



## Dividend Policy and Share Price Valuation of Listed Commercial Banks in Tanzania

**Gregory Dominick Lyimo\***

Department of Accounting & Finance  
Institute of Finance Management, Dar es Salam,  
[gregory.lyimo@ifm.ac.tz](mailto:gregory.lyimo@ifm.ac.tz)

### Abstract

*Dividend payment signals good news to investors. Thus, it influences firm share price valuation. Over time, two contradicting theories have propounded the relevance and irrelevance of dividend policies to influence firm share price valuation. Despite the existence of the irrelevance theory, dividend payment has remained a key financial decision of corporate managers that has impacted firm's share price valuation over time. Therefore, this study aimed at examining the effect of dividend policy on share price valuation of commercial banks in Tanzania. Specifically, the study examined the influence of four dividend policy proxies: dividend per share, dividend payout ratio, dividend yield and propensity to pay dividends on share price of commercial banks. The study used panel data extracted from annual reports of four listed commercial banks from 2011 to 2022. The study used Panel Corrected Standard Error (PCSE) regression estimator in estimating the relationship. The findings revealed that dividend per share, dividend payout ratio and propensity to pay dividends have a profound positive influence on share price of commercial banks in Tanzania. The findings showed that when management efficiently utilises profit to pay dividends, it affects positively share price of commercial banks. However, it was only found that dividend yield is significantly inversely linked with share price of commercial banks in Tanzania. This implies that an increase in dividend yield affects significantly negatively share price of commercial banks. In general, the findings support the dividend relevance theory and corporate managers are advised to maximise payment of dividends to enhance the share price valuation of commercial banks.*

*Keywords: Dividend Policy, Share Price Valuation.*

### 1. Introduction

The debate on the role of dividend policy in influencing share price valuation of banks has attracted the concern of many stakeholders all over the world (Adesina et al., 2017; Al Masum, 2014; Banerjee, 2018; Budagaga, 2020; Khan & Qureshi, 2023). The earlier work of Modigliani and Miller (1958) was among the first studies that did not find a link between dividend policy and firm

share price valuation for corporations. However, a subsequent work of Walter (1963) documented that dividend policy and corporate valuation are positively linked. This implies that companies may enhance corporate share price valuation by paying dividends. Since then, studies have documented mixed findings over time on the influence of dividend policy on corporate share price valuation across countries (Arko et al., 2014;

Dang et al., 2021; Khan & Qureshi, 2023; Murtaza, 2020). Therefore, the ongoing debate signifies the relevance of examining whether dividend policy influences share price valuation for listed commercial banks particularly in emerging economies like Tanzania.

The Tanzania banking sector is among the key sectors that contribute to the economic growth of the country. The banking sector has 46 banking institutions and 15 non-banking institutions as of the year 2022 (Bank of Tanzania, 2022). The banking sector for the past decade, despite the effect of COVID 19, has experienced stable growth and a decline in non-performing loans that enable the sector to contribute profoundly to the economic growth (BOT, 2022; Ernst & Young, 2022). Despite good stability and performance of the banking sector for the last decades, the listing of commercial banks to the financial market to tap additional capital has not been profound for the past two decades. Currently, eight (8) commercial banks are listed in Dar es Salaam stock exchange (DSE) out of 46 banks (Bank of Tanzania, 2022). These listed commercial banks include; CRDB Bank, National Microfinance Bank, DCB Commercial Bank, KCB Bank Tanzania, Maendeleo Commercial Bank, Mwalimu Commercial Bank, Mkombozi Commercial Bank, and Mufindi Commercial Bank. Despite the number of listed commercial banks being seen as low relative to the banking sector, the listed commercial banks represent 28.57% of all listed firms in Tanzania. Thus, it reflects its significant influence in the financial market (Ernst & Young, 2022).

