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The Impact of Liquidity and Leverage on Financial Performance of Public Listed Firms in Jordan: The Mediating Role of the Dividend Policy

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Abstract

This study investigated the relationships between liquidity, leverage, and financial performance, with a particular emphasis on how dividend policy mediated these interactions. Using secondary data from Jordanian service companies and employing PLS-SEM with Smart-PLS 4.1, the analysis incorporated advanced statistical methods like multiple regression and mediation analysis to assess the direct and indirect effects of financial indicators on performance. The results revealed a complex interplay between financial indicators and performance, highlighting key insights grounded in pecking order theory and agency cost theory. Liquidity indicators, such as current ratio (CR), cash ratio (CHR), and quick ratio (QR), along with leverage indicators like short-term debt (SD), long-term debt (LD), and debt-to-equity ratio (DTE), exhibited varied effects on financial performance. CR, CHR, and SD positively influenced earnings per share (EPS), whereas LD and DTE negatively impacted EPS, with QR showing no significant effect. The study also identified differences in how these indicators affected dividend policy, with CR and CHR negatively influencing it, while LD had a positive effect. Dividend policy was shown to fully mediate the relationship between CR and TQ. While, partially mediate the relationships between CHR, EPS, and TQ, as well as between LD and TQ. Among the control variables, only capital intensity (CI) and firm size (SIZ) have a significant effect, while firm age (AGE) and trading volume (TV) do not.

Keywords: Liquidity, Leverage, Financial Performance, Dividend Policy

Introduction

Financial performance is a key research area, especially in emerging markets like Jordan, where economic volatility and structural challenges are common. Factors such as liquidity and leverage critical components of financial strategy strongly influence firm performance. Liquidity indicates a firm's ability to meet short-term obligations, while leverage involves using borrowed funds to finance assets, both affecting profitability and growth capacity in a competitive market (Sahni & Kulkarni, 2018). Jordan's unique economic and regulatory

landscape, particularly in the service sector, provides a relevant context for examining these dynamics (Al-Ali & Abu-Rumman, 2019).

Dividend policy also plays a crucial role in financial performance, linking liquidity, leverage, and profitability. It impacts retained earnings and future growth investments, with studies showing its potential to mediate the relationship between liquidity, leverage, and performance (Kanakriyah, 2020; Yegon et al., 2014). In Jordan, where liquidity constraints and high leverage are prevalent, understanding this mediating role can offer insights for managers and policymakers aiming to enhance firm performance and investor confidence (Dahiyat et al., 2021).

The service sector is vital to Jordan's economy, significantly contributing to GDP and employment. However, companies in this sector face substantial financial management challenges. Limited funding and high borrowing costs place pressure on firms to balance their financial structures, particularly concerning liquidity and leverage. Many struggle to maintain sufficient liquidity while managing rising debt, which hinders operational sustainability and profitable growth (Husna et al., 2021). High-interest rates further strain their ability to meet financial obligations without compromising long-term stability (Central Bank of Jordan, 2022). Figure 1 (Central Bank of Jordan, 2022; ASE, 2022) shows that despite an increase in loans, the service sector continues to experience liquidity fluctuations inconsistent with borrowing levels.

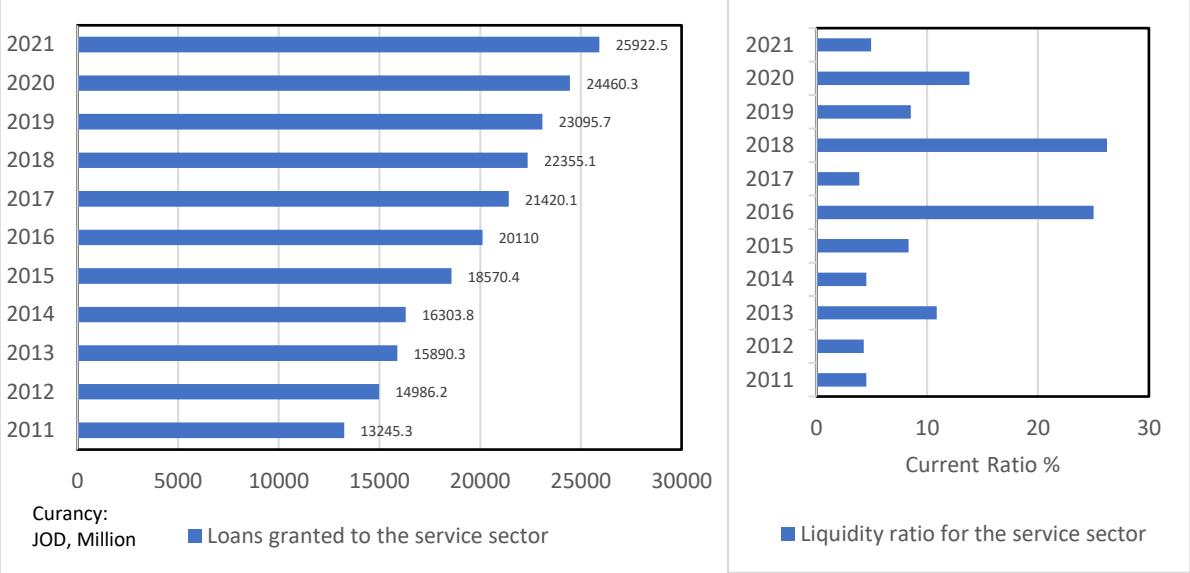


Figure 1: Loans and liquidity levels of the Jordanian service sector

The financial challenges in Jordan's service sector are intensified by the pivotal role of dividend policy in financial management. Dividend decisions impact the balance between profit distribution to shareholders and retained earnings, influencing liquidity and leverage. In Jordan, firms often feel pressured to distribute profits, which can reduce liquidity and increase reliance on debt, leading to financial strain (Al-Najjar & Kilincarslan, 2019).

