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The Effect of Internal Financial Factors on Performance of Six Manufacturing Firms Listed on the Dar es Salaam Stock Exchange, Tanzania

Authors: Enos Jackson, Ann Kathomi & Bishangazi P. Kaihula
St. Augustine University of Tanzania. **Website:** www.saut.ac.tz
Correspondance: Enos Jackson. **Email:** enosjacksonlameck@gmail.com

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Abstract: *This study aimed to examine the internal financial factors affecting the performance of six manufacturing firms listed on the Dar es Salaam Stock Exchange (DSE) in Tanzania between 2010 and 2023. Specifically, it investigated the impact of internal financial factors comprising of liquidity, efficiency and leverage on firm performance, measured by Return on Assets (ROA) and Return on Equity (ROE). This study employed a longitudinal research design using secondary data from audited annual financial reports of the six firms. The focus was on six publicly listed Tanzanian manufacturing firms with over 14 years, integrating internal financial factors in a longitudinal framework and providing updated empirical evidence. Descriptive statistics, correlation analysis, and diagnostic tests were conducted, followed by regression analysis using the Auto Regressive Distributed Lag (ARDL) model to determine relationships between independent variable and firm performance. Stationarity of the data was verified through the Augmented Dickey-Fuller (ADF) test. Results indicate that internal financial factors significantly influence firm performance. Liquidity was positively correlated with ROA (0.642) and ROE (0.713), with regression showing a 1% increase in liquidity improving performance by 2.62% ($p = 0.0084$). Efficiency had the strongest impact, where a 1% increase improved performance by 44.07% ($p = 0.0022$). Leverage negatively affected performance, reducing profitability by 4.81% per 1% increase ($p = 0.0245$). Overall, the ARDL model explained 74.5% of variations in firm performance ($R^2 = 0.745$). Managers should prioritize liquidity and operational efficiency prudently. Policymakers can support sector performance through policies and regulatory frameworks that encourage efficiency. Enhanced performance of manufacturing firms can contribute to industrial growth, employment creation, and economic development, improving social stability and livelihoods in Tanzania.*

Keywords: *Firm Performance, Liquidity, Efficiency, Leverage, Dar es Salaam Stock Exchange*

1.1 Background of the Study

Global value chains have increasingly integrated emerging economies into international production systems, contributing significantly to growth in manufacturing and export performance. Countries such as China, India, and Brazil have demonstrated substantial advances across different industrial domains such as China in skill-intensive manufacturing, India in software and IT-enabled services, and Brazil in agriculture. Despite this progress, global evidence reveals rising volatility among publicly listed manufacturing firms, with many experiencing declining profit margins, unstable earnings, and increasing debt burdens following major disruptions, including the 2008 global financial crisis and the COVID-19

pandemic. These shocks, compounded by inflationary pressures and tightening monetary policies, have weakened the operational and financial resilience of firms across both developed and emerging economies. In Africa, the manufacturing sector remains central to economic development. It contributes roughly 17.4% of GDP, accounts for about 9% of total employment, and drives over 40% of export earnings. As economies grow, the sector becomes increasingly important for boosting productivity, generating employment, promoting innovation, and diversifying exports. Industrial development is therefore seen as a key pathway for reducing dependence on imports, enhancing value addition, and strengthening economic infrastructure. However, many African firms continue to face significant constraints, such as high production costs, weak technological capacity, and, critically, limited access to long-term and affordable finance. Within Sub-Saharan Africa, financial factors defined as the measurable financial and macroeconomic factors affecting firm performance play an essential role in shaping profitability and stability. Regional integration blocs such as the East African Community (EAC), Southern African Development Community (SADC), and the African Continental Free Trade Area (AfCFTA) have increased market opportunities, but they have also exposed firms to greater regional financial volatility. Inefficiencies in financial management, poor working capital practices, and over-reliance on debt financing further heighten the risk of financial distress among firms in the region.

