

**THE IMPACT OF LIQUIDITY AND LEVERAGE
ON FINANCIAL PERFORMANCE OF SERVICE
LISTED FIRMS IN JORDAN: THE MEDIATING
ROLE OF THE DIVIDEND POLICY**

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by

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LIST OF SYMBOLS

β	Beta Coefficient (regression coefficient indicating the strength and direction of a relationship)
t	t -Statistic (used to determine the significance of regression coefficients)
R^2	Coefficient of Determination (represents the proportion of the variance for a dependent variable that's explained by an independent variable or variables in a regression model)
Q^2	Predictive Relevance (used in PLS-SEM to assess the predictive accuracy of the model)
f^2	Effect Size (measures the impact of a specific predictor variable on the dependent variable in a model)

LIST OF ABBREVIATIONS

AGE	Firm Age
CHR	Cash Ratio
CI	Capital Intensity
CR	Current Ratio
DP	Dividend Policy
DTE	Debt to Equity
EPS	Earnings Per Share
LD	Long-term Debt
QR	Quick Ratio
SD	Short-term Debt
SIZE	Firm Size
TQ	Tobin's Q
TV	Trading Volume

**IMPAK KECAIRAN DAN KEUMPILAN TERHADAP PRESTASI
KEWANGAN SYARIKAT PERKHIDMATAN TERSENARAI DI JORDAN:
PERANAN PERANTARAAN POLISI DIVIDEN**

ABSTRAK

Kajian ini menyelidiki kesan kecairan dan keumpilan terhadap prestasi kewangan firma perkhidmatan di Jordan, dengan penekanan khusus pada peranan perantaraan dasar dividen. Menggunakan data sekunder daripada 38 syarikat perkhidmatan yang disenaraikan di Bursa Saham Amman selama 11 tahun (2011-2021), penyelidikan ini menggunakan analisis statistik yang ketat melalui perisian SPSS 22 dan Smart-PLS 4.1 untuk menguji hipotesis yang diperolehi daripada kajian literatur yang meluas. Pembolehubah kajian diukur seperti berikut: kecairan (nisbah semasa, nisbah tunai, dan nisbah segera), keumpilan (hutang jangka pendek, hutang jangka panjang, dan nisbah hutang kepada ekuiti), prestasi kewangan (pendapatan sesaham dan Tobin's Q [TQ]), dan dasar dividen (hasil dividen). Dapatan kajian menunjukkan bahawa nisbah semasa, nisbah tunai dan hutang jangka pendek mempunyai kesan positif yang signifikan terhadap prestasi kewangan yang diukur melalui pendapatan sesaham. Selain itu, hutang jangka panjang dan nisbah hutang kepada ekuiti mempunyai kesan negatif yang signifikan terhadap prestasi kewangan yang diukur melalui EPS. Nisbah segera tidak mempunyai kesan signifikan terhadap prestasi kewangan yang diukur melalui EPS. Dari segi Tobin's Q (TQ), nisbah segera, hutang jangka pendek, dan hutang jangka Panjang mempunyai kesan positif yang signifikan, manakala nisbah tunai mempunyai kesan negatif yang signifikan. Nisbah semasa dan nisbah hutang kepada ekuiti tidak mempunyai kesan signifikan terhadap TQ. Dasar dividen digunakan sebagai pembolehubah perantaraan, menunjukkan kesan

negatif yang signifikan terhadap nisbah semasa dan nisbah tunai terhadap dasar dividen. Sebaliknya, hutang jangka panjang mempunyai kesan positif yang signifikan terhadap dasar dividen. Nisbah segera, hutang jangka pendek, dan nisbah hutang kepada ekuiti menunjukkan kesan negatif yang tidak signifikan terhadap dasar dividen. Tambahan pula, dasar dividen mempunyai kesan negatif yang signifikan terhadap EPS dan TQ. Kajian mendapati bahawa dasar dividen memediasi sepenuhnya hubungan antara kecairan dan prestasi kewangan dan memediasi sebahagian hubungan antara kecairan dan kedua-dua EPS dan TQ. Selain itu, dasar dividen memediasi sebahagian hubungan antara keupayaan dan prestasi kewangan. Pembolehubah kawalan, seperti intensiti modal dan saiz firma, didapati memberi kesan signifikan terhadap prestasi kewangan; intensiti modal yang lebih tinggi dikaitkan dengan pendapatan sesaham yang lebih rendah tetapi penilaian pasaran yang lebih tinggi, manakala firma yang lebih besar cenderung lebih menguntungkan tetapi kurang dinilai dalam pasaran. Usia firma dan jumlah dagangan tidak menunjukkan kesan signifikan terhadap prestasi kewangan. Kajian ini menekankan peranan penting dasar dividen dalam memediasi hubungan antara kecairan, leverage, dan prestasi kewangan. Syarikat dengan strategi dividen yang konsisten dan pengurusan pendapatan tertahan yang berkesan menarik pelabur dan meningkatkan kesihatan kewangan jangka panjang. Walau bagaimanapun, dasar dividen yang kukuh tanpa kecairan yang mencukupi boleh menekan sumber, menekankan keperluan keseimbangan. Penyelidikan ini menyokong teori pecking order dan teori kos agensi, yang menunjukkan prestasi yang lebih baik dalam firma yang menggunakan pembiayaan dalaman dan menggambarkan bagaimana dasar dividen yang berstruktur mengurangkan konflik antara pengurus dan pemegang saham. Penemuan ini memberikan wawasan berharga untuk pengurus, pelabur, dan pembuat dasar dalam

sektor perkhidmatan Jordan, menekankan kepentingan mengekalkan kecairan yang optimum, mengimbangi leverage, dan melaksanakan dasar dividen yang berhati-hati. Sebagai kesimpulan, kajian ini meningkatkan pemahaman tentang pengurusan kewangan dalam sektor perkhidmatan Jordan, dengan menekankan amalan strategik yang mengimbangi kecairan, keumpilan, dan dasar dividen untuk pertumbuhan dan kestabilan yang mampan.

**THE IMPACT OF LIQUIDITY AND LEVERAGE ON FINANCIAL
PERFORMANCE OF SERVICE LISTED FIRMS IN JORDAN:
THE MEDIATING ROLE OF THE DIVIDEND POLICY**

ABSTRACT

This study investigated the impact of liquidity and leverage on the financial performance of Jordanian service firms, with a particular emphasis on the mediating role of dividend policy. Utilising secondary data from 38 service companies listed on the Amman Stock Exchange over 11 years (2011-2021), this research employed rigorous statistical analyses conducted through SPSS 22 and Smart-PLS 4.1 softwares to test the hypotheses derived from an extensive literature review. The study variables were measured as follows: liquidity (current ratio [CR], cash ratio [CHR], and quick ratio [QR]), leverage (short-term debt [SD], long-term debt [LD], and debt to equity [DTE]), financial performance (earnings per share [EPS] and Tobin's Q [TQ]), and dividend policy (dividend yield [DP]). The findings reveal that the current ratio (CR), cash ratio (CHR), and short-term debt (SD) have a significant positive effect on financial performance as measured by earnings per share (EPS). Additionally, long-term debt (LD) and debt to equity (DTE) have a significant negative effect on financial performance as measured by EPS. The quick ratio (QR) has an insignificant effect on financial performance as measured by EPS. In terms of Tobin's Q (TQ), the quick ratio (QR), short-term debt (SD), and long-term debt (LD) have a significant positive effect, while the cash ratio (CHR) has a significant negative effect. The current ratio (CR) and debt to equity (DTE) have an insignificant effect on TQ. The dividend policy was used as a mediating variable, showing significant negative effects of the current ratio (CR) and cash ratio (CHR) on dividend policy (DP). In contrast, long-term debt (LD) has a

