionally, profitable companies may have better access to favorable financing terms, further optimizing their capital structure and positively influencing their market valuation. The current study findings are contrary with the study of Yulianti et al. (2024) found that profitability negatively moderated the relationship between financing decisions and firm value. The study's findings align with both shareholder wealth maximization and signaling theories, demonstrating that higher profitability enables firms to enhance shareholder value through effective financing. Profitable firms can utilize additional financing for value-creating investments, reassuring investors about growth potential. Moreover, increased profitability signals strong operational performance and financial health, boosting investor confidence. This combination of profitability and prudent financing decisions underscores the positive impact on firm value, highlighting the relevance of both theories in this context. Therefore, we accept the null hypothesis stating that;

There is a positive moderating role of profitability on the influence of financing decision on the value of Listed Firms

To determine the moderating role of profitability on the influence of dividend decision on firm value at DSE, the study findings presented in Table 3 indicating profitability has a positive moderating role on the influence of dividend decision on firm value at DSE (B =0.126, P-value<0.05). This implies that 1 percent increase in profitability strengthen the influence of dividend decision on firm value at DSE by 13%. This result can be attributed to higher profitability enabling firms to distribute substantial dividends, which boosts investor confidence and attracts investment. Profitable firms are seen as stable and reliable, increasing stock demand and market value. The current study finding is in line with the study of Ariyanti et al. (2024) revealed that profitability played a significant positive moderating role in enhancing the influence of dividend policy on company value. The study's findings support both shareholder wealth maximization and signaling theories, illustrating that higher profitability enables firms to provide substantial dividends, thereby enhancing shareholder returns and firm value. In markets like Dar Es Salaam, where information asymmetry is prevalent, strong profitability serves as a credible indicator of financial health, boosting investor confidence. Consequently, this leads to increased stock demand and further elevates firm value, demonstrating the crucial role of profitability and strategic dividend decisions in maximizing shareholder wealth. Therefore, we accept the null hypothesis stating that;

There is a positive moderating role of profitability on the influence of dividend decision on the value of Listed Firms.

To validate the robustness of the fixed effect model results, the study conducted tests by altering input parameters and assumptions. Specifically, it substituted Tobin's Q with the price earnings ratio. The findings, shown in Table 5, demonstrate consistent outcomes across all variables, albeit with slightly lower values than in the original model. This indicates that the fixed effect model effectively provides reliable insights into the direct impact of financial management decisions on firm value, moderated by profitability.

Table 5: Robust Test of Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Financing Decision	0.042	0.031	1.373	0.409
Divided Decision	0.464	0.030	15.318	0.000
Financing Decision Moderated by Profitability	0.011	0.001	11.183	0.000
Dividend Decision Moderated by Profitability	0.057	0.004	14.946	0.000
Firm Size	0.030	0.006	4.735	0.000
C	7.825	0.106	73.799	0.000
R-squared	0.999	Mean dependent var		13.503
Adjusted R-squared	0.992	S.D. dependent var		5.912
S.E. of regression	0.050	Sum squared resid		0.217
F-statistic	7296.252	Durbin-Watson stat		1.038
Prob(F-statistic)	0.0000			

Source: E-View Calculations (2024)

Conclusions, Implications and Recommendations

The study was conducted to determine the moderating role of profitability on the influence of financial management decisions on firm value at DSE. Utilizing quantitative secondary data from 2013 to 2022, the study concluded that financing decisions do not significantly affect firm value, while dividend decisions have a positive impact. Additionally, profitability positively moderates both financing and dividend decisions, enhancing their effects on firm value. The findings of the study present crucial practical implications for both investors and regulators in Tanzania and developing economies at large. While the influence of financing decisions on firm value may not be statistically significant, investors are encouraged to consider the broader financial health and strategic implications of these choices. This means that investors should focus on the long-term effects of financing decisions on company stability and growth potential rather than solely on short-term stock value fluctuations. Regulators, in turn, should promote transparent and responsible financing practices among companies to maintain market stability and boost investor confidence. The study underscores important policy implications for listed companies and regulatory bodies, particularly the Capital Market and Securities Authority (CMSA) in Tanzania. For listed firms on the DSE, strategic decision-making in financial management is essential. Although the study found that financing decisions have an insignificant influence on firm value, companies must still assess their financing strategies carefully to understand their long-term implications on stability and growth. Additionally, the significant impact of dividend policies on firm value suggests that companies should adopt prudent dividend strategies to enhance shareholder value and foster market attractiveness. The study's findings offer partial theoretical implications related to signaling theory and shareholder wealth maximization principles within the Tanzanian context. The

significant positive relationship between dividend decisions and firm value aligns with signaling theory, suggesting that dividends serve as a positive signal of firm performance to investors. However, the lack of significant influence from financing decisions highlights a more nuanced relationship, indicating that other contextual factors may overshadow their signaling effect. Furthermore, while profitability acts as a key determinant in enhancing shareholder value, its moderating role differs between financing and dividend decisions.