In Tanzania, dividend policy is governed by company laws. Payment of dividends is provided for under Section 180 of the Companies Act of 2002. Dividends are

declared by the Board of Directors subject to approval at the general meeting of all shareholders. Section 180 (3) of the Act provides that dividends be paid out of the company's profits or realized revenue. Thus, dividend payout for commercial banks listed at the Dar es Salaam Stock Exchange (DSE) differs as each bank decides how much and when to pay dividends to its shareholders. Hence, resulting to unstable payment of dividends (Ernst & Young, 2022). Despite the existence of unstable dividend payments for some companies, some listed commercial banks in Tanzania have strived to maintain stable dividends to avoid market panic (Creation, 2022; NMB Annual Report, 2022). Unlike the developed countries with strong corporate governance structures, the less developed countries have weak corporate governance structures that lead to the payment of unstable dividends (Jabłoński & Kuczowic, 2016; Pirtea et al., 2022). This implies that for less developed countries like Tanzania, dividend payment varies depending on earnings.

Several prior studies have associated a firm that pays dividends with higher share price value of banks (Adesina et al., 2017; Arsal, 2021; Bezawada & Tati, 2017; Hauser & Thornton, 2017; Mohanasundari, 2016; Pirtea et al., 2022; Seth & Mahenthiran, 2022). For example, Dang et al., (2021) documented profound positive impact of dividend payout policy on corporate share price valuation in Vietnam. Likewise, Seth and Mahenthiran (2022) uncovered a positive link between share price valuation and dividend payout ratio among listed Indian companies. Again, Sasongko (2019) confirmed that dividend payout influences significantly positive share valuation of Indonesian listed firms.

Similarly, Sorin (2016) documented the immense influence of dividend payout on share valuation for Romania listed firms. However, Budagaga (2020) confirmed that dividend payout policies do not influence the share price valuation for banks located in North Africa and the Middle East.

Prior studies have not arrived at a consensus on whether payment of dividends leads to the maximization of the shareholder through firm share price valuation (Adesina et al., 2017; Bezawada & Tati, 2017; Seth & Mahenthiran, 2022). Moreover, studies on the influence of dividend policies on share price valuation have been extensively done in developed countries and less in developing countries like Tanzania (Dereeper & Turki, 2016; Jabłoński & Kuczowic, 2016; Pirtea et al., 2022; Sorin, 2016). Therefore, the aforementioned factors warrant further investigation, particularly, in developing countries like Tanzania. The study examined the effect of dividend policy on share price valuation of listed commercial banks in Tanzania.

## **2. Literature Review**

### **2.1. Dividend Payout and Share Price Valuation**

Dividend payout is the ratio that reflects the proportion of dividends paid over the total earnings available to the shareholder. It ranges from zero to one, zero for non-paying dividend firms and one for firms paying all earnings as dividends. Usually, firms strive to maintain stable dividends and are reluctant to reduce the payout ratio to avoid investors' reactions (Jabłoński & Kuczowic, 2016). Majority of prior studies have documented a twofold influence of dividend payout on share price valuation of firms, significant and insignificant link between dividend payout and share price valuation of

firms (Chinnaiah, 2020; Sasongko, 2019; Seth & Mahenthiran, 2022).

Further, some studies have uncovered that dividend payout ratios do not influence firm share price. For instance, Husna and Satria (2019) documented an insignificant positive link between dividend payout and firm share price valuation for listed Indonesian manufacturing companies. Again, Fitriana (2022) revealed an insignificant positive association between dividend payout ratio and share value of listed companies in Pakistan. Likewise, Chinnaiah (2020) revealed that dividend payout ratio is not linked to firm share price for listed Nigerian firms.

However, many studies have documented a significant positive role of dividend payout on a firm's share price valuation. For example, Sasongko (2019) uncovered that dividend payout significantly influenced the share price of Indonesia listed manufacturing companies. Moreover, Sorin (2016) reported the significant positive influence of the dividend payout ratio on non-financial firms listed on Bucharest stock exchange. In addition, Seth and Mahenthiran (2022) found a positive significant link between the dividend payout ratio and the share price of listed Indian firms. Furthermore, Dang et al., (2021) reported a significant positive impact of dividend payout on firm share price for listed Vietnam firms. Likewise, Singh and Tandon (2019) uncovered significant positive link between dividend payout ratio and share price for Indian listed firms. The aforementioned literatures suggest that dividend payout ratio influences significant positive bank share price.