significant positive effect on dividend policy (DP). The quick ratio (QR), short-term debt (SD), and debt to equity (DTE) show insignificant negative effects on dividend policy (DP). Furthermore, dividend policy (DP) has a significant negative effect on both EPS and TQ. The study found that dividend policy fully mediates the relationship between liquidity (CR) and financial performance (TQ) and partially mediates the relationship between liquidity (CHR) and both EPS and TQ. Additionally, dividend policy partially mediates the relationship between leverage (LD) and financial performance (TQ). Control variables, such as capital intensity and firm size, were found to influence financial performance significantly; higher capital intensity was linked to lower earnings per share but a higher market valuation, while larger firms tend to be more profitable but less highly valued in market terms. Firm age and trading volume did not show significant impacts on financial performance. The study highlights the crucial role of dividend policy in mediating the relationship between liquidity, leverage, and financial performance. Companies with consistent dividend strategies and effective retained earnings management attract investors and enhance long-term financial health. While, strong dividend policies without sufficient liquidity can strain resources, emphasizing the need for balance. The research supports the pecking order theory and agency cost theory, showing better performance in firms using internal financing and illustrating how structured dividend policies reduce conflicts between managers and shareholders. These findings offer valuable insights for managers, investors, and policymakers in the Jordanian service sector, underscoring the importance of maintaining optimal liquidity, balancing leverage, and implementing prudent dividend policies. In conclusion, the study enhances the understanding of financial management in the Jordanian service sector, emphasizing

strategic practices that balance liquidity, leverage, and dividend policies for sustainable growth and stability.

CHAPTER 1

INTRODUCTION

1.1 Introduction

Analyzing the financial performance of corporations is pivotal in the field of corporate finance, especially for service-oriented businesses in highly dynamic and competitive environments such as those found in Jordan. In the context of an ever-evolving economic landscape, understanding the factors that influence financial outcomes is essential for both academic research and practical applications. This thesis investigates the intricate relationships between liquidity, leverage, and financial performance, with a specific focus on the mediating role of dividend policy. By examining secondary data from Jordanian service companies, this research aims to provide valuable insights into how financial strategies impact overall firm performance. It seeks to contribute to the broader understanding of financial management practices in emerging economies, highlighting the importance of effective liquidity management, prudent leverage decisions, and strategic dividend policies. Through a comprehensive analysis, this study endeavours to offer practical recommendations for managers and policymakers aiming to enhance the financial sustainability and competitiveness of service companies in Jordan.

1.2 Background of the Study

The world is currently living in an advanced stage in light of the rapid knowledge and scientific progress in various aspects of life, which intensified the competition between business organisations, which in turn led to these organisations trying to improve their performance without causing any side effects, by searching for

the influencing factors that help it improve its financial performance. Competition is widespread nowadays in this dynamic global economic climate, and every organization is vulnerable to it (Cavusgil & Knight, 2015). Due to the global financial crisis, many businesses are dealing with serious difficulties that are affecting their capacity to carry out their core functions and generate revenues. Organisations have to tighten budgets as a result of these constraints, particularly in emerging nations like Jordan (Al-Ali & Abu-Rumman, 2019).

The importance of financial performance informs investors and managers about the company's condition, as it is a strong indicator of the company's health in terms of its business and profitability carried out by its management and also provides important information for the future to develop business plans and indicate whether its operations and profits are on the right track for growth and future expectations according to its plans. High financial performance always draws the most attention from every manager because it plays an important role in the structure and development of a firm; however, that goal is frequently challenged by a variety of factors, resulting in a low level of firm performance (Le et al., 2021). In addition to its role in identifying and controlling errors and deviations that may occur in the future. Moreover, financial performance is instrumental in motivating staff within financial departments to enhance their efforts, thereby improving financial outcomes. It also reflects the efficiency with which an organization utilizes its financial resources over a specific period to achieve its goals (Sahni & Kulkarni, 2018).

Financial performance evaluates a variety of financial indicators that indicate the accomplishment and achievement of the enterprise's economic objectives, making it one of the factors for determining how well a firm is performing inside an organization. Additionally, the strength or weakness of the establishment is assessed

using a variety of financial and applied methodologies as part of the financial analysis process, which also measures financial performance (Nurlaela et al., 2019). Additionally, financial performance demonstrates the limited definition of assessing corporate performance, which focuses on gauging how well businesses fulfil their goals via the use of financial indicators and serves as the primary driver of the firm's varied business. Any business institution's essential aim and requirement for its survival and continuation is to improve profitability in order to improve financial performance (Das & Swain, 2018).

The significance of a company's financial performance has prompted extensive research aimed at identifying influencing factors. Research such as those conducted by Emmanuel (2022), Samo and Murad (2019), and Daryantoa et al. (2018) have found a correlation between financial leverage and company performance. Additionally, studies by Sahni & Kulkarni (2018) and Dahiyat et al. (2021) have demonstrated a link between liquidity and financial outcomes. Moreover, investigations by Kanakriyah (2020) and Hafeez et al. (2018) have shown that dividend policies also impact financial performance.

The important issue for every company is that it relies heavily on liquidity and financial leverage to survive and succeed. Thus, in order for the entity to run smoothly, financial managers and company owners should closely monitor the operational results of their businesses. Liquidity, defined as the ability of a company to quickly transform its assets into cash without loss of value, is crucial. Essentially, liquidity involves the strategic management of current assets and liabilities to ensure optimal levels are maintained. This capability enables a steady flow of cash, allowing the business to fulfill its short-term obligations and sustain its operations into the future (Dahiyat et al., 2021). Another crucial feature of liquidity is that it is essential to any company's

existence, and good management is required to ensure ongoing cash flows for the business's ongoing operations. Companies utilize various liquidity ratios, to manage their short-term obligations. liquidity ratios play a crucial role in influencing the financial performance of businesses (Robinson et al., 2015).

For decades, both financial analysts and scholars have recognized that key issues surrounding corporate debt and business decision-making are among the most significant and engaging topics, largely due to the risks associated with borrowing. Financial leverage is a crucial determinant of corporate performance and is assessed using multiple metrics: the income statement reflects the degree of financial leverage, operating leverage, and combined financial leverage, while the balance sheet evaluates the debt relative to the balance sheet components. This comprehensive approach addresses the risks associated with using financial leverage, aiding decision-makers in optimizing corporate operations. Banafa et al. (2015) managers in developing nations need to weigh the advantages and disadvantages thoroughly before making decisions about outsourcing their operations.

Furthermore, the use of financial leverage can either positively or negatively affect performance owing to late payments of borrowed funds, depending on the business activity. Financial leverage refers to an external source of funding that an organization has obtained to finance a project and purchase more assets without using an excessive amount of equity to carry out its operations. Financial leverage encompasses different components of a company's capital structure, these components are vital since they represent the core sources of financing for the company's operations and expansion efforts (Hasan et al., 2014).

Leverage and liquidity serve as essential financing sources. In countries with elevated inflation rates, the appetite for future cash flows decreases, prompting lenders to prefer short-term credit markets over long-term ones. Utilizing debt can be advantageous for companies as interest expenses are tax-deductible, potentially enhancing business performance. However, failing to meet debt obligations can result in bankruptcy (Hongli et al., 2019). Furthermore, decision-making critically impacts corporate performance, with dividend policies being particularly influential. These policies, dependent on profits, liquidity value, debt levels, and investment strategies, pose a significant challenge for managers striving to balance these elements, all of which impact financial performance (Hafeez et al., 2018). Selecting an appropriate dividend policy is essential for evaluating corporate success. The dynamics of dividend policies remain a contentious issue in financial studies and continue to be a focal point in emerging markets.