Listed companies should enhance their dividend policies to leverage the positive influence of dividend decisions on firm value. This includes implementing sustainable payout strategies that align with long-term growth objectives and provide attractive returns to shareholders. Additionally, companies should prioritize initiatives that improve profitability, such as enhancing operational efficiency and fostering innovation. Maintaining transparent financial management practices is also crucial to uphold investor confidence and ensure market stability. Capital Market and Security Authorities in developing and emerging markets should provide guidance and regulations to encourage listed companies to adopt prudent dividend policies that support sustainable growth and shareholder value. Promoting regulatory frameworks that enhance transparency and accountability is essential, including improving disclosure requirements and offering capacity-building initiatives for financial literacy. Authorities should also monitor market dynamics to identify emerging risks and safeguard investor interests. Investors should evaluate the dividend policies of listed companies, focusing on those with sustainable payout strategies to maximize returns and shareholder value. They should assess the profitability and financial health of companies, conducting thorough due diligence to identify firms with strong profitability metrics. Additionally, staying informed about regulatory developments and market trends will help investors make informed decisions and mitigate risks associated with market volatility. Based on the study's limitations, future research efforts should prioritize addressing the gaps identified to advance the understanding of financial management practices comprehensively. Firstly, it is essential to expand the scope of research beyond financing and dividend decisions to include investment decisions, as these significantly influence a firm's long-term trajectory and financial performance. This broader analysis will provide more comprehensive insights for strategic decision-making, especially in emerging markets like Tanzania. Additionally, future studies should consider alternative profitability metrics alongside return on equity (ROE), such as return on assets (ROA) to capture a more nuanced view of financial performance. This diversified approach will enhance understanding of how financial decisions impact firm value.

REFERENCES

Aboagye-Otchere, F., & Boateng, P. Y. (2023). Financing decision, ownership type and financial performance of listed non-financial companies in Ghana. *Cogent Business & Management*, *10*(1), 2170070.

Agung, G., Hasnawati, S., & Huzaimah, R. F. (2021). The effect of investment decision, financing decision, dividend policy on firm value. Jurnal Bisnis dan Manajemen (JBM), 1-12.

Ahmad, M. M., Hunjra, A. I., Islam, F., & Zureigat, Q. (2023). Does asymmetric information affect firm's financing decisions? International Journal of Emerging Markets, 18(9), 2718-2734.

Ahmad, S. M., Bakar, R., & Islam, M. A. (2020). The effect of debt financing on firm value: A panel data approach. *Albukhary Social Business Journal*, *1*(2), 33-45.

Akhmadi, A., & Robiyanto, R. (2020). The interaction between debt policy, dividend policy, firm growth, and firm value. *The Journal of Asian Finance, Economics and Business*, *7*(11), 699-705.

Alghifari, Erik Syawal, Atang Hermawan, Ardi Gunardi, Agus Rahayu, and Lili Adi Wibowo. 2022b. Corporate Financial Strategy in an Emerging Market: Evidence from Indonesia. Journal of Risk and FInancial Management 15: 362.

Alghifari, Erik Syawal, Ikin Solikin, Nugraha Nugraha, Ika Waspada, Maya Sari, and Lilis Puspitawati. 2022c. Capital Structure, Profitability, Hedging Policy, Firm Size, And Firm Value: Mediation and Moderation Analysis. Journal of Eastern European and Central Asian Research 9: 789–801.

Alzubi, Khaled, and Amer Bani-Hani. 2021. Determinants of Debt-To-Equity and Its Impact on the Performance of Industrial Companies Listed on Amman Stock Exchange. Journal of Governance and Regulation 10: 353–64

Anthony, R. N. (1960). The trouble with profit maximization. Harvard Business Review, 38(6), 127-134.