### **2.2. Dividend Yield and Share Price Valuation**

Dividend yield is a commonly used proxy that indicates the investor's returns in dividends and is calibrated as the dividend paid scaled by the market share price. Therefore, in *ceteris paribus*, a higher dividend yield signals an increase in dividend payment and a lower dividend yield indicates the decrease in dividend payment. An increase in dividend yield is positive news to investors and it is projected to have a positive impact on firm share price valuation for companies that are not falling in value (Singh & Tandon, 2019). However, the role of dividend yield in influencing firm valuation has resulted in contradicting findings in the finance arena. Zulkifli et al. (2012) revealed a significant positive association between dividend yield and firm share price for firms listed in Malaysia. However, Banerjee (2018) documented an insignificant positive link between dividend yield and share price valuation of firms listed on Qatar Stock Exchange. Singh and Tandon (2019) found a significant inverse association between dividend yield and firm valuation for listed Indian companies.

Moreover, Bezawada and Tati (2017) affirmed an insignificant relationship between dividend yield and share value of Indian listed manufacturing firms. Likewise, Rahman and Ahmed (2014) found out that dividend yield is negatively associated with firm valuation. Adesina et al. (2017) documented evidence to suggest that dividend yield is inversely related to the share value of the listed Nigerian banks. The current study hypothesized that dividend yield is significantly positively linked with bank share price.

### **2.3. Propensity to Pay Dividend and Share Price**

#### **Valuation**

Propensity to pay dividends of a firm usually indicates

the tendency of the firm to pay dividends to shareholders. Thus, many firms prefer stable payment of dividends and are reluctant to cut dividends to avoid market reaction (Budagaga, 2020; Hauser & Thornton, 2017). The payment of dividends is guided by the life cycle theory which affirms that firms should not pay dividends at their initial stages but rather at their maturity stages (Hauser & Thornton, 2017). At initial stages, firms have more profitable projects and less funds, however, at maturity stages less funding is required that warrant dividend payment.

Furthermore, the dividend policy implemented by firms should create value for investors and should trade off the benefits and cost of a firm's retention of earnings (Hussainey et al., 2011). Studies have shown that shareholders prefer dividends to capital gains as dividend payment is inclined to the value of the firms (Dang et al., 2021; Zulkifli et al., 2012). For instance, Tyastari et al. (2017) documented a significant positive association between firms which pay dividends and increase in valuation. Similarly, Hauser and Thornton, (2017) using data for listed USA companies, confirmed that firms paying dividends are associated with increased share valuation. Again, Karpavičius and Yu (2018) revealed that firms that pay dividends have higher share price valuations relative to non-paying firms. Moreover, Al Masum (2014) examined the influence of the dividend policy of listed banks in Bangladesh on bank share prices and documented a significant positive link between share price and dividend policy. However, Oliver et al. (2016) found that payment of dividends by firm does not enhance valuation for listed Nigerian firms. Therefore, the findings of the prior studies that examined

the association between share prices and propensity to pay dividends suggest propensity to pay dividends is significantly positively associated with bank share price.