Companies face a difficult task in managing their operating operations to achieve the greatest possible benefit, which requires sources of financing, the most important of which are retained earnings and, at the same time, the shareholders' need for dividends, which puts management under pressure to balance the financing of its operations from its internal sources or borrowing while at the same time obtaining the satisfaction of investors who want to distribute profits. The rules and criteria a company uses to determine whether to pay dividends to shareholders are known as dividend policy (Nissim & Ziv, 2001). Since the creation of joint stock companies, the decisions made by businesses regarding their dividend policy have been a topic of interest in the financial literature. The distribution of earnings (past or present) in real assets in proportion to ownership among the shareholders of the company is known as a dividend (Yegon, 2014). A company's dividend policy is one of the most critical

financial decisions affecting its financial performance. Dividends play a key role in influencing both the self-financing process and investment decisions, especially when these decisions are based on the cash generated from operational activities and the potential effects on the company's available investment opportunities (kanakriyah, 2020). Maina (2000) It is argued that a connection exists between dividends and investment decisions, as both compete for internally generated funds. Additionally, borrowing can be costly and is not an option readily available to all companies. According to Yegon et al. (2014) discuss several theories that elucidate the significance of dividend policy, including the agency costs theory, and the signaling theory. These theories each offer unique perspectives on how dividend policy influences company performance. However, consensus on a singular theory remains elusive due to the distinct characteristics inherent in each approach.

1.3 Jordanian Service Sector

The services sector is regarded as one of the key sectors globally, playing a significant role in driving the economic growth of nations. The services sector in Jordan is seen as a crucial part of the economy due to its contribution to the gross domestic product and its role in creating employment opportunities. Due to this importance, the Department of Statistics Jordan conducts an annual survey of services sector activities to evaluate the quality of services provided to citizens and to identify the most important problems facing this sector, as this sector is divided into the following classifications: health care services, educational services, hotels and tourism, transportation, technology and communications, utilities, and energy (Department of Statistics Jordan, 2017).

Jordanian service companies compete to create creativity and innovation to produce the best service, which is reflected in achieving ideal profits. Despite the difference in operational activity between them, it is noted that a large number of Jordanian service companies are holding companies, which, for example, provide education, health care, and transportation services under the name of one company. Additionally, the Jordanian service sector is classified into three main sectors: the financial sector, the service sector, and the industrial sector. The number of companies registered for all sectors is 167. The service sector is the second largest sector after the financial sector by a percentage of 25% (Amman Stock Exchange, 2022). The figure below shows the distribution of the size of the sectors in Jordan.

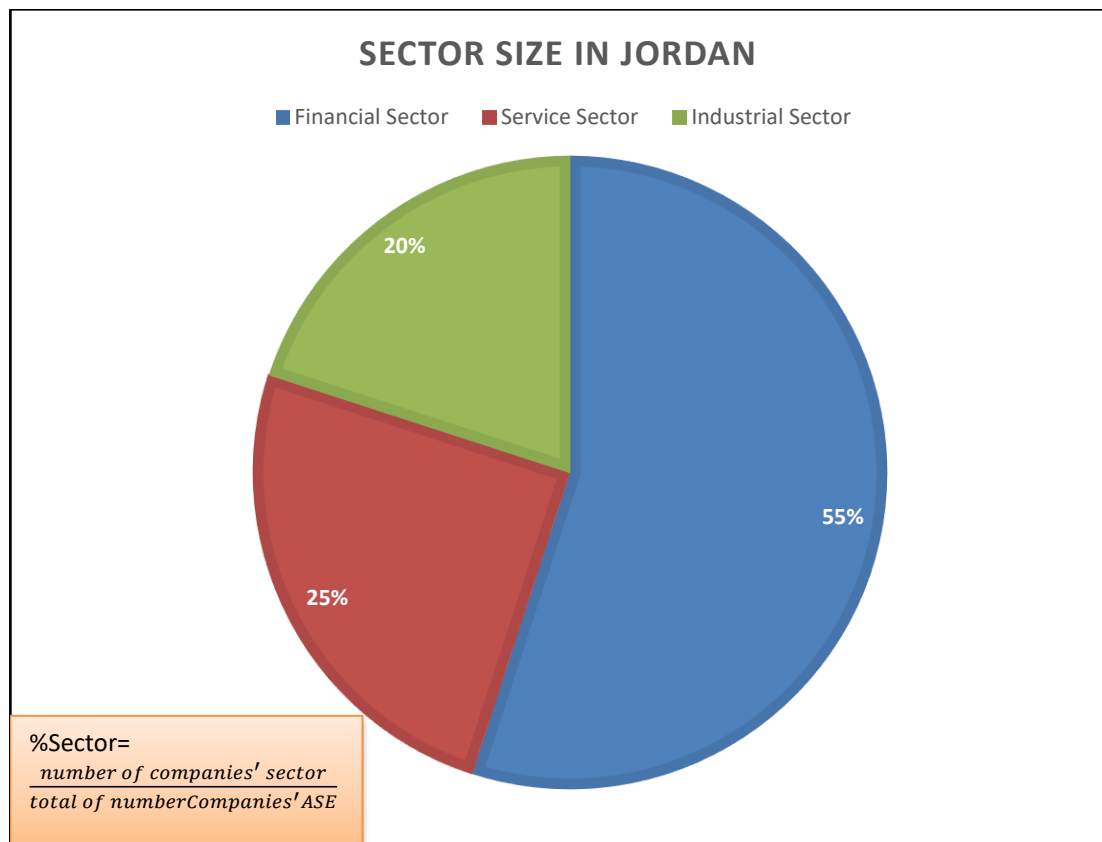


Figure 1.1 Sectors size in Jordan, ASE (2022)

The Jordanian service companies are divided into seven groups based on their business activities. These groups encompass various sectors within the service industry, reflecting the diverse nature of services provided in the Jordanian economy. Figure 1.2 illustrates the components of the Jordanian Service Sector, providing a detailed breakdown of each group's contribution and role within the overall service landscape.