In Tanzania, the manufacturing sector is prioritized in national development agendas, including the Tanzania Industrialization Strategy 2025. Several manufacturing firms listed on the Dar es Salaam Stock Exchange (DSE) actively participate in regional trade and rely on both domestic and regional financial markets. However, these firms continue to encounter external financial pressures. Interest rate disparities across the region increase borrowing costs, while inflation differentials compress profit margins and weaken financial ratios such as ROA and net margins. Currency volatility particularly depreciation of the Tanzanian shilling raises the cost of imported raw materials and external debt servicing, affecting liquidity and working capital cycles. Moreover, deeper and more competitive financial markets in neighboring countries disadvantage Tanzanian firms in accessing affordable capital. Internally, many firms face constraints such as low asset turnover, high operating costs, and limited economies of scale, which suppress key performance indicators including return on assets (ROA) and return on equity (ROE). Given these challenges, this study aims to examine how key internal financial factors affect the performance of six selected manufacturing firms listed on the DSE between 2010 and 2023. The study seeks to provide evidence-based insights that can guide firms, policymakers, and regulators in improving financial sustainability within Tanzania's industrial sector.

1.2 Statement of the Problem

Manufacturing firms in Tanzania contribute significantly to industrialization, employment, and economic growth, yet many listed on the Dar es Salaam Stock Exchange (DSE) have shown unstable and declining financial performance. Reports from the Capital Markets and Securities Authority (CMSA, 2022) and firm financial statements highlight falling profitability, high debt levels, and weak returns on assets, raising concerns about long-term sustainability. These performance fluctuations are shaped by key internal financial factors, such as liquidity, efficiency and leverage. The effect of internal factors such as managerial efficiency, liquidity and capital structure choice, remains underexplored, especially using firm-level data from the six listed manufacturing firms. Existing studies offer partial insights but remain narrow in scope. Some focus only on firm-specific characteristics (Mwenda, 2021), while others combine limited internal and industry factors (Sumawe & Magoti, 2025). Overall, findings are inconsistent, and there is no agreement on which factors most strongly affect firm financial performance.

This study addresses this gap by examining how internal financial factors indicators affect the performance of six DSE-listed manufacturing firms from 2010 to 2023.

1.3 The Study Objective

The objective of the study was to examine the effect of internal financial factors on performance of six listed manufacturing firms at DSE.

1.4 Significance of the study

The findings of this study provide significant insights to policymakers, particularly those involved in industrial development and financial regulation in Tanzania. Understanding the internal financial factors of firms would help policymakers design effective fiscal and monetary policies that promote business growth, efficiency, and sustainability within the manufacturing sector. In addition, the study informs institutions such as the Ministry of Industry and Trade, the Bank of Tanzania (BoT), and the Capital Markets and Securities Authority (CMSA) in developing targeted strategies that encourage firm profitability and economic growth. The study is of great importance to both local and foreign investors as it provides empirical evidence on the financial factors that influence profitability among manufacturing firms listed on the Dar es Salaam Stock Exchange (DSE). Academically, this study has contributed to the existing body of literature on corporate finance, firm performance, and industrial development, particularly in the context of emerging economies.

1.5 Scope and Delimitation of the Study

Financial performance is regarded as an integral aspect of the company analysis. The study considered only six manufacturing firms registered on the Dar es Salaam Stock Exchange (DSE) in Tanzania. The study covered a period of 14 financial years, from 2010 to 2023 with six listed entities.The rationale for choosing only six manufacturing firms is based on their status as publicly traded manufacturing firms that were listed on the DSE either before to or by the year 2010.

1.6 Conceptual Framework

The conceptual framework is a concise description of phenomenon under study accompanied by a graphical or visual depiction of the major variables. The independent variable in this study is the internal financial factors while the dependent variable is the firm performance of six firms listed at DSE as shown in figure 1.

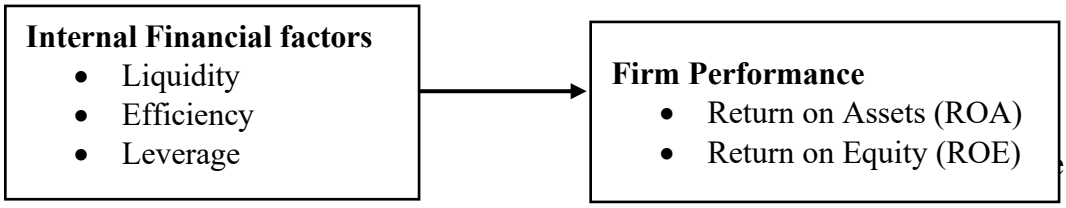

Figure 1: *The Conceptual Framework*
Source: *Own Conceptualization, 2025*

1.7 Literature Review

This section presents a comprehensive theoretical and empirical review.