#### **2.4. Dividend per Share and Share Price Valuation**

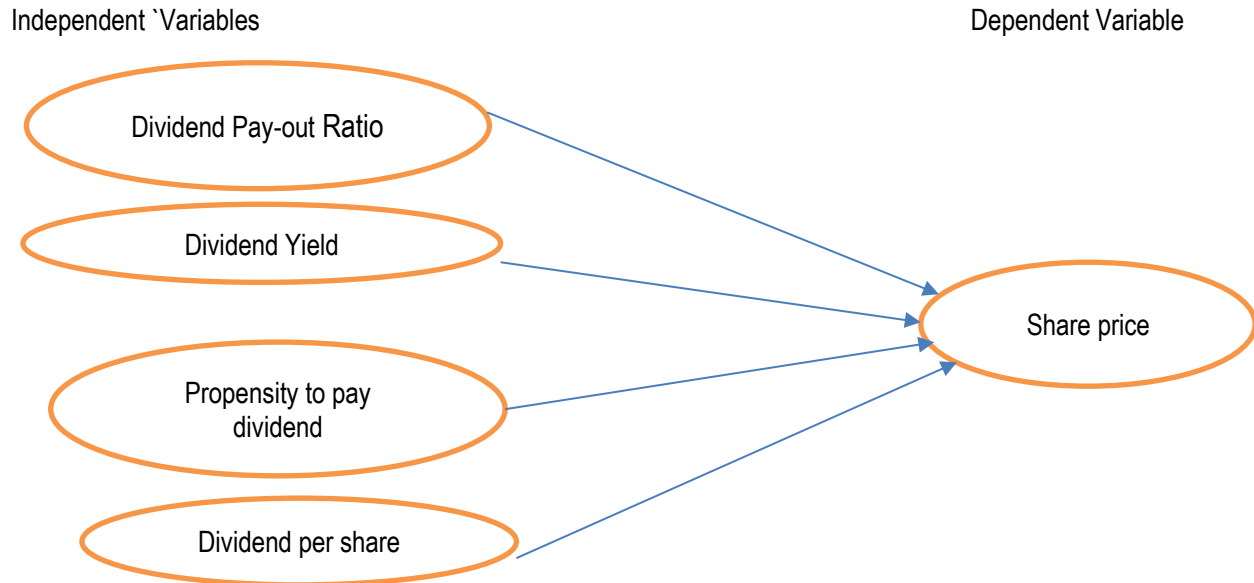
Dividend per share paid indicates that the shareholder receives earnings due to ownership. Most shareholders prefer to be paid despite their ability to sell part of ownership to create their own dividends (Pirtea et al., 2022). Studies have documented mixed relationships that exist between dividends per share paid and firm share price valuation. For example, Nwamaka and Ezeabasili (2017) found that the paid dividend per share significantly influences significant positive valuation of listed Nigerian firms. Moreover, Raza et al. (2018) affirmed that dividend per share paid significantly influences significant positive valuation of Bangladeshi listed companies. Likewise, Usman et al. (2021) documented evidence to support the significant positive role of dividend per share in influencing share price of manufacturing companies listed in Indonesian stock market. In addition, Banerjee (2018) revealed a significant positive association between dividend per share and firm share price for companies in Qatar stock market.

However, Arsal (2021) uncovered that the paid dividend per share for listed Indonesian firms is not linked to their valuation. Moreover, Oliver et al. (2016) documented that dividend per share is significantly negatively linked

with share price of listed Nigerian firms. Likewise, Ali et al. (2017) affirmed insignificant link that exists between dividends per share and valuation of firms listed in Karachi stock market. Majority of the reviewed studies on the influence of dividend per share paid on firm valuation signify the role of dividend per share in influencing significant positive firm share price. Therefore, the current study proposes that dividend per share is significantly positively linked with bank share price.

#### **2.5 Conceptual Framework**

The literature on dividend policies and firm valuation is rich and it has affirmed that many proxies calibrate the dividend policy of a bank (Budagaga, 2020; Elyasiani et al., 2019; Pirtea et al., 2022). The literature affirm that the commonly employed proxies to calibrate dividend policies are dividend payout ratio, dividend per share, dividend yield, earnings per share and dividend propensity and these are independent variables that influence the dependent variable which is share price (Bezawada & Tati, 2017; Dang et al., 2021; Hussain & Akbar, 2022). Moreover, the relationship among the variables of the study is explained by the dividend relevance theory that asserts that dividend policy is relevant as it influences share price valuation of banks (Adesina et al., 2017; Al Masum, 2014; Banerjee, 2018). In this regard, figure 2.1 displays conceptual framework for this study.