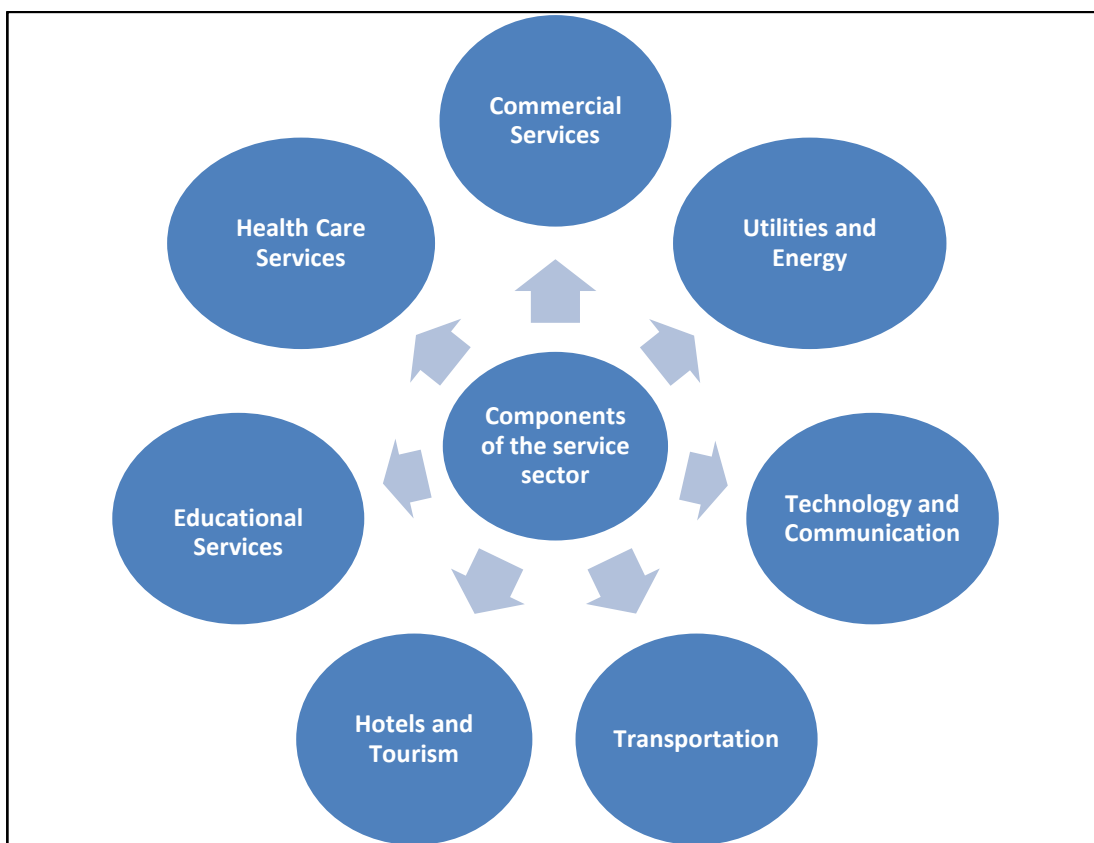


Figure 1.2 Components Of The Jordanian Service Sector, Amman Stock Exchange ASE (2022)

Growth in country sectors contributes to solving unemployment problems, as they help in providing job opportunities. It should be noted that the majority of developing countries also suffer from unemployment problems when supporting all sectors that will contribute to raising the rate of economic growth in the national

economy (Jordanian Ministry of Investment, 2022). The following Figure 1.3 shows the distribution of gross domestic product (GDP) across economic sectors.

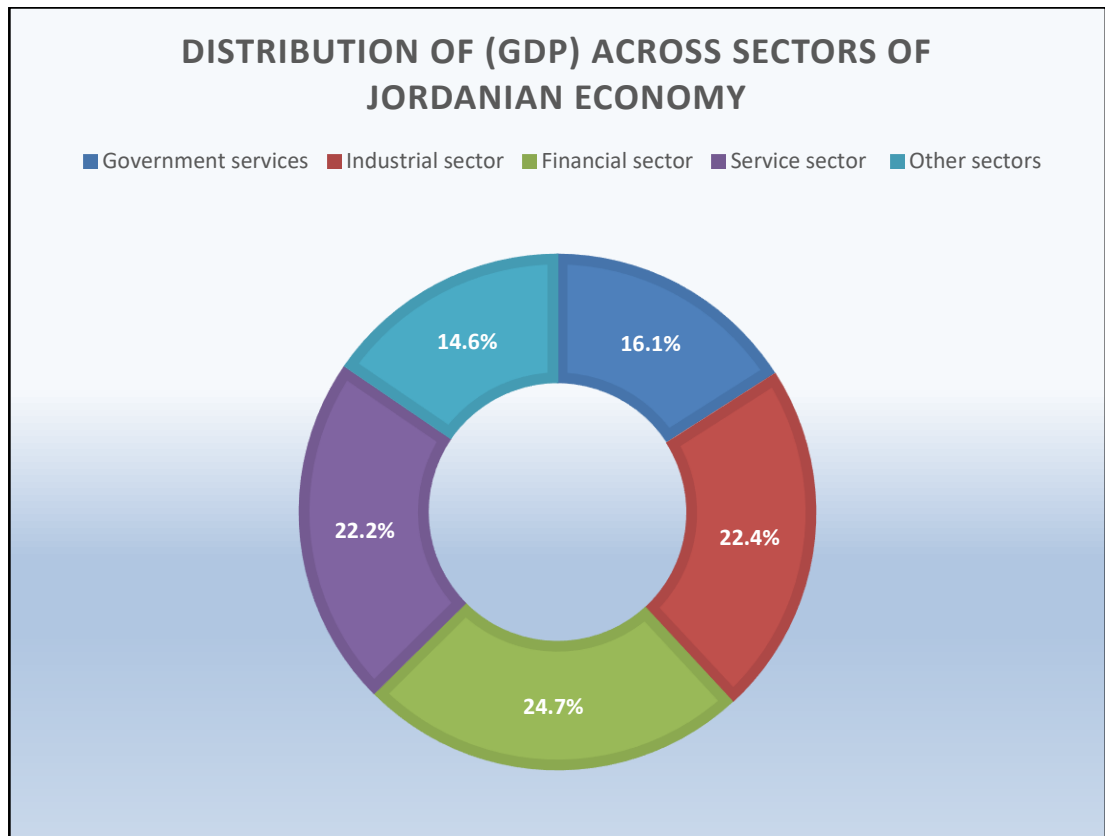


Figure 1.3 Distribution of (GDP) Across Sectors of Jordanian Economy, Central Bank of Jordan (2022)

The services sector, consisting of health care services, educational services, hotels and tourism, transportation, technology and communications, utilities, and energy, contributes to supporting the gross domestic product by 22.2%, and this sector is related to other industries in terms of services needed for their work. The services sector depends on the main competitive element in the country, which is human resources, and this in itself leads to its sectors being the first in value-added accounts, meaning that they depend mainly on Jordanian production factors, the most important of which is human (Jordanian Ministry of Investment, 2022).

According to Amman Chamber of Commerce (2021) and Department of Statistics Jordan (2022) there was a slight growth in the service sector from 2018 to 2019. Still, it witnessed a strong collapse in 2020 due to the Corona crisis. However, with the efforts of government support for this sector, it managed to reach a good growth rate in 2021. Additionally, The number of workers in the commercial and service sector during the past year reached 524,000 workers. The trade and services sector occupies 42.5% of the total employment in Jordan, compared to 15.8% for the industrial sector and less than 1% in the agricultural sector (Amman Chamber of Commerce, 2019).

The trade and services sector contributes to the GDP, amounting to 60% distributed to trade, restaurants and hotels, 9.7%, transport and communications 8.7%, financial services, real estate and business, 22.4%, agriculture 5.6%, construction 2.9%, electricity and water 3.6%, and personal and social services 6.6%. The report also indicated that the value of national exports amounted to about 2.258 billion dinars during the first half of this year, compared to 2.165 billion dinars during the same period last year, an increase of 4.3% (Amman Chamber of Commerce, 2021). Additionally, national exports are regarded as a vital source of income for a country and serve as one of the key drivers of economic growth. The following figure presents the service sector exports based on the World Bank classification.