Ariyanti, E., Nasution, F. N., & Erwin, K. (2024) The Influence of Dividend Policy and Company Size on Company Value with Profitability as a Moderating Variable in Listed Energy Sector Companies on the Indonesian Stock Exchange 2018-2022 Period.

Armstrong, C. S., & Kepler, J. D. (2018). Theory, research design assumptions, and causal inferences. Journal of Accounting and Economics, 66(2-3), 366-373.

Assey, L. H., Su, X., & Parveen, S. (2020). Effect of working capital management on financial performance: evidence from listed firms at Dare S Salaam Stock of Exchange. *IOSR Journal of Business and Management (IOSR-JBM)*, *22*(4), 01-08.

Ayo, M., & Muba, S. (2021). An Assessment on the Influence of Capital Structure on Performance of the Listed Firms in Tanzania. *East African Journal of Business and Economics*, *4*(1), 1-13.

Ayo, M., & Muba, S. (2021). An Assessment on the Influence of Capital Structure on Performance of the Listed Firms in Tanzania. *East African Journal of Business and Economics*, *4*(1), 1-13.

Banerjee, A. (2018). Dividend policy as a corporate communication and its impact on firm value evidences from listed companies in Qatar Stock Exchange. Financial Markets, Institutions and Risks, 2(4), 29-38.

Battilana, J., Obloj, T., Pache, A. C., & Sengul, M. (2022). Beyond shareholder value maximization: Accounting for financial/social trade-offs in dual-purpose companies. Academy of Management Review, 47(2), 237-258.

Bhat, S. (2008). *Financial management: Principles and practice*. Excel Books India.

Bhatnagar, V. K., Kumari, M., & Sharma, N.

(2015). Impact of capital structure & cost of capital on shareholders' wealth maximization-A study of BSE listed companies in India. *Chanakya International Journal of Business Research*, *1*(1), 28-36.

Bon, S. F., & Hartoko, S. (2022). The effect of dividend policy, investment decision, leverage, profitability, and firm size on firm value. *European Journal of Business and Management Research*, *7*(3), 7-13.

Chabachib, Mochammad, Tyana Ulfa Fitriana, Hersugondo Hersugondo, Imang Dapit Pamungkas, and Udin Udin. 2019. Firm Value Improvement Strategy, Corporate Social Responsibility, and Institutional Ownership. International Journal of Financial Research 10: 152–63.

Chaleeda, M., Islam, A., Ahmad, T. S. T., & Ghazalat, A. N. M. (2019). The effects of corporate financing decisions on firm value in Bursa Malaysia. *International Journal of Economics and Finance*, *11*(3), 127-135.

Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling theory: A review and assessment. *Journal of management*, *37*(1), 39-67.

Denis, D. (2019). The case for maximizing long-run shareholder value. *Journal of Applied Corporate Finance*, *31*(3), 81-89.

Diana, W., & Munandar, A. (2023). The Effect of Company Size, Capital Structure, and Profitability on Company Value Moderated by Dividend Policy. *International Journal of Economics Development Research (IJEDR)*, *4*(3), 1438-1455.

Franc-Dbrowska, J., & Mądra-Sawicka, M. (2020). Determinants of dividend payout decisions–the case of publicly quoted food industry enterprises operating in emerging markets. *Economic research-Ekonomska istraživanja*, *33*(1), 1108-1129.

Fujianti, L., Hubbansyah, A. K., Siswono, S., & Sinaga, L. (2020). The effect of managerial ownership, dividend policy and debt on firm value: the Indonesia Stock Exchange cases. *INQUISITIVE: International Journal of Economic*, *1*(1), 40-54.

Ginanjar, A., Hasnawati, S., & Fiska, H. (2021). The Effect of Investment Decision, Financing Decision, Dividend Policy on Firm Value (Study on Food and Beverage Industry Listed on The Indonesia Stock Exchange, 2016-2018). *Jurnal Bisnis dan Manajemen*, *17*(1), 1-12.

Gitagia, F. K. (2020). Financial management decisions and firm value of selected firms listed at Nairobi Securities Exchange, Kenya (Doctoral dissertation, PhD Thesis), Kenyatta University, Nairobi, Kenya).

Goel, S. (2011). Shareholders' wealth maximization in realty sector in india. *The Journal of Indian Management & Strategy 8M*, *16*(1), 12-17.

Hasanuddin, R. (2021). The influence of investment decisions, dividend policy and capital structure on firm value. *Jurnal Economic Resource*, *4*(2).