**Figure 1: Conceptual Framework**

**3. Methodology**

A quantitative research approach has been employed due to the nature of the study which aims at establishing a causality relationship between dividend policy and share price of listed banks. Moreover, post positivism epistemology following a deductive approach to knowledge generation is adopted. The population of this study involved commercial banks. The study used secondary data to examine the effect of dividend policy on the valuation of listed commercial banks in Tanzania. This was a census study whereby, all commercial banks listed in DSE were considered. The sample period of the current study was twelve years ranging from 2011 to 2020. This is due to the fact that during this period, the listed commercial banks in Tanzania experienced an increase in profitability, stable liquidity and resilience to COVID 19 stocks (Ernst & Young, 2022). The study sample was reduced to four commercial banks namely CRDB Bank, National Microfinance Bank, DCB

Commercial Banks and KCB Bank Tanzania after excluding other four commercial banks which were not listed in DSE by 2011. The excluded banks were Maendeleo Commercial Bank, Mwalimu Commercial Bank, Mkombozi Commercial Bank, and Mufindi Commercial Bank.

Panel data regression analysis models were used to examine the effects of dividend policy on commercial bank valuation. In line with prior studies, Equation 1 was used to calibrate the effect of dividend policy on share price valuation of listed commercial banks (Adesina et al., 2017; Khan & Qureshi, 2023).

$$Po_{i,t} = \alpha_0 + c_1DPS_{i,t} + c_2PAYOUT_{i,t} + c_3DY_{i,t} + c_4PPS_{i,t} + \varepsilon_{i,t} \quad (1)$$

Where;

$\alpha_0$  = Constant term,  $Po_{i,t}$  = closing share price for bank i at time t,  $c_1$ - $c_4$  = Regression coefficients,  $DPS_{i,t}$  = dividend per share for bank i at time t,  $PAYOUT_{i,t}$  = pay-out ratio for bank i at time t,

$DY_{i,t}$  = dividend yield for bank  $i$  at time  $t$ ,  $PPS_{i,t}$  = propensity to pay a dividend for the bank  $i$  at time  $t$ ,  $\varepsilon_{i,t}$  = residual or error term.

Like many other studies on dividend policy on firm valuation, this study employed a number of tests; specifically, descriptive statistics multi-collinearity test, and heteroskedasticity test. These tests guided the process of selecting the best estimator for calibrating the link between dividend policy and corporate valuation. In line with prior studies, efficient estimators were chosen based on the principle set (Dang et al., 2021; Hauser & Thornton, 2017). Moreover, the results of diagnostic tests favor the panel corrected standard error (PCSE) over pooled ordinary least squares (OLS) and fixed and random effect panel regression.

#### 4. Findings and discussions

##### 4.1. Descriptive Statistics

The results of descriptive statistics for the key variables

used to examine the role of dividend policy in influencing the share price valuation of listed commercial banks are depicted in Table 2. The average share price for listed commercial banks was Tanzanian shillings (Tshs) 945 and the highest commercial bank share price was Tshs 3,400 and the minimum share price was Tshs 95. Moreover, the average payout ratio for listed commercial banks was approximately 27.1%. Likewise, the maximum payout ratio for listed banks was 51% and some listed commercial banks did not pay dividends during the period under review thus payout ratio was zero. The mean value of the dividend per share paid was Tshs 43.717 and the highest amount of dividend per share paid was Tshs 286 and the minimum was zero. The average dividend yield was 4.9%, while the highest dividend yield was 17.9% and the lowest was zero. The average level of dividend payment by commercial banks as calibrated by propensity to pay dividends was 87.5%, thus, indicating that most commercial banks paid dividends.

**Table 4.2: Descriptive Statistics**

Variable	Obs	Mean	Std. Dev.	Min	Max
Po	48	945.895	922.415	95	3400
PAYOUT	48	0.271	0.139	0	0.51
DPS	48	43.717	50.446	0	286
DY	48	0.049	0.035	0	0.179
PPS	48	0.875	0.334	0	1

##### 4.2. Multi-collinearity

Multi-collinearity is among the key tests that are conducted to ensure that the model used furnishes the best coefficient estimation. Table 3 reports the results of the multi-collinearity test using the variance inflation

factor (VIF). The value of VIF for propensity to pay dividends was 2.58 while the VIF value for payout ratio was 2.28. Likewise, the VIF value for dividend yield was 1.42 and VIF value for dividend per share was 1.13. The reported VIF values for all aforementioned independent

variables of the present study are far below the cut-off value of 10 that was propounded by Wooldridge (2015). Since the reported VIF values are very far from the cut-off, the current study is not affected by the multi-collinearity problem.