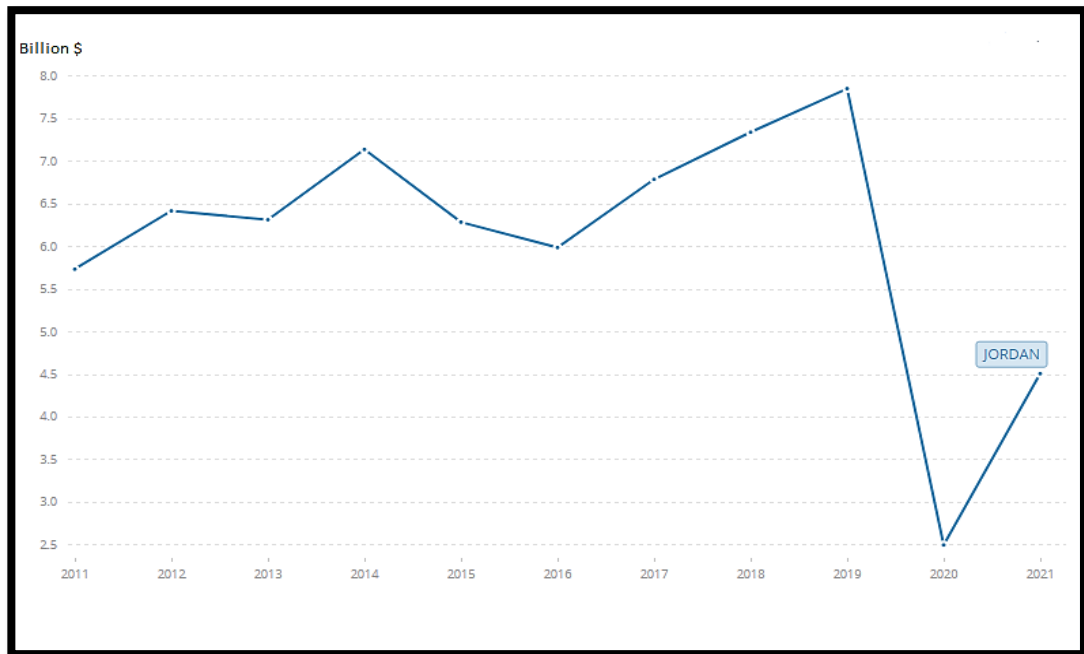


Figure 1.4 Service Exports in Jordan, World Bank (2022)

The figure above shows the service sector's exports of orders in the export trade, so the World Bank classifies services in Jordan as all services in terms of financial, commercial, and real estate services. It is noted from the figure above the extent to which Jordan's service sector exports were affected in 2020, as exports reached 2,500,000,000 billion dollars after they were 7,850,000,000 billion dollars in 2019. The service sector is still facing difficulty returning to what it was, as exports reached 4,510,000,000 billion dollars in 2021 (World Bank, 2022). According to the Amman Chamber of Commerce (2021) indicated that the services sector was most affected by the Corona pandemic and is still suffering now and facing difficulty returning to what it was. Additionally, the service sector witnessed a decrease in exports for the year 2020 due to the closures that occurred in countries as a result of the Corona pandemic, especially for goods shipment crossings (Department of Statistics Jordan, 2021).

1.4 Problem Statement

Companies in developing countries such as Jordan face critical financial challenges, notably the scarcity of funds and the high costs of financing. These constraints pressure managers to carefully design their financial structures by balancing debt and liquidity in a way that ensures the continuity of operations, often at the expense of profitability and shareholder wealth. In Jordan, over 70% of companies reportedly struggle to secure adequate financing (DRBE, 2020).

The dilemma lies in the fact that managers must satisfy shareholder expectations for dividends while maintaining sufficient liquidity for operations and managing growing debt burdens. This balancing act, if not well-optimized, negatively impacts financial performance and increases financial risk. This challenge is exacerbated in the Jordanian service sector, which has experienced heightened financial instability, fluctuating performance, and a growing number of bankruptcies and mergers (Amman Stock Exchange, 2022).

Many researchers, such as Damayanti and Sucipto (2022), Al-Najjar and Kilincarslan (2019), Agrawal and Jayaraman (2004), and Adedeji (1998) Highlighted the significance of dividend policy in managing a company's debt and liquidity levels, as well as its influence on financial performance. which puts managers under pressure to distribute profits to satisfy and maintain investors, which in turn leads to reducing liquidity and resorting to borrowing to finance projects, which in turn increases the risks that affect financial performance. They also described how dividend policy is like a puzzle. Al-Najjar (2009) notes that in Jordan, a developing country, dividend policy is influenced by factors akin to those in developed nations, including financial leverage, profitability, business risks, asset structure, growth rate, and company size.

Similarly, the determinants that affect the likelihood of dividend distributions mirror those impacting dividend policy itself. Furthermore, pecking order and agency cost theories propose that dividend policy significantly affects decisions related to liquidity, financing, and profitability.

Many studies, such as Qwader (2019), Shahwan (2018), and Rajah (2016) indicated that there is a real issue for the business sectors in Jordan in terms of a significant rise in non-performing loans and the inability to repay due to weak liquidity and the increasing interest rates of loans in Jordan. The Central Bank of Jordan highlighted the significant increase in loans extended to Jordanian companies across various sectors, as illustrated in Figure 1.5.

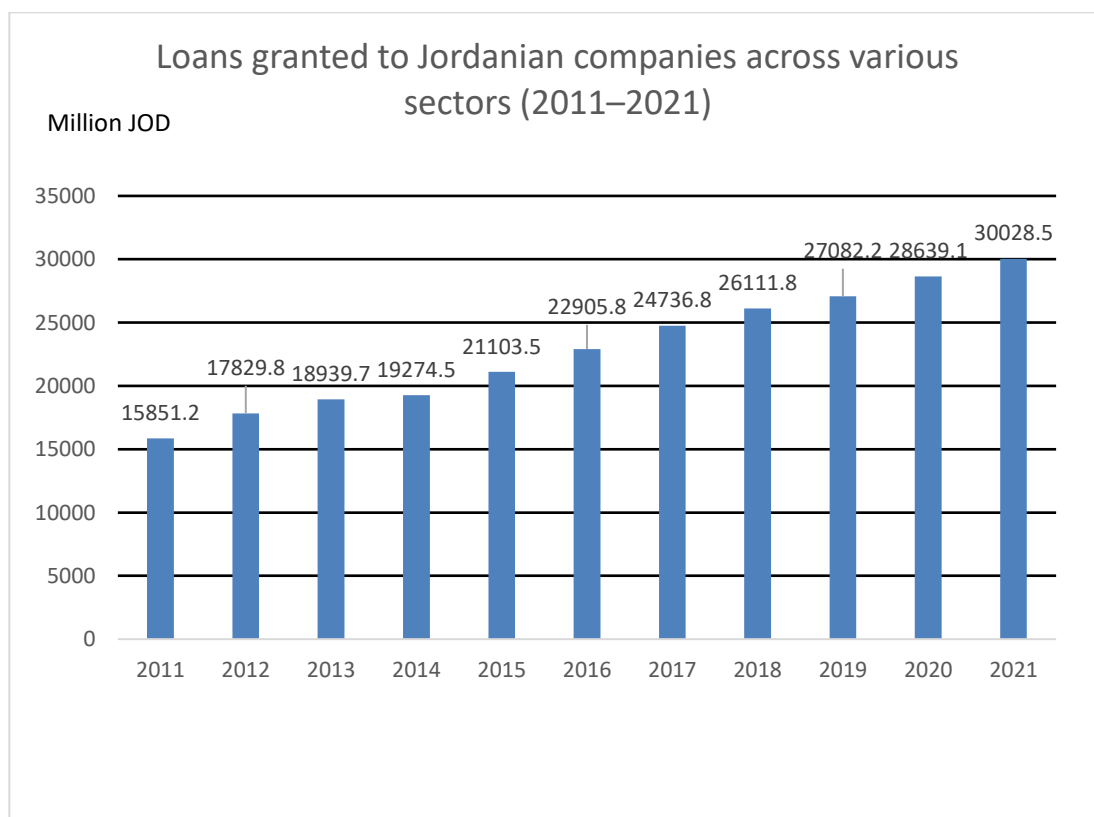


Figure 1.5 Loans granted to Jordanian companies across various sectors (2011–2021).

Source: Central Bank of Jordan, (2022).

Central Bank of Jordan (2022) indicated that interest rates had been raised in recent years to maintain the price of the Jordanian dinar. This raises concerns for Jordanian companies about borrowing, and if Jordanian companies borrow, they will face a high risk. At the same time, it will affect the liquidity of companies due to the high costs of loans, which wastes profitable investment opportunities for companies in return for paying off debts as a priority. The annual reports of Central Bank of Jordan (2021, 2017, and 2014) indicated an increase in the use of loans by service companies to finance their projects, which suggests an increase in the risks to which the service sector is exposed, as shown in figure 1.6.