According to the Securities Depository Center (2022), recent years have seen bankruptcies, mergers, and transformations in this sector. The Amman Stock Exchange (ASE, 2022) shows a

yearly decrease in service sector companies due to financial issues, primarily bankruptcy. Studies highlight performance fluctuations within Jordanian firms (Al-Dahiya et al., 2021; Momani & Obeidat, 2017). Figure 2 (ASE, 2022) reveals lower, more volatile earnings per share (EPS) for the service sector compared to others. This volatility concerns investors, as they prefer high, stable EPS for reassurance of profitability (Nalurita, 2016). Additionally, while other sectors show growth in Tobin's Q a metric linked to investor satisfaction the service sector lags, raising concerns for both investors and managers (Ali et al., 2016).

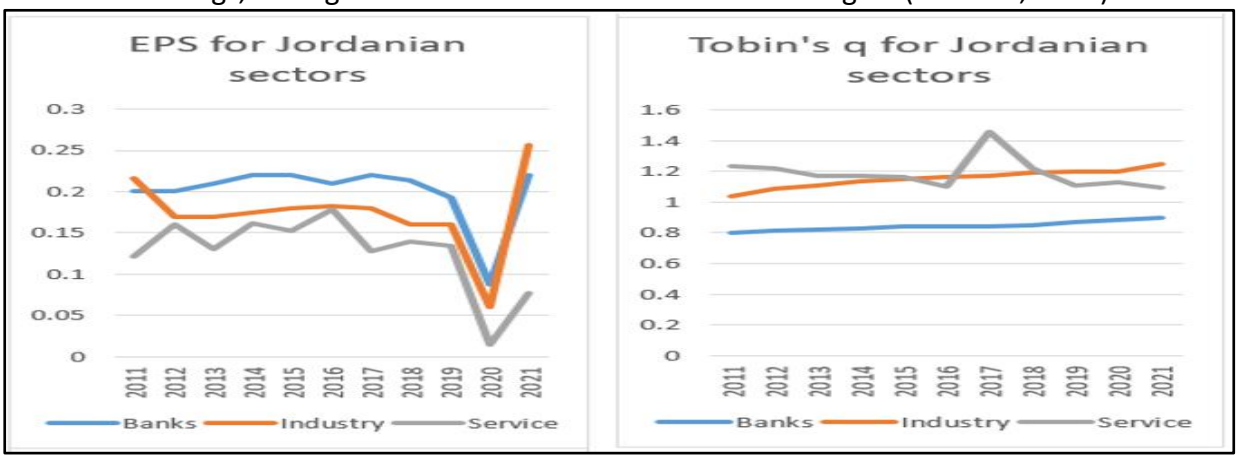


Figure 2: Financial performance of Jordanian sectors

Investor confidence is a key driver of sector success, with investors gravitating toward the safest and most profitable sectors to enhance their wealth. According to the Amman Stock Exchange classification, the financial sector ranks first in trading volume, followed by the industrial sector, with the service sector trailing in last place. This suggests relatively low investor interest in the service sector compared to other sectors. Figure 3 (Amman Stock Exchange, 2022) illustrates the trading volumes of Jordanian sectors, highlighting this disparity in investor attention.