Hayes, B. K., Stephens, R. G., Ngo, J., & Dunn, J. C. (2018). The dimensionality of reasoning: Inductive and deductive inference can be explained by a single process. Journal of Experimental Psychology: Learning, Memory, and Cognition, 44(9), 1333.

Hechmi, S. and Saanoun, I. (2024) Impact of Profitability, Leverage and Corporate Governance on Value Creation: Empirical Study of Saudi Real Estate Companies. *Open Journal of Business and Management*, **12**, 1403-1410

Hoang, H. T. T., Vu, T. T. M., & Nguyen, D. T. (2023). Debt and Firm Value, The New Approach of Hierarchical Method. *Journal of Organizational Behavior Research*, *8*(1-2023), 158-172.

Husain, T., & Sunardi, N. (2020). Firm's Value Prediction Based on Profitability Ratios and Dividend Policy. *Finance &*

Economics Review, *2*(2), 13-26.

Jihadi, M., Vilantika, E., Hashemi, S. M., Arifin, Z., Bachtiar, Y., & Sholichah, F. (2021). The effect of liquidity, leverage, and profitability on firm value: Empirical evidence from Indonesia. *The Journal of Asian Finance, Economics and Business*, *8*(3), 423-431.

Karaçayır, E., & Afşar, A. (2020). Effect of investment and financing decisions on firm value; example of bist industrial index. *Uşak Üniversitesi Sosyal Bilimler Dergisi*, *13*(2), 13-24.

Karasek III, R., & Bryant, P. (2012). Signaling theory: Past, present, and future. *Academy of Strategic Management Journal*, *11*(1), 91.

Kasoga, P. S. (2020). Does investing in intellectual capital improve financial performance? Panel evidence from firms listed in Tanzania DSE. *Cogent Economics & Finance*, *8*(1), 1802815.

Kasoga, P. S. (2020). Does investing in intellectual capital improve financial performance? Panel evidence from firms listed in Tanzania DSE. *Cogent Economics & Finance*, *8*(1), 1802815.

Keter, C. K. S., Cheboi, J. Y., Kosgei, D., & Chepsergon, A. K. (2023). Financial Performance and Firm Value of Listed Companies: Financial Performance Measure ROA versus ROE. *Journal of Business, Economics and Management Research Studies*, *1*(4), 1-11.

Khan, Z. A. (2017). Profit Maximization as an objective of a firm: A Robust Perspective.

Khan, Z. A., & Hussanie, I. (2018). Shareholders wealth maximization: Objective of financial management revisited. *International Journal of Enhanced Research in Management & Computer Applications*, *7*(3), 739-741.

Komara, A., Ghozali, I., & Januarti, I. (2020, March). Examining the firm value based on signaling theory. In *1st International Conference on Accounting, Management and Entrepreneurship (ICAMER 2019)* (pp. 1-4). Atlantis Press.

Kouki, M., & Said, H. B. (2011). Does management ownership explain the effect of leverage on firm value? An analysis of French listed firms. *Journal of Business Studies Quarterly*, *3*(1), 169.

Kundy, V. P., & Shah, K. (2024). The Influence of Financing Decisions on the Performance of Listed Non-Financial Firms in Tanzania. *International Journal of Management, Accounting & Economics*, *11*(5).

Madubuike, E. F., & Ebere, C. C. (2023). Corporate taxation and the trade-off theory: A dynamic fixed effects approach. Central Asian Journal of Innovations on Tourism Management and Finance, 4(1), 50-58.

Malahim, Sari Sulaiman, Aiman Mahmoud Abu Hamour, Waleed Kalf Al-Zoubi, Eyad Abdel Halym Hyasat, Mashhour Hathloul Maharmah, and Shireen Mahmoud Alali. 2022. The Impact of Earnings Management Practices on the Market Value of Industrial Companies Listed on the Amman Stock Exchange: Evidence from Jordan. WSEAS Transactions on Business and Economics 19: 1613–20

Margono, F. P., & Gantino, R. (2021). The influence of firm size, leverage, profitability, and dividend policy on firm value of companies in indonesia stock exchange. *Copernican Journal of Finance & Accounting*, *10*(2), 45-61.

Markonah, M., Salim, A., & Franciska, J. (2020). Effect of profitability, leverage, and liquidity to the firm value. *Dinasti International Journal of Economics, Finance & Accounting*, *1*(1), 83-94.