**Table 4.3: Results Multi-collinearity Test**

Variable	VIF	1/VIF
PPS	2.58	0.387
PAYOUT	2.28	0.439
DY	1.42	0.703
DPS	1.13	0.885
MEAN VIF	1.85	

#### 4.3. Heteroskedasticity Result

Heteroskedasticity is the key test that calibrates variance of independent variables used in estimation. Table 4 reports the results of Breusch-Pagan and Cook-Weisberg test used to measure the uniformity of the independent variables to estimate the association between dividend policy and bank share price. The result depicts a p-value of 0.00 which is less than 0.05, hence, the null hypothesis of constant or uniform variance is rejected, thus, indicating un-uniform variance of the predictors. Therefore, the results report heteroskedasticity problem that makes OLS furnish biased results. The current study used PCSE to mitigate the problem of heteroskedasticity. Moreover, fixed and random effect estimators were used only for validating the results.

**Table 4.4: Results for Heteroskedasticity Test**

Breusch-Pagan / Cook-Weisberg test for Heteroscedasticity
Ho: Constant variance
Variables: fitted values of Po
chi2(1) = 32.21
Prob > chi2 = 0.0000

#### 4.4. Regression Results

Table 5 depicts the results of regression analysis to estimate the association between dividend policy and valuation of listed banks. The study used four proxies of dividend policy namely, dividend per share, dividend yield, propensity to pay dividend and dividend pay-out ratio as predictors. The study used PCSE to calibrate the relationship between dividend policy and banking share price. So, table 5 report the results of the PCSE. Moreover, it reports the results of fixed, random effect and pooled OLS for subsisting the results.

Furthermore, the relationship between dividend policy and valuation of banks is guided by two conflicting theories. On the one hand, there is dividend irrelevance theory propounded by the earlier work of Modigliani and Miller (1958) which argues that dividend policy does not influence valuation of the firm. On the other hand, there is dividend relevance theory developed by Walter (1963) which affirms that dividend policy profoundly influences positive valuation of firms.

The results of the current study detailed below to a large extent supported the dividend relevance theory propounded by Walter that valuation of a firm is influenced by dividend policy. The results of PCSE revealed that dividend per share ( $c_1=15.216$ , p-value =0)



is significantly positively linked with commercial bank valuation at a 1% level of significance. This implies an increase in dividend paid per share that leads to an increase in bank share price, thus, influencing positive commercial bank valuation. Moreover, the findings suggest that investors value more and interested in paying dividends than non-paying firms. The findings are in line with study the conducted by Nwamaka and Ezeabasili (2017) in Nigeria that affirmed a significant positive link between dividend per share and valuation of listed firms. Moreover, Banerjee (2018) findings in Qatar support the findings that dividend per share influences bank valuation.

Likewise, the results uncovered that dividend pay-out ratio ( $c_2=999.906$ ,  $p\text{-value}=0.043$ ) have a positive significant association with share prices of commercial banks at a 5% level of confidence. This implies that an increase in pay-out ratio is profoundly positively linked with an increase in share price of commercial banks. Moreover, the findings suggest that investors prefer listed banks with a pay-out ratio. The findings are similar to those documented by Sasongko (2019) who affirmed a dividend payout to be significantly positively associated with the valuation of Indonesian-listed manufacturing companies. In addition, the findings are similar with those reported by Seth and Mahenthiran (2022) in India which revealed a significant positive association between dividend payout ratio and share price of listed firms. Furthermore, the findings are supported by the study done by Dang et al. (2021) in Vietnam that uncovered a dividend payout ratio to be significantly positively linked with valuation of Vietnam listed firms.