1.7.1 Theoretical Review

The study was guided by the Resource-Based Theory (RBT). The theory was introduced by Wernerfelt (1984) and expanded by Barney (1991). It argues that a firm's competitive advantage and financial performance depend primarily on its internal resources and capabilities. According to the theory, firms achieve superior and sustainable performance when they possess resources that are valuable, rare, inimitable, and non-substitute. RBT views firms as unique bundles of assets, skills, and capabilities that differentiate their performance outcomes, emphasizing the strategic importance of internal resource development and effective utilization.

RBT offers a strong internal perspective by highlighting that firm performance depends more on how well resources are managed than on external market conditions. This makes it highly relevant for Tanzanian manufacturing firms where internal financial capabilities such as liquidity management, leverage, and asset utilization play a key role in profitability. The theory also provides a useful framework for analyzing differences in firm performance based on resource heterogeneity, explaining why firms within the same industry or regulatory environment may achieve different financial outcomes.

One main limitation is that RBT is static, in that it does not clearly explain how resources evolve or adapt in dynamic environments characterized by technological change, fluctuating prices, or shifting financial markets. It also assumes resource immobility, yet in modern markets, financial knowledge and strategies can be quickly copied, reducing the uniqueness assumed by the theory.

RBT is well-suited to this study of internal financial factors affecting the performance of six manufacturing firms listed on the DSE. Since all firms operate under similar conditions, differences in their financial performance are better explained by internal factors such as liquidity, leverage, and efficiency. The theory supports the study's focus on how internal financial resource management drives performance variations, making it an appropriate theoretical foundation for analyzing specific firm-level financial factors.

1.7.2 Empirical Review

Empirical studies consistently show that internal financial and non-financial factors significantly influence firm performance. Mwenda et al. (2021) found that firm-specific characteristics such as leverage, sales growth, dividend payout, managerial competence, human capital, age, and size positively affect performance among 21 DSE-listed firms. Anjar (2021) reported that profitability and firm size negatively influenced performance in Indonesian infrastructure firms, while growth had no effect, highlighting the importance of financial and managerial factors. In Pakistan, Ahmad and Haneef (2018) showed that firm size, growth, and profitability shape capital structure, with tangibility as a key determinant. Makori and Jagongo (2013) emphasized that leverage, liquidity, and firm size drive performance in emerging markets, with high debt reducing profitability. Raheman and Nasr (2017) also confirmed that liquidity, leverage, and firm size significantly affect manufacturing firm performance. Although studies like Dababrata and Babita (2019) from India differ in context, they similarly indicate that financial determinants interact with profitability and operational efficiency. Collectively, these findings underscore that internal financial management, efficient resource utilization, and firm-specific

characteristics are key drivers of firm performance, particularly for Tanzanian manufacturing firms listed on the DSE.

1.8 Research Methodology

This study was guided by the positivist research philosophy, which emphasizes observable, measurable, and empirical evidence to explain social and business phenomena (Saunders, Lewis, & Thornhill, 2012). Positivism is appropriate here as the study seeks to examine and establish relationship between internal financial factors and firm performance, measured by Return on Assets (ROA) and Return on Equity (ROE). A longitudinal research design was employed, collecting and analyzing data over the period 2010–2023. This design allows observation of trends, variations, and causal relationships over time, enhancing robustness in examining how internal financial factors affect firm performance in listed manufacturing firms at the DSE. The study targeted six manufacturing firms listed on the Dar es Salaam Stock Exchange (DSE) from 2010 to 2023. Secondary data were collected from audited financial statements of the six listed firms for the 14-year period. A record survey sheet was used to extract relevant financial ratios, ROA, and ROE. The study employed panel data, combining cross-sectional and time-series data, to improve estimation efficiency, increase data points, and reduce multicollinearity (Wooldridge, 2002). The use of EViews software for data analysis guaranteed reproducibility and consistency of results. Diagnostic tests, such as multicollinearity and unit root tests, were conducted to ensure robust regression results. The Autoregressive Distributed Lag (ARDL) model was applied:
$Y=\beta_0+\phi_1 Y_{t-1}+\beta_{1,0}X_{1,t}+\beta_{1,1}X_{1,t-1}+\varepsilon_t$
Where $Y$is firm performance, X_1represents internal financial factors, and $\varepsilon_t$is the error term. Ethical principles were strictly adhered to, ensuring data were sourced from credible and publicly available audited reports. Confidentiality and anonymity were maintained.