Munawaroh, F., & Munandar, A. (2024). Investment Decisions' Impact on Corporate Value: Analyzing Profitability, Leverage, Company Size, and Age Moderation Effects. *International Journal of Social Science and Business*, *8*(1), 105-116.

Murniati, S., Mus, H. A. R., Semmaila, H. B.,

& Nur, A. N. (2019). Effect of investment decisions, financing decisions and dividend policy on profitability and value of the firm. *International Journal of Accounting & Finance in Asia Pasific (IJAFAP)*, *2*(1).

Murtaza, M., Iqbal, M. M., Ullah, Z., Rasheed, H., & Basit, A. (2018). An analytical review of dividend policy theories. Journal of Advanced Research in Business and Management Studies, 11(1), 62-76.

Nazir, A., Azam, M., & Khalid, M. U. (2021). Debt financing and firm performance: empirical evidence from the Pakistan Stock Exchange. *Asian Journal of Accounting Research*, *6*(3), 324-334.

Nurlela, N., Sulastri, S., AJ, U. H., & Hanafi, A. (2019). The influence of investment decisions and financing decisions on firm value with profitability as intervening variables (empirical study on companies listed in Indonesian Sharia Stock Index). *International Journal of Multicultural and Multireligious Understanding*, *6*(2), 447-456.

O'Connell, M., & Ward, A. M. (2020). Shareholder theory/shareholder value. Encyclopedia of sustainable management, 1-7.

Omodero, C. O., & Amah, K. O. (2017). Analysis of dividend policy and its impact on shareholder's wealth maximization in Nigerian firms (A study of brewery industry). *Applied Economics and Finance*, *4*(5), 1.

Ozuomba, C. N., Anichebe, A. S., & Okoye, P. V. C. (2016). The effect of dividend policies on wealth maximization–a study of some selected plcs. *Cogent Business & Management*, *3*(1), 1226457.

Pandey, I. M. (1995). Essentials of Financial Management (4th ed.). Vikas publishing

Panjaitan, I. V., & Supriyati, D. (2023). The Effect of Profitability and Leverage on Firm Value with Firm Size as a Moderating Variable. *Research of Finance and Banking*, *1*(1), 34-46.

Park, J. J. (2021). From Managers to Markets: Valuation and Shareholder Wealth Maximization. J. Corp. L., 47, 435.

Park, Y. S., Konge, L., & Artino Jr, A. R. (2020). The positivism paradigm of research. *Academic medicine*, *95*(5), 690-694.

Prameswari, I. A. N. (2024). The Effect of Profitability on Company Value with Dividend Policy as a Moderating Variable. *Jurnal Inovasi Akuntansi (JIA)*, *2*(1), 21-28.

Putri, R. J. (2023). The Effect of Dividend Policy and Profitability on Firm Value. *Accounting and Finance Studies*, *3*(2), 142-156.

Rehman, O. U. (2016). Impact of capital structure and dividend policy on firm value. Journal of Poverty, Investment and Development, 21(1), 40-57.

Sadiq, Misbah, Sheikh Usman Yousaf, Muhammad Khalid Anser, Haroon ur Rashid Khan, Sriyanto Sriyanto, Khalid Zaman, Duong Van Tu, and Siti Nisrin Mohd Anis. 2020. The Role of Debt Financing in the Relationship between Capital Structure, Firm's Value, and Macroeconomic Factors: To Throw Caution to the Wind. Quarterly Review of Economics and Finance, in press

Seth, R., & Mahenthiran, S. (2022). Impact of dividend payouts and corporate social responsibility on firm value–Evidence from India. *Journal of Business Research*, *146*, 571-581.

Setiawanta, Yulita, Dwiarso Utomo, Imam Ghozali, and Jumanto Jumanto. 2021. Financial Performance, Exchange Rate, and Firm Value: The Indonesian Public Companies Case. Organizations and Markets in Emerging Economies 11: 348–66

Sihwahjoeni, S., Subiyantoro, E., & Bili, M. R. (2020). Analysis Effect of Investment

Decision, Financing and Dividend Policy on Value Company with Variable Business Risk as Mediation. *International Journal of Research and Scientific Innovation (IJRSI)*, *7*(7), 261-269.

Sneirson, J. F. (2019). The history of shareholder primacy, from Adam Smith through the rise of financialism. Cambridge Handbook of Corporate Law, Corporate Governance and Sustainability (Cambridge University Press, 2019).