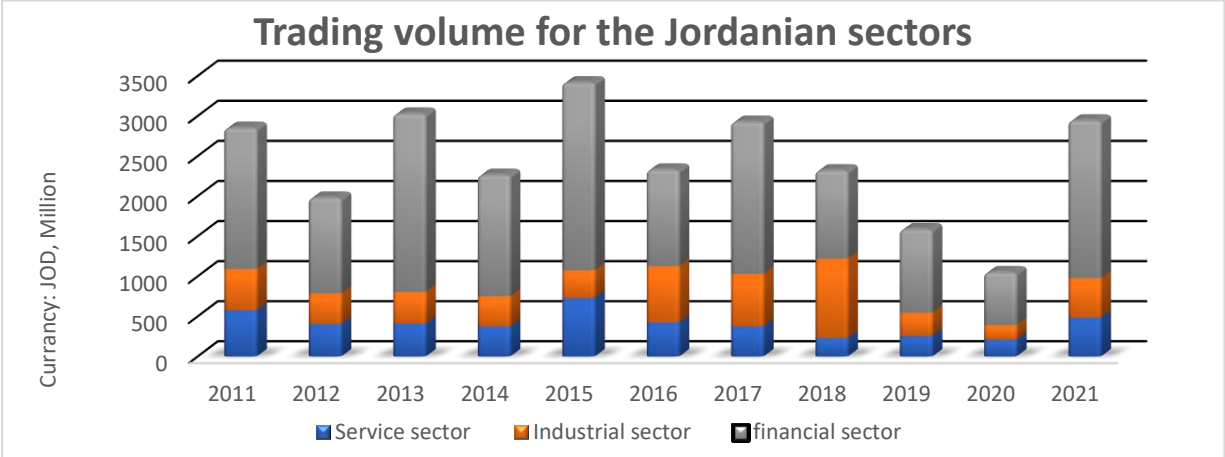


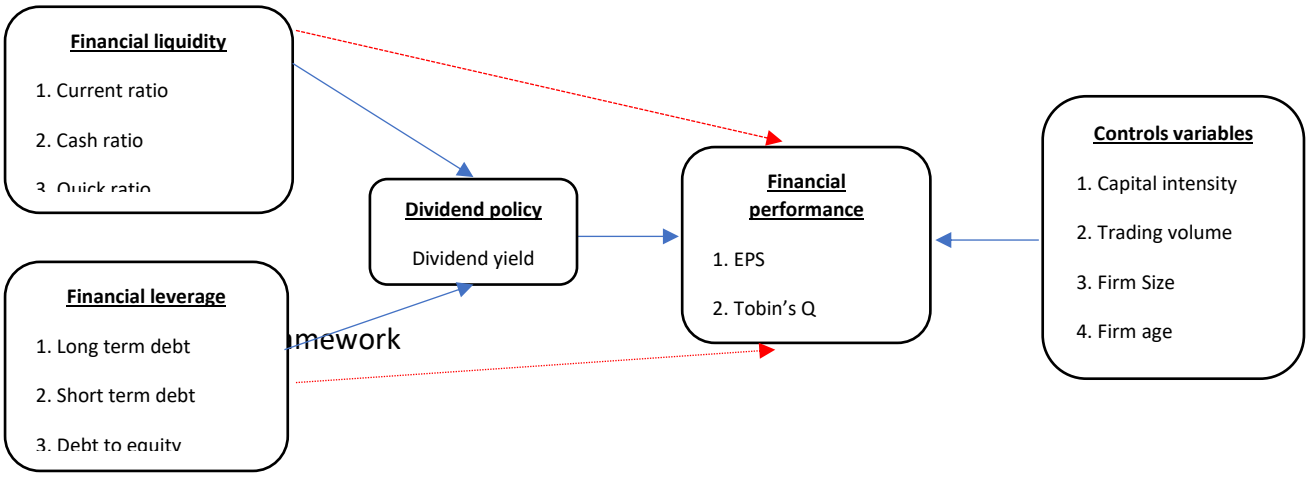
Figure 3: Trading volume between the Jordanian sectors

The Pecking Order Theory suggests that firms prioritize internal funds, then debt, and finally equity to finance their activities. Strong liquidity reduces the need for debt, while high debt limits the need for equity to protect shareholder interests (Reddy, 2018; Myers, 1977). Debt provides tax benefits but incurs risks like bankruptcy and agency costs (Solomon, 1963). While the trade-off model addresses these costs, the Pecking Order Theory emphasizes internal

financing for flexibility. More profitable firms tend to rely less on debt, and high dividends can limit retained earnings, potentially leading to more borrowing (Adedeji, 1998).

The Agency Cost Theory highlights conflicts between managers and shareholders, where debt can either discipline managers or, if excessive, hinder investments (Jensen & Meckling, 1976; Stulz, 1988). Debt policy helps align interests, but without strong oversight, high liquidity might lead to agency costs (Opler et al., 1999). Research supports that leverage can improve performance by reducing agency costs, although this effect varies by region (Harvey et al., 2004; Brounen et al., 2006).

This study's framework integrates Pecking Order and Agency Cost theories to analyze liquidity, leverage, and performance in Jordanian service firms. High liquidity may reduce borrowing needs, while leverage can discipline managers. Dividend policy acts as a mediator, balancing liquidity and leverage impacts on performance by ensuring excess funds return to shareholders rather than supporting inefficient investments (Jensen & Meckling, 1976). The framework, shown in Figure 4, evaluates liquidity, leverage, and financial metrics like earnings per share and Tobin's Q, with controls for capital intensity, trading volume, firm size, and age, to assess how strategic liquidity and leverage management affect firm performance.



The Relationship between Liquidity and Financial Performance

High liquidity, if not effectively managed, may hinder rather than support profitability, as firms with low current assets often struggle with stable returns (Saravanan, 2011; Salem & Rehman, 2011). Liquidity management is crucial for continuity and long-term financial stability, especially in crises, emphasizing the importance of balancing investments and debt (Alqudah, 2020). Proper liquidity risk management, such as risk warning dashboards, supports financial performance by mitigating volatility (Effiong & Ejabu, 2020).

Studies indicate that liquidity positively influences financial performance. For instance, Farhan et al. (2019), showed that liquidity ratios improved returns for Indian pharmaceutical firms, while Alzorqan (2014), and Marjohan (2020), found similar results for Jordanian banks and Indonesian industrial firms, respectively. Research on Kenyan, Jordanian, and Nigerian companies also reveals a positive relationship between liquidity management and profitability (Kyule, 2015; Durrah et al., 2016; Wuave et al., 2020). According to the Pecking

Order Theory, firms favor internal liquidity to drive profitability, linking effective liquidity management to financial health (Myers, 1984).