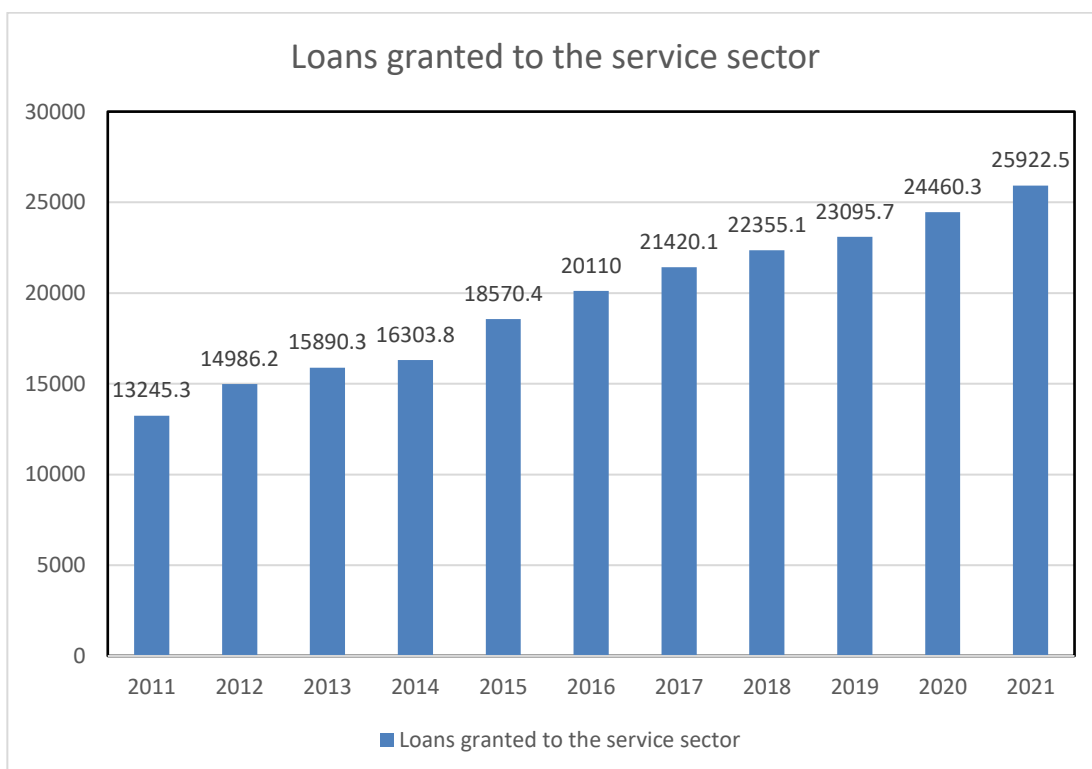


Figure 1.6 Loans granted to the service sector Central Bank of Jordan (2021, 2017, and 2014)

By comparing Figure 1.6 with Figure 1.7, they found that the liquidity of the Jordanian service sector is not consistent with the debts of the service sector, as the debts increase in an upward manner while there is a clear fluctuation in liquidity, which

constitutes a dangerous issue in the company's solvency to pay the debts and the resulting interest, which may lead to financial problems and ultimately bankruptcy.

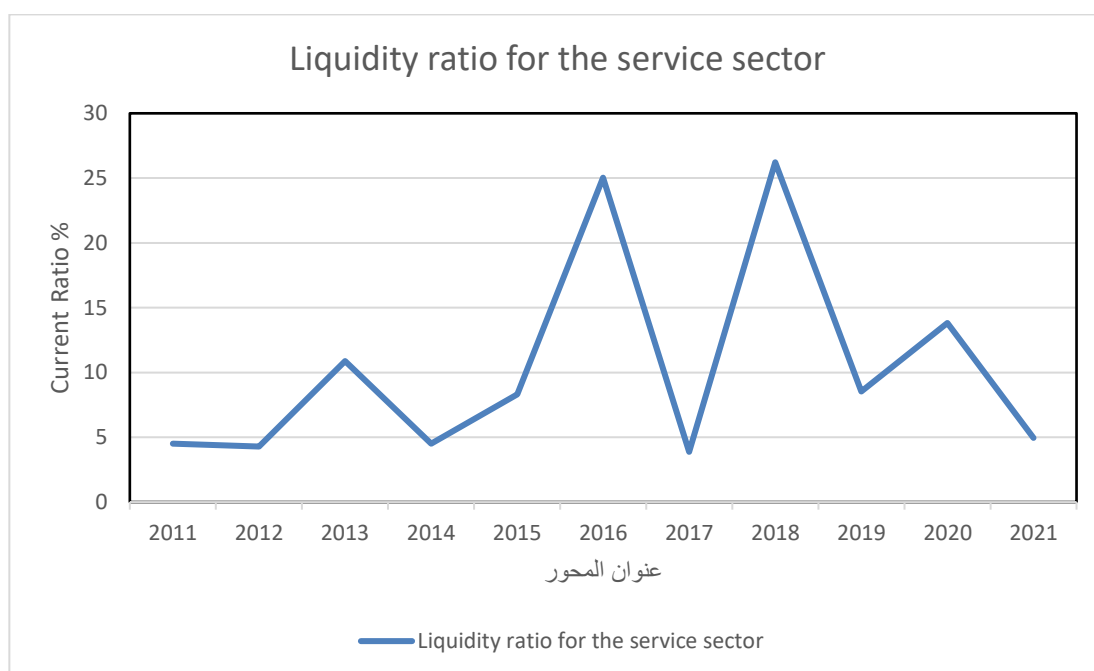


Figure 1.7 Liquidity ratio for the service sector Amman Stock Exchange ASE (2022)

Many Jordanian studies showed important issues that the Jordanian sectors suffer from, such as Al-Dahiya et al. (2021) and Momani & Obeidat (2017) indicated that Jordanian companies suffer from clear fluctuations in their performance, in addition to the presence of a large number of companies that have resorted to closing or merging with other companies due to their inability to achieve a good performance that would help them to continue. According to Amman Stock Exchange (2022) the number of service sector companies decreases year after year on the Amman Stock Exchange due to financial problems, the most important of which is bankruptcy. In addition the Jordanian Securities Depository Center (2022) indicated the Jordanian services sector has suffered in recent years from bankruptcy, mergers, and transformation, according to its annual report.

This study collected some data from Amman Stock Exchange (2022) to clarify and confirm the problem that the services sector suffers from. Figure 1.8 below illustrates the financial performance of the services sector over the previous 11 years.

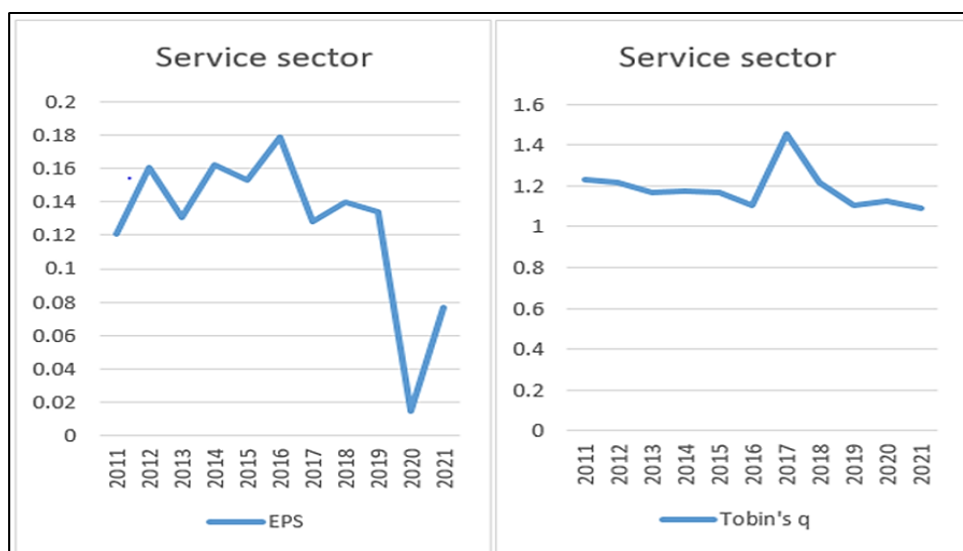


Figure 1.8 Financial Performance of Service Sector Amman Stock Exchange ASE (2022)