Soleha, L., & As' ari, H. (2024). The Influence of Profitability, Liquidity, and Leverage on Company Value in Companies Listed on the Indonesian Stock Exchange. *JESI (Jurnal Ekonomi Syariah Indonesia)*, *14*(1), 260-274.

Sondakh, R. (2019). The effect of dividend policy, liquidity, profitability and firm size on firm value in financial service sector industries listed in Indonesia stock exchange 2015-2018 period. *Accountability*, *8*(2), 91-101.

Stephens, R. G., Dunn, J. C., & Hayes, B. K. (2018). Are there two processes in reasoning? The dimensionality of inductive and deductive inferences. Psychological Review, 125(2), 218.

Sulistiono, S., & Yusna, Y. (2020, April). Analysis of the effect of funding decision and dividend policy on the firm value and investment decision as mediation (study on manufacturing companies in Indonesia stock exchange). In *1st Annual Management, Business and Economic Conference (AMBEC 2019)* (pp. 173-177). Atlantis Press.

Suteja, J., Gunardi, A., Alghifari, E. S., Susiadi, A. A., Yulianti, A. S., & Lestari, A. (2023). Investment decision and firm value: moderating effects of corporate social responsibility and profitability of non-financial sector companies on the Indonesia stock exchange. *Journal of Risk and Financial Management*, *16*(1), 40.

Tanzania Invest. (2024). DSE report: Week 39,2024. https://www.tanzaniainvest.com/finance/capitalmarkets/dse-report-week-39-2024

Tanzania Invest. (2024). *DSE report: Week 40*. https://www.tanzaniainvest.com/finance/capitalmarkets/dse-report-week-40-2024

Taj, S. A. (2016). Application of signaling theory in management research: Addressing major gaps in theory. *European Management Journal*, *34*(4), 338-348.

Tamminen, K. A., & Poucher, Z. A. (2020). Research philosophies. In The Routledge international encyclopedia of sport and exercise psychology (pp. 535-549). Routledge.

Toby, A. J., & Sarakiri, J. A. (2021). Corporate Debt Policy and Firm Value: New Evidence from Nigeria. *International Journal of Financial Management (IJFM)*, *10*(2), 1-14.

Triani, N., & Tarmidi, D. (2019). Firm value: impact of investment decisions, funding decisions and dividend policies. International Journal of Academic Research in Accounting, Finance and Management Sciences, 9(2), 158-163.

Tumiwa, R. A. F., Apituley, J. R. M., & Lasut, S. A. (2020, October). Is the Value of the Company Affected by Company Investment Decisions and Financing Decisions? In *Journal of International Conference Proceedings* (Vol. 3, No. 2, pp. 100-110).

Tung, V. N., Kamboj, V., & Bhardwaj, A. (2012). Unit commitment dynamics-an introduction. International Journal of Computer Science & Information Technology Research Excellence, 2(1), 70-74.

Utami, W. B. (2021). Influence of Investment Decisions (PER), Policy of Dividend (DPR) and Interest Rate against Firm Value (PBV) at a Registered Manufacturing Company on Indonesia

Stock Exchange in 2015-2018. *Annals of the Romanian Society for Cell Biology*, 1972-1984.

Wardani, O. M., & Subowo, S. (2020). Factors that influence capital structure with profitability as a moderating variable. Accounting Analysis Journal, 9(2), 103-109.

Wijayaningsih, S., & Yulianto, A. (2021). The effect of capital structure, firm size, and profitability on firm value with investment decisions as moderating. *Accounting Analysis Journal*, *10*(3), 150-157.

Windsor, D., & Boatright, J. R. (2010). Shareholder wealth maximization. *Finance ethics: Critical issues in theory and practice*, 437-455.

Yan, M. (2019). Corporate social responsibility versus shareholder value maximization: Through the lens of hard and soft law. Nw. J. Int'l L. & Bus., 40, 47.

Yulianti, A. S., Suteja, J., Alghifari, E. S., Gunardi, A., & Sarman, R. (2024). The Effect of Financing Decision on Firm Value: An Analysis of Mediation and Moderation. *Review of Integrative Business and Economics Research*, *13*(3), 441-450.

Zare, R., Moradi, J., & Valipour, H. (2013). Dividend Policy and Information Asymmetry from the Signaling Perspective. *Asian Economic and Financial Review*, *3*(4), 445.