Hence, and according to the theories related to the study and previous researchers, the current study indicates there is the positive impact of the liquidity on financial performance of Jordanian service firms. This leads to the following hypothesis:
H1: There is a positive effect of Liquidity on Financial Performance of the Jordanian service firms.
Accordingly, the first hypotheses can be formulated into the following sub-hypotheses:
H1a: There is a positive effect of current ratio on Earnings per share of Jordanian service firms.
H1b: There is a positive effect of current ratio on Tobin's Q of Jordanian service firms.
H1c: There is a positive effect of cash ratio on Earnings per share of Jordanian service firms.
H1d There is a positive effect of cash ratio on Tobin's Q of Jordanian service firms.
H1e: There is a positive effect of quick ratio on Earnings per share of Jordanian service firms.
H1f: There is a positive effect of quick ratio on Tobin's Q of Jordanian service firms.

The Relationship between Leverage and Financial Performance
Studies show mixed results on leverage's effect on financial performance. Some find high leverage boosts profitability and shareholder value under equity control (Lartey et al., 2013), while others note profitable firms use less debt, relying on retained earnings (Enqvist et al., 2014). Singh and Bansal (2016) observed that leverage negatively affects EVA, ROA, and Tobin's Q in FMCG firms, with similar findings in Indian banks where short-term debt is positively, and long-term debt negatively, related to profitability (Goyal, 2013).

In Pakistan, high debt harms ROA (Sheikh & Wang, 2013), while Mireku et al. (2014) found market value debt more impactful than book value. Emmanuel (2022) noted significant leverage effects on Nigerian consumer goods. In banking, short-term debt boosts ROA, ROE, and EPS (Saeed et al., 2013).

Tayyaba (2013) found positive effects of financial leverage on oil and gas profitability, whereas operating leverage had a negative impact. Kajola et al. (2019) and Abdullah & Tursoy (2021) support the Pecking Order Theory's inverse link between leverage and profitability, as firms favor internal funds over debt.

Hence, and according to the theories related to the study and previous researchers, the current study indicates there is the negative impact of the leverage on financial performance of Jordanian service firms. This leads to the following hypothesis:
H2: There is a negative effect of Leverage on Financial Performance of the Jordanian service firms.
Accordingly, the second hypotheses can be formulated into the following sub-hypotheses:
H2a: There is a negative effect of short term debt on Earnings per share of Jordanian service firms.
H2b: There is a negative effect of short term debt on Tobin's Q of Jordanian service firms.
H2c: There is a negative effect of long term debt on Earnings per share of Jordanian service firms.
H2d: There is a negative effect of long term debt on Tobin's Q of Jordanian service firms.

H2e: There is a negative effect of debt to equity on Earnings per share of Jordanian service firms.
H2f: There is a negative effect of debt to equity on Tobin's Q of Jordanian service firms.

The Relationship between Dividend Policy and Financial Performance

The decision to distribute net profit as dividends or retain it is critical, balancing shareholder preferences and reinvestment needs. Dividend distribution affects future profitability and growth, key metrics for investors (Purbawangsa & Rahyuda, 2022). Higher profitability raises investor expectations for returns, enhancing market performance and signaling potential growth (Nguyen et al., 2020). Abdullah (2021) found that Turkish financial companies with higher profitability and leverage tend to reduce dividend payouts, suggesting a preference for reinvestment.

Dividend policy can significantly influence market share prices, particularly in firms with regular payouts (Gul et al., 2012). Studies in Nigeria also link dividend policy to firm performance (Oyinlola et al., 2014). Research by Mehta (2012) and Amidu & Abor (2006) shows that highly profitable companies often reinvest rather than pay higher dividends, aligning with the Pecking Order Theory.
This study suggests a positive impact of dividend policy on the financial performance of Jordanian service firms, aligning with established theories and prior research. This leads to the following hypothesis:
H3: There is a negative effect of dividend policy on Financial Performance of the Jordanian service firms.
Accordingly, the third hypotheses can be formulated into the following sub-hypotheses:
H3.1: There is a negative effect of dividend policy on Earning per Share of Jordanian service firms.
H3.2: There is a negative effect of dividend policy on Tobin's Q of Jordanian service firms.

The Mediating Role of Dividend Policy

Dividend distribution influences financial performance, investor loyalty, and a firm's liquidity and debt requirements. Managers must balance dividend policy, liquidity, and debt to optimize performance (Jiang et al., 2017). Large firms prioritize capital sufficiency to meet obligations before profit distribution, aligning management and shareholder interests (Santosa et al., 2020).

Dividend policy is integral to financing, affecting decisions on internal vs. external funds (Hoang et al., 2020; Nam, 2019). Firms with high debt often pay lower dividends due to debt obligations, while those with good liquidity can afford higher payouts (Nurchaqiqi & Suryarini, 2018). However, excessive dividends may strain liquidity, leading to underinvestment (Kim et al., 2021).

Liquidity, essential for dividends and debt repayment, heavily impacts dividend policy. Studies show that high leverage limits dividend payments as firms focus on financing future investments, revealing a negative leverage-dividend link (Abdullah, 2021). Research by Myers & Bacon (2004), and Ahmad & Wardani (2014), supports this, as firms with strong liquidity prioritize investments over dividends, aligning with the Pecking Order Theory.

Hence, the current study suggests that there is an interrelationship between the dividend policy, liquidity and leverage for the Jordanian service firms. Based on previous studies and theories, the following hypotheses were formulated:

H4: There is a negative effect of liquidity on divided policy of the Jordanian service firms.

Accordingly, the fourth hypotheses can be formulated into the following sub-hypotheses:

H4a: There is a negative effect of current ratio on divided policy of Jordanian service firms.