The above figure shows that the services sector is facing a decline in EPS and a lack of growth of Tobin's Q, which confirms a real problem facing investors and managers. These rates are considered undesirable and do not satisfy investors. According to Jordanian Ministry of Investment (2018) the Jordanian service sector witnessed a clear recovery in 2017 as a result of government measures that strengthened the Jordanian service sectors, most notably tourism, as the tourism sector's income increased by 12.3% with a total value of 2.7 billion. The government's promotional measures began to fade with the rise in financing interest fees, which led to a decline in service sector operations. When comparing financial performance with other sectors, we find that the performance of the service sector is still below the required level and is not growing like the performance of different sectors, as the figure below shows.

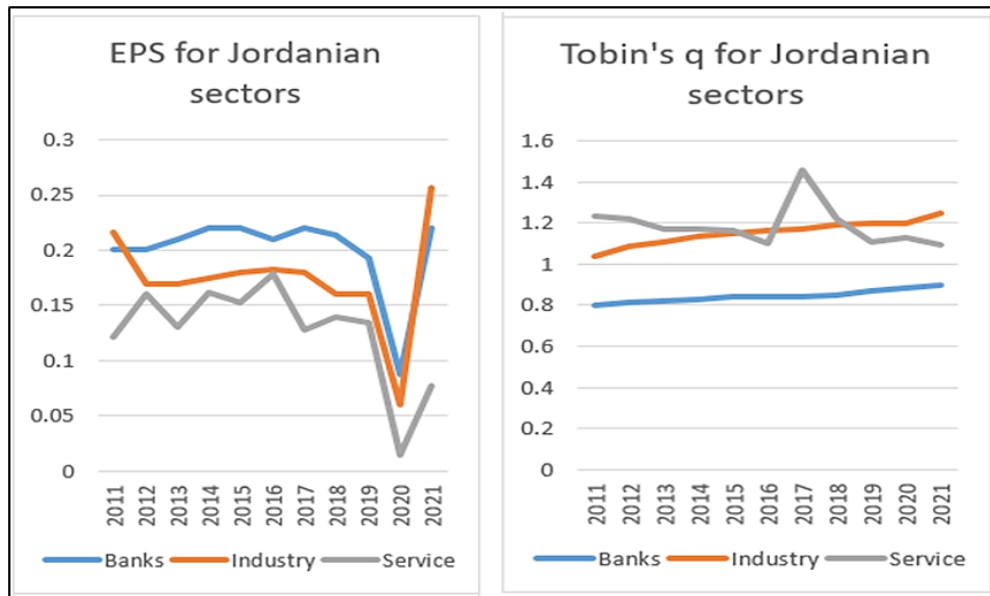


Figure 1.9 Financial Performance of Jordanian Sectors Amman Stock Exchange ASE (2022)

It is noted in Figure 1.9 that the EPS for the service sector is lower than that of other sectors. At the same time, it is also pointed out that Tobin's q of the service sector is volatile compared to other sectors that witness growth from year to year. According to Nalurita (2016) and Hunjra et al. (2014) Investors prefer EPS with a high value, which gives reassurance to investors that the company is trying to maintain its profitability and achieve its goals in a way that serves the investors' goals. In addition to Ali et al. (2016) investors look to companies that achieve growth in Tobin's Q and are concerned about companies that have a decline in Tobin's Q over time.

One of the reasons for the sectors' success is investors' confidence and their orientation towards safer and more profitable sectors to increase their wealth. According to the Amman Stock Exchange (2022) the financial sector ranked first, the industrial sector ranked second, and the service sector ranked last in terms of trading volume on the Amman Stock Exchange. The figure below shows the trading volume for Jordanian sectors.

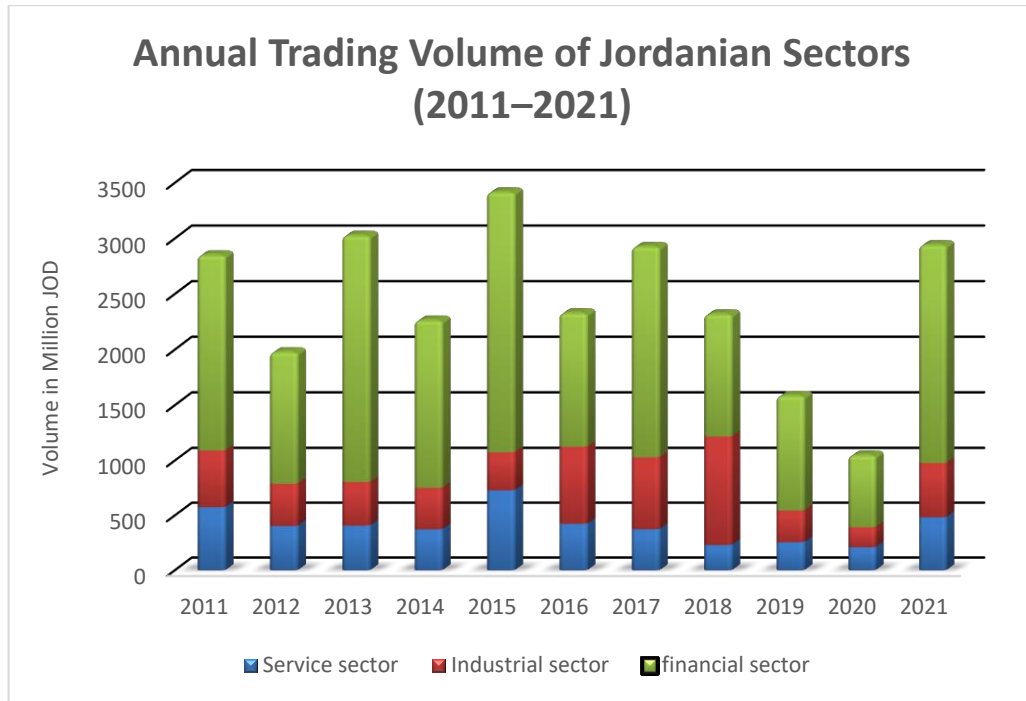


Figure 1.10 Annual Trading Volume of Jordanian Sectors (2011–2021), Amman Stock Exchange ASE (2022)

In light of the previously discussed factors, such as rising loan interest rates, limited liquidity, challenges in securing financing, alongside incidents of bankruptcy, mergers, and the decline and fluctuations in financial performance indicators, it is evident that service firms in Jordan encounter numerous challenges that hinder their ability to enhance financial performance. As a result, there is a pressing need to analyze the financial performance of Jordan's service firms and investigate the factors influencing it, including liquidity, financial leverage, and dividend policy. This study aims to examine the impact of liquidity and financial leverage on the financial performance of the service sector, as well as the mediating role of dividend policy. Furthermore, it addresses the key issues contributing to the challenges faced by the service sector.