1.9 Findings of the Study

1.9.1 Descriptive Analysis

This section presents descriptive statistics on internal financial factors on performance of six manufacturing firms listed at DSE. Various ratios comprising independent and dependent variables were determined for each of the selected manufacturing firms during the given time range. Descriptive statistics were used to analyze the ratios in addition to conducting more research. Table 2 presents the descriptive results for the study.

Table 1: Descriptive Statistics Results

	ROA	ROE	LIQ	EFF	LVR
Mean	33.1401	34.25601	1.5395	18.5141	0.4157
Maximum	137.3223	135.134	3.9135	20.8390	10.4942
Minimum	-98.9336	-97.9336	0.0013	13.9874	0.0004
Std. Dev	33.9900	32.9900	0.9482	1.5010	1.0676

Source: Field Data (2025)

The results in Table 2 shows that the liquidity ratio recorded a mean of 1.5395 and a Std. Dev. of 0.9482. This indicate that on average, the firms had 1.54 in liquid assets for every 1 of short-term liabilities. This suggests that the listed manufacturing firms maintained a relatively healthy liquidity position. It means liquidity level demonstrates relatively solid financial health among the firms. They were well positioned to honor short-term obligations, maintain operational continuity, and manage unforeseen cash flow needs. In addition, the average liquidity signifies a strategic balance between profitability, which declines with too much idle cash and safety, which increases with more liquid assets, enabling them to meet short-term obligations. A liquidity ratio above 1.0 is typically regarded as healthy. Therefore, the firms appear to maintain sufficient liquid resources to finance day-to-day operations without depending excessively on external borrowing.

The efficiency ratio had a mean of 18.5141 and a Std. Dev. of 1.5010. This means that on average, the firms generated revenue at a moderately efficient rate relative to their operating expenses and asset use. This level of efficiency suggests that the firms operated above the minimum required operational performance. Efficiency is a critical operational indicator because it measures how well the firms utilize their resources especially assets and operational capacity to generate sales and profits.

Leverage had a mean of 0.4157and a Std. Dev. of 1.0676. This implies that on average, 41.6% of the firms' capital structure consisted of debt financing. This indicates a moderate reliance on debt, suggesting that the firms preferred a balanced approach between equity and debt financing. The leverage mean value suggests that the manufacturing firms adopted a balanced financing approach, avoiding over-dependence on debt while utilizing it effectively to stimulate growth. This balance likely contributed to stable financial performance and reduced risk exposure.

1.9.3 Correction Analysis

Correlation analysis was conducted to examine the strength and direction of the relationships between internal financial factors and firm performance.

Table 3: Correlation Analysis Results

	ROA	ROE	LIQ	LEV	EFF
ROA	1				
Sig. (2 tailed)	0.095				
ROE	0.731	1			
Sig. (2 tailed)	0.035				
LIQ	0.642	0.713	1		
Sig. (2 tailed)	0.035	0.012			
LEV	0.707	0.705	0.717	1	
Sig. (2 tailed)	0.016	0.053	0.047		
EFF	0.719	0.714	0.625	0.656	1
Sig. (2 tailed)	0.046	0.011	0.043	0.057	

Source: Field Data (2025)

The study examined the relationship between internal financial factors and firm performance measured by ROA and ROE among Tanzanian manufacturing firms listed on the DSE. Liquidity (LIQ) showed strong positive correlations with ROA (0.842) and moderate positive correlations with ROE (0.713), both statistically significant, indicating that firms with higher liquidity can efficiently meet short-term obligations, reduce financial distress, and enhance returns, particularly on assets. Efficiency (EFF) demonstrated strong positive correlations with ROA (0.719) and ROE (0.714), significant at the 5% level, highlighting that operational efficiency, resource optimization, and cost control are key drivers of both asset and equity-based performance. Leverage (LEV) correlated positively with ROA (0.707) and ROE (0.805), though significance was mixed. The findings suggest that leverage can enhance asset returns, but its effect on shareholder returns is less certain and requires careful management to avoid financial risk.

1.9.4 Regression analysis

Regression analysis was conducted to determine the effect of internal financial factors, on the firm performance. Diagnostic tests were performed to ensure the validity of the regression results. These tests were the unit root**,** multicollinearity by using Variance Inflation Factor.

1.9.4.1 Multicollinearity Test

When two or more independent variables in a ARDL regression model exhibit strong inter-correlations, this is referred to as multicollinearity. Therefore, multicollinearity was examined using the Variance Inflation Factor (VIF). The VIF quantifies how much the variance of a regression coefficient is inflated due to multicollinearity. A VIF < 10 indicates no serious multicollinearity. Table 4 presents the VIF results.