H4b: There is a negative effect of cash ratio on divided policy of Jordanian service firms.

H4c: There is a negative effect of quick ratio on divided policy of Jordanian service firms.

H5: There is a positive effect of leverage on divided policy of the Jordanian service firms.

Accordingly, the fifth hypotheses can be formulated into the following sub-hypotheses:

H5a: There is a positive effect of short term debt on divided policy of Jordanian service firms.

H5b: There is a positive effect of long term debt on divided policy of Jordanian service firms.

H5c: There is a positive effect of debt to equity on divided policy of Jordanian service firms.

H6: divided policy has mediating role on the relationship between Liquidity and Financial Performance of Jordanian service firms.

Accordingly, the sixth hypothesis can be divided into the following sub-hypotheses:

H6a: divided policy has mediating role on the relationship between current ratio and earning per share of Jordanian service firms.

H6b: divided policy has mediating role on the relationship between current ratio and Tobin's Q of Jordanian service firms.

H6c: divided policy has mediating role on the relationship between cash ratio and earning per share of Jordanian service firms.

H6d: divided policy has mediating role on the relationship between cash ratio and Tobin's Q of Jordanian service firms.

H6e: divided policy has mediating role on the relationship between quick ratio and earning per share of Jordanian service firms.

H6f: divided policy has mediating role on the relationship between quick ratio and Tobin's Q of Jordanian service firms.

H7: divided policy has mediating role on the relationship between Leverage and Financial Performance of Jordanian service firms.

Accordingly, the seventh hypothesis can be divided into the following sub-hypotheses:

H7a: divided policy has mediating role on the relationship between short term debt and earning per share of Jordanian service firms.

H7b: divided policy has mediating role on the relationship between short term debt and Tobin'sQ of Jordanian service firms.

H7c: divided policy has mediating role on the relationship between long term debt and earning per share of Jordanian service firms.

H7d: divided policy has mediating role on the relationship between long term debt and Tobin's Q of Jordanian service firms.

H7e: divided policy has mediating role on the relationship between debt to equity and earning per share of Jordanian service firms.

H7f: divided policy has mediating role on the relationship between debt to equity and Tobin's Q of Jordanian service firms.

Methodology

Data Selection and Collection

The secondary data for this study, focusing on the Jordanian service sector, was obtained from two primary sources: the Amman Stock Exchange and the companies' annual reports. Companies that fulfilled the study's criteria specifically, those within the designated study period and with accessible financial data were selected for analysis.

Population and Sample

This study examines 38 Jordanian service sector companies listed on the Amman Stock Exchange from 2011 to 2021. The service sector, including healthcare, education, tourism, transportation, technology, communications, utilities, and energy, was selected due to its significant role in supporting other sectors and its contribution of 22.2% to Jordan's GDP (Jordanian Ministry of Investment, 2022). This sector, heavily reliant on human resources, is Jordan's largest employer, accounting for 42.5% of the national workforce (Amman Chamber of Commerce, 2019).

Measurement and Operational Definition of Variables

Table 1
Measurement and Operational Definition of Variables

Independent Variables			
Liquidity	Current Ratio:measures a company's ability to cover its short-term liabilities with its short-term assets	$\boldsymbol{Current\ Ratio} = \frac{Current\ Assets}{Current\ Liabilities}$	(Dahiyat et al., 2021; Parsian & Koloukhi (2014)
	Cash Ratio:is a more stringent liquidity measure, showing the company's ability to pay off short-term liabilities using only cash and cash equivalents.	$\boldsymbol{Cash\ Ratio} = \frac{Cash}{Current\ Liabilities}$	(Maisharoh & Riyanto, 2020; Batchimeg, 2017)
	Quick Ratio: measures a company's	$\boldsymbol{Quick\ Ratio} = \frac{Cash + Accounts\ \text{Receivable}}{Current\ Liabilities}$	(Nabeel & Hussain 2017)

	ability to meet short-term liabilities with its most liquid assets, excluding inventory		
Leverage	Short-Term Debt: reflects the proportion of a company's assets that are financed through short-term debt, which must be repaid within a fiscal year.	$\boldsymbol{Short\ term\ debt} = \frac{Short\ Term\ Debt}{Toal\ Assets}$	(Mahmood et al., 2019; Nurwani & Syafina, 2022)
	Long-Term Debt: shows the proportion of a company's assets financed by long-term debt, which extends beyond one fiscal year.	$\boldsymbol{Long\ term\ debt} = \frac{Long\ Term\ Debt}{Total\ Assets}$	(Abbas et al., 2021; Ajuandem, 2020)
	Debt to Equity Ratio: compares a company's total liabilities to its shareholders' equity, providing insight into its capital structure and financial leverage.	$\boldsymbol{Debit\ to\ equity} = \frac{Total\ liabilities}{Total\ equity}$	(Abbas et al., 2021; Ajuandem, 2020)
Dependent Variable			