Many previous studies such as Adusei, (2022), Meshack et al. (2022), Yahaya et al. (2022), Dahiyat et al. (2021), Hacini et al. (2021), Hongli et al. (2020), Zaitoun & Alqudah (2020), Daryanto et al. (2018), Sahni and Kulkarni (2018), and Ayunku (2017) have examined the relationship between liquidity and financial performance, and some of these studies, such as Meshack et al. (2022), Dahiyat et al. (2021), Hongli et al. (2020), Zaitoun and Alqudah (2020), and Ayunku (2017) indicated a positive relationship, while other studies such as Adusei, (2022), Yahaya et al. (2022), Hacini et al. (2021), Daryanto et al. (2018), and Sahni and Kulkarni (2018) indicated a negative relationship, and this confirms the existence of a research gap between these two variables, as the absence of a clear relationship requires more studies to reveal the nature of the relationship and the impact between financial liquidity and financial performance also to find the reasons for the difference in these results in order to reach the level that achieves added value to the financial performance.

Additionally, many previous studies such as Emmanuel (2022), Jihadi et al. (2021), Asraf and Desda (2020), Zaitoun and Alqudah (2020), Hongli et al. (2019), Samo and Murad (2019), Daryanto et al. (2018), Sahni and Kulkarni (2018), and Banafa et al. (2015) have examined the relationship between leverage and financial performance, and some of these studies, such as Jihadi et al. (2021); Asraf and Desda (2020), Hongli et al. (2019), Sahni and Kulkarni (2018), indicated a positive relationship, while other studies, such as Emmanuel (2022), Zaitoun and Alqudah (2020), Samo and Murad (2019), Daryanto et al. (2018), Banafa et al. (2015), indicated a negative relationship. This further highlights the existence of a research gap between these two variables, as the unclear relationship necessitates additional studies to uncover the nature and impact of the connection between financial leverage and

performance, also to find the reasons for the difference in these results in order to reach the level that achieves added value to the financial performance.

Furthermore, companies must effectively manage leverage and liquidity, as there is a connection between leverage, liquidity, and profitability. Excessive leverage and liquidity can lead to inefficiencies in the company's operations, ultimately lowering profitability. In contrast, good management of leverage and liquidity leads to increased profitability (Gitosudarmo, 2008). Despite that, high leverage and liquidity are not always helpful because they increase the possibility of idle funds that should be utilised to invest in more productive enterprises (Rudin et al., 2016). According to Karaduman et al. (2010) and Shaheen (2012) the leverage and liquidity amounts must be appropriate for the firm's demands, as either a shortage or an excess of them would have a detrimental impact.

Many studies that indicated the importance of the dividend policy, such as Kim et al. (2021), Hoang et al. (2020), Santosa et al. (2020), and Jayaraman (2004), describe it as a puzzle. That leads researchers to conduct more studies to solve this puzzle. Thus, it becomes challenging to clarify its effect on company performance, given that businesses rely on two main sources of financing: internal sources and external sources. Additionally, it is difficult for managers to balance the company's investment needs to achieve its goals and, at the same time, satisfy investors by distributing profits.

Most studies have measured dividend policy using dividend payouts, such as Lace et al. (2013), Al-Najjar and KilincarslanBasil (2019), and Bataineh (2021), and rarely used dividend yield, as the dividend yield index is considered one of the important indicators because it is the dividends paid to shareholders relative to the market value per share. Still, dividends payout is dividends paid to shareholders

relative to earnings per share. Therefore, the dividend yield index is considered one of the indicators that show the result of investing in shares. This indicator will be studied because it is useful for the objectives of our study. Previous researches on this indicator are rare. Thus, this is considered a research gap.

Many previous studies, such as Pattiruhu and Paais (2020), Sholatika (2022), Ahmad & (2014), Aivazian et al. (2003), Alvarez and Virtanen (2006), pointed out the role of dividend policy in its impact on the company's investment decisions and that it plays a major role in planning liquidity and debt policies, as when the company decides to distribute dividends, this will reduce the liquidity that In turn, it is considered an important source of financing for the company's business. If the company refrains from distributing profits or reduces them, this may not be suitable for investors, which will prompt them to withdraw from the company and sell their shares, which will negatively affect share prices. A number of these companies will resort to borrowing, either to distribute profits or to enhance their lack of liquidity to finance their projects. Therefore, This study aims to explore the impact of dividend policy within the Jordanian services sector, which is known to face financial challenges. Given the critical nature of dividend policies in shaping financial outcomes, it is essential to examine their role and interactions with liquidity, leverage, and overall financial performance in Jordanian firms. Furthermore, there is a noticeable lack of research on dividend policies in developing countries, particularly in Jordan. Thus, investigating the mediating effect of dividend policy on the relationships among liquidity, leverage, and financial performance addresses a significant research gap.

Most of the studies that dealt with the relationship between liquidity, financial leverage, and the financial performance of companies were conducted in the industrial

sector, such as Zeitoun and Qudeh (2020), Momani and Obeidat (2017), and Al-Dahiya et al. (2021). This indicates a lack of studies conducted on the service sector, which requires conducting more studies in this sector. According to Jordanian Ministry of Investment (2017) the service sector is considered one of the most important sectors for the Jordanian workforce, specifically in the fields of education and health. The results of the industrial and financial sectors cannot be generalized to the service sector due to the different characteristics of the service sector.

Therefore, the current study tries to address these gaps and issues, investigate the impact of liquidity and leverage on financial performance, and examine the mediating role of dividend policy on these relations.

1.5 Research Objective (RO)

The objective of this study is: to examine the mediating role of dividend policy on the relationship between financial liquidity, financial leverage and financial performance of Jordanian Service Firms. To accomplish this objective, the following objectives must be achieved:

- RO1. To examine the relationship between financial liquidity and financial performance.
- RO2. To examine the relationship between financial leverage and financial performance.
- RO3. To examine the relationship between dividend policy and financial performance.

- RO4. To investigate the relationship between financial liquidity and the dividend policy.
- RO5. To investigate the relationship between financial leverage and the dividend policy.
- RO6. To examine the mediating role of dividend policy on the relationship between financial liquidity and financial performance.
- RO7. To examine the mediating role of dividend policy on the relationship between financial leverage and financial performance.

1.6 Research Question (RQ)

The research question of the study is: Does the mediator of the dividend policy have a role in the relationship between financial liquidity, financial leverage, and financial performance of Jordanian Service Firms?

The following questions arise from this question:

- RQ1. Does financial liquidity impact on financial performance?
- RQ2. Does financial leverage impact on the financial performance?
- RQ3. Does dividend policy impact on financial performance?
- RQ4. Does financial liquidity impact on the dividend policy?
- RQ5. Does financial leverage impact on the dividend policy?
- RQ6. Does dividend policy mediate the relationship between financial liquidity and financial performance?

RQ7. Does dividend policy mediate the relationship between financial leverage and financial performance?

1.7 Significance of the Study

1.7.1 Theoretical

The importance of this study stems from its emphasis on analyzing the financial performance of companies, a crucial indicator of success that all companies strive to improve. By examining key factors such as liquidity, financial leverage, and dividend policy, This study offers valuable insights for shareholders into the financial performance of the companies analyzed. Furthermore, it examines the roles of the pecking order theory and agency cost theory in shaping financial decisions. The pecking order theory, which proposes a hierarchy in financing preferences starting with internal funds, then debt, and finally equity helps explain how companies prioritize their financing options and the resulting effects on financial performance. On the other hand, agency cost theory focuses on the conflicts between shareholders and management, which can lead to less-than-optimal decisions that influence financial performance.

Furthermore, the study highlights the long-term impact of financial leverage on business organizations, particularly concerning profitability and how liquidity is managed to service debts and invest while avoiding risks. Given the scarcity of studies in this field within developing countries, especially in Jordan, this research is particularly important. It sheds light on the challenges companies face regarding liquidity, financial leverage, and dividend policy, aiming to enhance investor satisfaction and help companies achieve their objectives.