Table 4: Multicollinearity Test Results

Variable	Value Inflation Factor (VIF)	Tolerance (1/VIF)
ROA	1.087	0.920
ROE	1.052	0.950
LIQ	1.258	0.795
LEV	1.219	0.821
EFF	1.421	0.704

Source: Field Data (2025)

The results in Table 4 shows that all VIF values fall between 1.052 and 1.421, indicating extremely low levels of multicollinearity. These values are far below the commonly accepted threshold of 10, and even significantly below the stricter cutoff of 4. Therefore, the study confirms that the independent variable do not suffer from multicollinearity and are suitable for inclusion in a multivariate regression model.

1.9.4.2 Unit Root Test

A unit root test is employed to examine the presence of a short and long-term correlation among variables at both the level one and first difference. The relationship between the variables was examined using the Augmented Dickey-Fuller (ADF) tests. These tests were conducted to determine the stationarity of the variables and the level of significance. Table 5 presents the outcomes of the unit root and ADF tests.

Table 5: Unit Root Results under ADF

	Augmented Dickey-Fuller (ADF)				
	At Level		At first difference		
	t-statistic	p-value	t-statistic	p-value	Remarks
ROA	-2.9900	0.0390*	-16.1457	0.0001*	Stationary
ROE	-2.6700	0.0210*	-15.2576	0.0001*	Stationary
LIQ	-4.0690	0.0017*	-9.2227	0.0000*	Stationary
LEV	-9.4710	0.0000*	-11.7759	0.0001*	Stationary
EFF	-1.03097	0.0000*	-9.265337	0.0000*	Stationary

Source: Field Data (2025)

The Augmented Dickey-Fuller (ADF) test results, shown in Table 5, indicate that all variables in the study are stationary, both at their original levels and after first differencing. Statistical significance is observed at 1%, 5%, and 10% levels, denoted by ***, **, and *, respectively. The t-statistics and p-values confirm that the null hypothesis of a unit root is rejected for all variables, supporting their stationarity and suitability for regression analysis.

Stationarity at Level

The ADF test results show that most variables are stationary at level. ROA ($p = 0.0390$), ROE ($p = 0.0210$), and LIQ ($p = 0.0017$) are stationary at the 5% significance level, while LEV is highly significant at 1% ($p \leq 0.0001$), indicating strong level-stationarity. Efficiency (EFF) is non-stationary at level ($p = 0.7735$) if its p-value is correctly interpreted. This indicates the dataset contains a mix of I(0) and potentially I (1) variables.

Stationarity at First Difference

After first differentiation, all variables including ROA, ROE, LIQ, EFF and LEV become stationary with p-values <0.01, confirming they are integrated of order one, I (1). For example, ROA has a t-statistic of –16.1457 ($p = 0.0001$), and EFF, previously non-stationary, becomes significant ($p = 0.0000$). These results confirm that the dataset is suitable for models accommodating both I (0) and I (1) variables over time.

1.9.4.3 Auto Regressive Distributed Lag (ARDL) Model

Table 6: Auto Regressive Distributed Lag (ARDL) Model Results

Variable	Coefficient	t-statistics	P value
ROA	0.4410	3.3167	0.0014
ROE	0.4212	3.2154	0.0013
LIQ	0.0262	0.7931	0.0084
LEV	-0.0481	4.4156	0.0245
EFF	0.4407	3.1751	0.0022
R-Square			0.7450
Adjusted R- Square			0.7210
Std Error			0.1980

The equations of ARDL, according to the coefficient stated in Table 6 are as follows:

$ROA_{it} = 0.4410 + 0.0262LIQ_{it} - 0.4816LEV_{it} + 0.4407_{it}EFF$ and

$ROE_{it} = 0.4212 + 0.0262LIQ_{it} - 0.4816LEV_{it} + 0.4407_{it}EFF$

Source: Field Data (2025)

The regression model yielded an R^2 of 0.745 and Adjusted R^2 of 0.721, indicating that 74.5% of variations in firm performance are explained by the independent variable, while the remaining 25.5% is due to other factors. The F-statistic (101.017) confirms that the model is statistically significant. Liquidity (LIQ) has a positive coefficient of 0.0262 ($p<0.05$), implying that a 1% increase in liquidity raises firm performance by 2.62%. This supports the resource-based theory, showing that adequate liquidity enables firms to meet short-term obligations and enhance operational stability. Leverage (LEV) exhibits a negative coefficient of -0.0481 ($p<0.05$), indicating that increased reliance on debt reduces performance due to higher interest expenses and financial risk. Firms must balance debt and equity to avoid over-leveraging. Efficiency (EFF) is the most influential internal factor, with a positive coefficient of 0.4407 ($p<0.01$), showing that optimizing resources and operational processes can substantially boost performance.