Financial performance	Earnings Per Share: measures of a company's profitability, reflecting the amount of net income allocated to each outstanding share of common stock.	$$\boldsymbol{EPS} = \frac{Net\ Income - Preferred\ Dividendsncon}{Average\ outstanding\ common\ shares}$$	(Emmanuel, 2022; Kramaric et al., 2021)
	Tobin's Q: is a ratio that compares the market value of a company to the replacement cost of its assets, serving as an indicator of growth potential and management efficiency.	$$\boldsymbol{Tobin's\ Q} = \frac{Market\ Capatalization + Total\ Debt}{Total\ Assets}$$	(Malahim et al., 2022; Saidat et al., 2022)
Mediator Variable			
Dividend policy	dividend yield: shows how much a company pays out in dividends each year relative to its stock price.	$$\boldsymbol{Dividend\ Yield} = \frac{Dividend\ Per\ Share}{Share\ Price}$$	(Kajola et al., 2015; Bustani, 2020).
Control Variables			
Capital Intensity	This metric reflects the proportion of investment in fixed assets relative to	$$\boldsymbol{Capital\ Intensity} = \frac{Fixed\ Assets}{Total\ Assets}$$	(Widyastuti et al., 2022; Oeta et al., 2019)

	total assets, showing how reliant a company is on capital for its operations.		
Trading Volume	is measured by the number of shares traded within a specific period, providing insights into market activity and investor confidence	***Trading Volume*** *= Sum Value traded for shares*	(Chang et al., 2017; Ichsani & Suhardi, 2015).
Firm size	is measured by the number of employees, serving as an indicator of the company's operational scale and stability	***Firm Size*** *= Number of Employees*	(Xie et al., 2022; Drempetic, 2020).
Firm age	is determined by the number of years since the company was founded, reflecting its experience and stability.	***Firm Age*** *= The Year of the Research – The Year the firm Started*	(Rahman, 2022; Coad et al., 2013).

Results and Discussion

Descriptive Statistics

Table 2, presents the descriptive statistics, which include the maximum, minimum, mean, and standard deviation values for the sample of Jordanian service companies over the past 11 years (2011-2021). The data were sourced from the Amman Stock Exchange and the companies' annual reports.

Table 2
Descriptive Statistics

V	N	Minimum	Maximum	Mean	Std. Deviation
EPS	418	-.37	.52	.0863	.14628
TQ	418	.22	2.33	1.0698	.38658
CR	418	.11	2.92	1.1786	.64764
CHR	418	.00	1.33	.2771	.33568
QR	418	.01	2.64	.7786	.56838
SD	418	.02	.80	.2487	.16918
LD	418	.00	.28	.0543	.07261
DTE	418	.00	1.52	.4302	.33845
DP	418	.00	.09	.0299	.02826
CI	418	.00	.99	.4445	.31976
TV	418	1527.00	64831223.00	5961480.70	10926583.40
SIZ	418	1.00	3830.00	624.52	766.54
AGE	418	2.00	83.00	21.40	16.19

Note: This table provides the descriptive statistics for the study variables. EPS denotes earning per share. TQ denotes TobinsQ measures by market value of a firm to replacement cost of firm assets. CR denotes Current ratio. CHR denotes Cash ratio. QR denotes Quick ratio. SD denotes Short term debt. LD denotes Long term debt. DTE denotes debt to equity. DP denotes Dividend policy. CI denotes Capital intensity. TV denotes Treading volume. SIZ denotes the firm size. AGE denotes the firm age.

Descriptive statistics reveal diverse financial characteristics among Jordanian service companies. Earnings per Share (EPS) ranges from -0.37 to 0.52, with an average of 0.0863, suggesting modest average profitability amid some firms facing losses. The mean Tobin's Q of 1.0698 indicates that, on average, these firms are valued slightly above their asset replacement costs, though values vary significantly.

Liquidity ratios show that the average Current Ratio (1.1786), Cash Ratio (0.2771), and Quick Ratio (0.7786) suggest adequate liquid assets to cover short-term liabilities, but variability indicates that some firms face challenges. Short-term Debt (mean 0.2487) is more common than Long-term Debt (0.0543), indicating a reliance on short-term financing, while the mean Debt to Equity ratio of 0.4302 reflects moderate leverage, with significant differences across firms.

Dividend Policy, with a low mean of 0.0299, suggests minimal dividend payouts, implying a focus on reinvestment. Capital Intensity (mean 0.4445) shows substantial fixed asset investment, varying widely among firms. Trading Volume is highly variable (mean 5,961,480.70, standard deviation 10,926,583.40), indicating differences in market activity. Firm Size (mean 624.52 employees, range 1 to 3,830) and Firm Age (mean 21.4 years, range 2 to 83) highlight the sector's diversity in scale and maturity.

Variance Inflation Factor (VIF)
The table 3, presents a Variance Inflation Factor (VIF) matrix generated using Smart-PLS. VIF values are utilized to detect multicollinearity among independent variables in a regression model. Multicollinearity arises when independent variables are highly correlated, leading to

inflated variances of regression coefficients, which in turn makes the estimates unstable and difficult to interpret (Hair et al., 2010).

Table 3
VIF

Variable	VIF
CR	2.170
CHR	2.102
QR	2.676
SD	1.770
LD	1.399
DTE	1.487
DP	1.283
CI	1.547
TV	1.258
SIZ	1.792
AGE	1.281

Note: This table provides (VIF) for the study variables CR denotes Current ratio. CHR denotes Cash ratio. QR denotes Quick ratio. SD denotes Short term debt. LD denotes Long term debt. DTE denotes debt to equity. DP denotes Dividend policy. CI denotes Capital intensity. TV denotes Treading volume. SIZ denotes the firm size. AGE denotes the firm age

In this analysis, the VIF values for all variables such as AGE (1.281), Cash Ratio (CHR) (2.102), Capital Intensity (CI) (1.547), and Current Ratio (CR) (2.170) are well below the commonly accepted threshold of 10. This indicates that multicollinearity is not a significant issue in the model, and the estimates of the regression coefficients are likely to be stable and reliable. The highest VIF value is observed for the Quick Ratio (QR) at 2.676, which is still within acceptable limits, further confirming that multicollinearity is not a major concern in this study. The results indicate that all VIF values are below the commonly accepted threshold of 10 (Hair et al., 2010).