Moreover, it was found that dividend yield. ( $c_3= -10815.66$ ,  $p\text{-value}=0$ ) is inversely related to the valuation of commercial banks at a 1% level of significance. The result entails that as dividend yield increases, the share price of commercial banks decreases. The result is contrary to the expectation except for firms with falling share prices. Prior studies have documented similar findings (Adesina et al., 2017; Rahman & Ahmed, 2014). For instance, Rahman and Ahmed (2014) in Pakistan uncovered a dividend yield to be significantly negatively related to share prices for listed firms. Likewise, Adesina et al. (2017) in Nigeria revealed that dividend yield of Nigerian listed banks is significantly negatively associated with share prices of listed banks. Moreover, Singh and Tandon (2019) found a profound inverse link between dividend yield and valuation of listed Indian companies.

Furthermore, propensity to pay a dividend ( $c_4=326.433$ ,  $p\text{-value}=0.048$ ) was found positively linked with the valuation of listed commercial banks at a 5% level of significance. This implies that listed commercial banks tend to pay dividends to enhance share price valuation. The findings are supported by prior studies that have documented the same, for example, Hauser and Thornton (2017) found that dividend paying firms in USA have higher share valuation. Likewise, Karpavičius and Yu (2018) conducted a meta study which documented that dividend paying firms have higher share prices than non-dividend paying firms. The results supported the dividend relevance theory as three out of four dividend policy proxies used were significantly positively linked with commercial banks' share price valuation.

**Table 4.5: Results Regression**

Variable	Panel Corrected standard error	Fixed Effect Estimator	Random Effect Estimator	Pooled OLS
DPS	15.216* ** (0)	7.132** * (0)	15.2165* ** (0)	15.217* ** (0)
PAYOUT	999.906 ** (0.043)	576.62 9* (0.076)	999.906* * (0.049)	999.906 ** (0.033)
DY	- 10815.6 6*** (0)	- 5387.7 94 (0.008)	- 10815.6 60*** (0)	- 10815.6 6*** (0)
PPS	326.433 ** (0.048)	114.52 5 (0.759)	326.433 (0.284)	326.433 (0.29)
CONSTANT	257.5*** * (0.009)	643.35 6*** (0.001)	257.5 (0.147)	257.5 (0.154)
Number of Observations	48	48	48	48
Adjusted R-square	0.7971	0.7959	0.7971	0.7782

Notes: P-values attached to the coefficient. \*, \*\* and \*\*\* reports significant coefficient at 10%, 5% and 1% levels.

## 5. Conclusions and Recommendations

This study investigated the influence of dividend policy on valuation of listed commercial banks at DSE. The study used data from four listed commercial banks that meet the requirement for the sampled period from 2011 to 2022. Moreover, fourfold dividend policy proxies namely; dividend per share, dividend yield, propensity to pay dividends and dividend pay-out ratio were used. The study used PCSE to calibrate the influence of dividend policy on the share price valuation of listed commercial banks.

Specifically, the study found that dividend per share, dividend pay-out ratio and propensity to pay dividends are significantly positively linked with valuation of commercial. This implies that an increase in dividend per share, and dividend pay-out will result into increase in share price of listed banks. Moreover, the findings suggest that investor prefers companies that pay dividends. The results are supported by the earlier work of Walter (1963) and subsequent works done by Banerjee (2018), Dang et al. (2021), and Seth & Mahenthiran (2022). However, the results revealed that dividend yield is significantly inversely associated with the valuation of commercial banks. This implies that an increase in dividend yield leads to a decrease in share price. The findings do not support the dividend theory and prior studies have documented similar findings; for example, Adesina et al. (2017) and Rahman and Ahmed (2014).

In general, the overall findings of the study supported the dividend relevance theory as the results of three out of four proxies supported that the dividend policy influences significant positive valuation of listed commercial banks

in Tanzania. Thus, corporate managers are advised to pay dividends to enhance firm's share price valuation. Finally, the study recommends further study be conducted to examine dividend policy and firm valuation for other sectors such as manufacturing and commercial services.

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