Discussion of the Findings

The mean liquidity ratio of 1.5395 indicates that firms generally maintain moderate liquidity, enabling them to meet short-term obligations and manage operational risks. The standard deviation of 0.9482 reflects variation in liquidity management across firms. Liquidity shows strong positive correlations with ROA (0.842) and ROE (0.713), both statistically significant ($p < 0.05$). Regression results ($\beta = 0.0262$, $p = 0.0084$) indicate that a 1% increase in liquidity improves performance by 2.62%, confirming that adequate liquidity enhances operational stability and profitability, consistent with Alarussi & Alhaderi, (2018); Arshad et al., (2016); and Bist et al., (2017). Efficiency (EFF) shows that firms exhibit a mean efficiency ratio of 18.5141, indicating effective resource utilization. Efficiency strongly correlates with ROA (0.619) and ROE (0.714), and regression results ($\beta = 0.4407$, $p = 0.0022$) show that a 1% improvement in efficiency raises profitability by 44.07%, making it the most influential internal determinant of firm performance. High efficiency reduces waste, optimizes production, and increases

net income, supporting findings by Hoque et al., (2022); Makombe, (2017); Zainudin et al., (2018) and Matar & Eneizan, (2018). Leverage (LEV) indicates a mean leverage ratio of 0.4157 which suggests moderate reliance on debt, with variability across firms. While leverage shows positive correlations with ROA (0.707) and ROE (0.705), the regression coefficient ($\beta = -0.0481$, $p = 0.0245$) indicates that excessive debt reduces performance by 4.81% per 1% increase. This underscores that optimal debt levels can enhance returns through tax shields, but over-leveraging increases interest burdens and financial risk, consistent with Dioha et al., (2018); Nenu & Gherghina, (2018); Hussain & Waseer,(2018); Olawale & Olumuyiwa, (2010) and Selvam et al., (2016).

1.10 Conclusion

This study examined the internal financial factors on performance of six manufacturing firms listed on the Dar es Salaam Stock Exchange (DSE) between 2010 and 2023. Using descriptive statistics, correlation analysis, and the ARDL regression model, the findings indicate that internal financial factors, explain a substantial portion of performance variation among these firms. Liquidity and operational efficiency emerged as the most influential internal factors, enhancing firms' ability to meet short-term obligations, optimize resource use, and improve profitability. Excessive leverage, however, can negatively impact performance due to higher financial risk and managerial inefficiencies. The findings emphasize that sustainable profitability requires not only operational efficiency but also strategic planning to mitigate financial risks occurring from excessive debts. These insights provide valuable guidance for managers, investors, and policymakers seeking to enhance competitiveness and ensure long-term growth in the Tanzanian manufacturing sector.

1.11 Recommendations

To investors, the study recommends that investment decisions should be guided by a thorough assessment of the firms' liquidity positions. This is because liquidity was found to have a positive and significant influence on both ROA and ROE. Investors are therefore encouraged to pay close attention to indicators such as current ratios, quick ratios, and cash flow strength when evaluating firms. For employers and management teams within the manufacturing sector, the study highlights the importance of maintaining an optimal liquidity position. For regulators such as DSE, CMSA, TRA, and the Bank of Tanzania, the study recommends measures aimed at improving market efficiency and transparency. Regulators should ensure the timely and accurate dissemination of financial information to reduce information asymmetry and promote confidence among market participants. Policy makers are encouraged to foster technological advancement and industrial innovation through firm support, infrastructure development, and capacity-building programs. Finally, shareholders are encouraged to take an active role in ensuring that management utilizes company resources efficiently. Given the significant impact of efficiency on profitability, shareholders should monitor operational decisions and demand accountability, especially in areas involving asset utilization and liquidity management. Sustainable capital structure decisions are also essential. Hence, shareholders should advocate for financing strategies that align with long-term stability rather than short-term financial gains. When implemented collectively, investors, management, regulators, policy makers, and shareholders, these strategies have the potential to enhance the financial performance and sustainability of manufacturing firms listed on the DSE.

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