Explanatory Power

Table 4
Explanatory Power

Predicator(s)	Outcome(s)	R-Square	F-Square	Q- Square
CR	EPS	0.362	0.029	0.319
CHR			0.055	
QR			0.000	
SD			0.052	
LD			0.044	
DTE			0.030	
DP			0.010	
CI			0.031	
TV			0.000	
SIZ			0.017	
AGE			0.000	
CR	TQ	0.186	0.019	0.043
CHR			0.011	
QR			0.056	
SD			0.017	
LD			0.008	
DTE			0.002	
DP			0.112	
CI			0.017	
TV			0.003	
SIZ			0.010	
AGE			0.001	
CR	DP	0.158	0.008	0.136
CHR			0.046	
QR			0.00	
SD			0.001	
LD			0.009	
DTE			0.00	

Note: This table explanatory power for the study variables. EPS denotes earning per share. TQ denotes TobinsQ measures by market value of a firm to replacement cost of firm assets. CR denotes Current ratio. CHR denotes Cash ratio. QR denotes Quick ratio. SD denotes Short term debt. LD denotes Long term debt. DTE denotes debt to equity. DP denotes Dividend policy. CI denotes Capital intensity. TV denotes Treading volume. SIZ denotes the firm size. AGE denotes the firm age R^2 statistics indicate how much variance in the dependent variable is explained by the independent variables. It measures the model's explanatory power, ranging from 0 to 1, with higher values showing greater explanatory power (Shmueli & Koppius, 2011; Rigdon, 2012). Cohen (1988) suggests that R^2 values can be classified as substantial (0.26), moderate (0.13), or weak (0.02), depending on the research context. For instance, R^2 values as low as 0.10 may be acceptable in specific fields like predicting stock returns (Raithel et al., 2012). In this study, the R^2 for EPS is over 0.26, indicating substantial

explanatory power, while R^2 for TQ and DP is over 0.13, indicating moderate explanatory power.

The effect size (f^2) estimates the influence of each independent variable on the dependent variable by assessing the change in R^2 when an independent variable is removed. Cohen (1988) categorizes f^2 values as large (0.35), medium (0.15), or small (0.02). The results show that the effect sizes for most variables, such as CR on EPS and QR on TQ, are small.

Q-Square (Q^2) is used to evaluate the predictive relevance of the model in PLS-SEM, indicating how well the model reconstructs observed values. A positive Q^2 value suggests that the model has predictive relevance, with values greater than zero confirming sufficient predictive power (Hair et al., 2013). The results show that the Q^2 values for the endogenous constructs are positive, establishing the model's predictive relevance.

Hypothesis Test

Path coefficients in the structural model indicate the hypothesized relationships between constructs, showing the direct effects of independent variables on the dependent variable (Ramayah et al., 2018). In this study, Partial Least Squares Structural Equation Modeling (PLS-SEM) was used to estimate these coefficients, assessing the relationships between liquidity, leverage, and financial performance, with dividend policy as a mediator. Significance was determined using a PLS bootstrapping procedure, which generates t-values. For one-tailed tests, critical values are 1.645 for 95% significance and 2.33 for 99% significance. If the t-value exceeds these thresholds, the path coefficient is significant. Figures 5 and 6 display the PLS structural model results, showing path coefficients, R^2, and t-values after analysis.

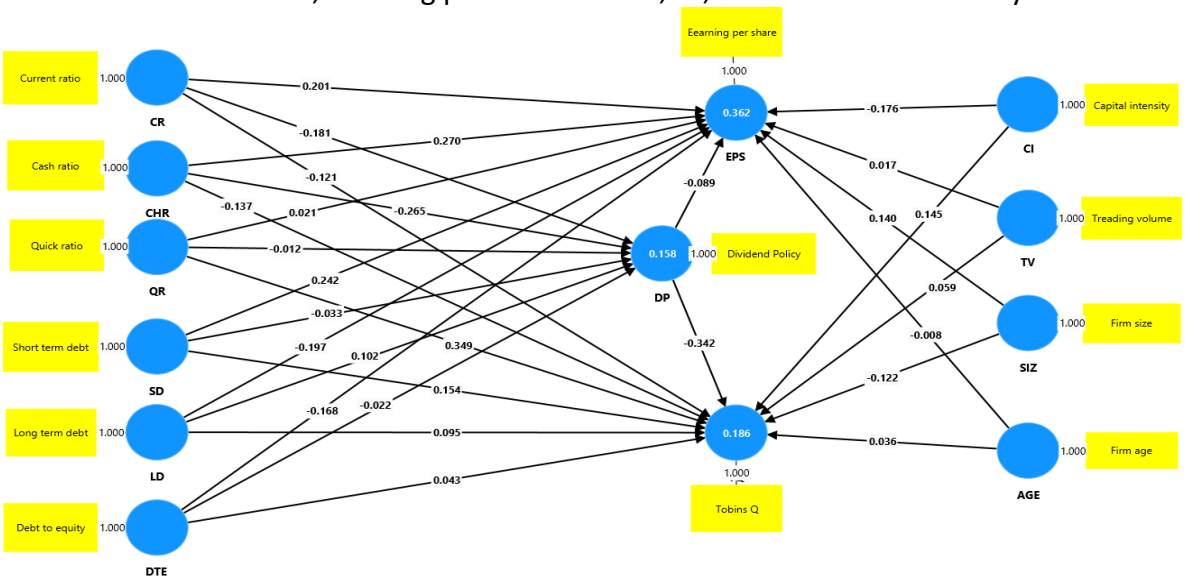


Figure 5: PLS Structure Model for Path Coefficient and R2

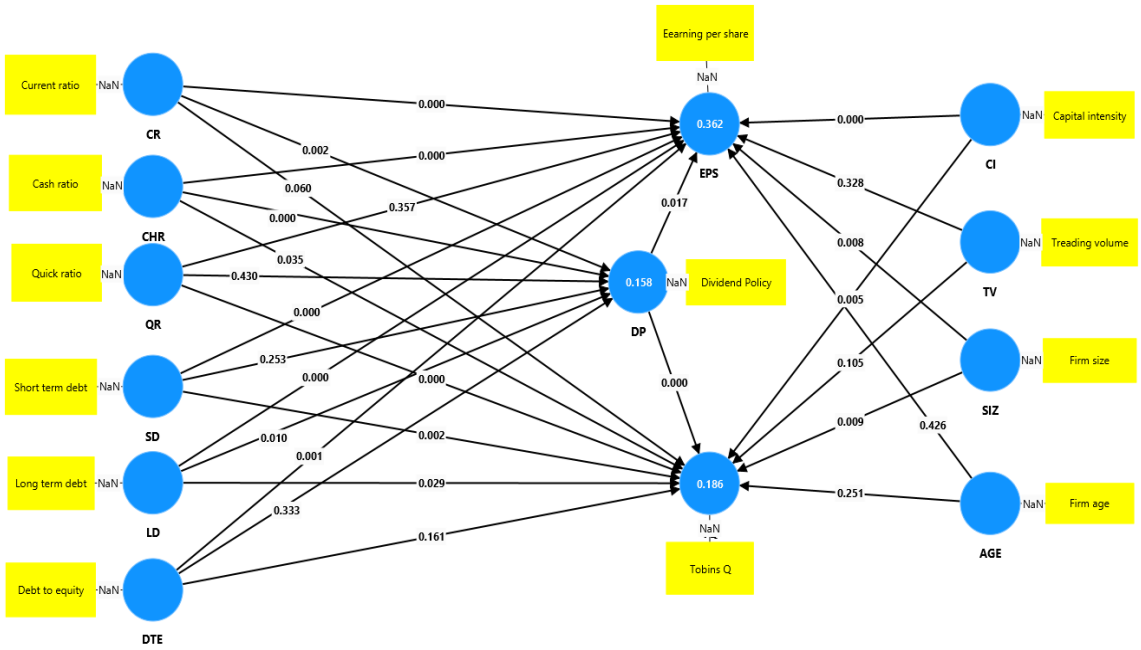


Figure 6: PLS Structure Model for T-Value

Path Coefficient Analysis

Table 5

Path Coefficient and t-value for direct relationship

		path	Path Coefficient	Standard Error	t-value (1 tailed)	Decision
H1	H1a	CR -> EPS	0.201	0.043	4.693 **	Supported
	H1b	CR -> TQ	-0.121	0.078	1.553	Not Supported
	H1c	CHR-> EPS	0.270	0.055	4.875 **	Supported
	H1d	CHR -> TQ	-0.137	0.075	1.819 *	Not Supported
	H1e	QR -> EPS	0.021	0.058	0.366	Not Supported
	H1f	QR -> TQ	0.349	0.088	3.960 **	Supported
H2	H2a	SD -> EPS	0.242	0.068	3.550 **	Not Supported
	H2b	SD -> TQ	0.154	0.055	2.830 **	Not Supported
	H2c	LD -> EPS	-0.197	0.052	3.783 **	Supported
	H2d	LD -> TQ	0.095	0.050	1.898 *	Not Supported
	H2E	DTE -> EPS	-0.168	0.052	3.198 **	Supported
	H2f	DTE -> TQ	0.043	0.044	0.989	Not Supported
H3	H3a	DP -> EPS	-0.089	0.042	2.122 *	Supported
	H3b	DP -> TQ	-0.342	0.046	7.438 **	Supported
H4	H4a	CR -> DP	-0.181	0.061	2.951 **	Supported
	H4b	CHR-> DP	-0.265	0.059	4.459 **	Supported
	H4c	QR -> DP	-0.012	0.071	0.176	Not Supported
H5	H5a	SD -> DP	-0.033	0.050	0.665	Not Supported
	H5b	LD -> DP	0.102	0.044	2.342**	Supported
	H5c	DTE -> DP	-0.022	0.050	0.432	Not Supported
Controls Variables		CI -> EPS	-0.176	0.047	3.717 **	Effect
		CI -> TQ	0.145	0.056	2.564 **	Effect

TV -> EPS	0.017	0.038	0.446	Not Effect
TV -> TQ	0.059	0.047	1.253	Not Effect
SIZ -> EPS	0.140	0.058	2.424 **	Effect
SIZ -> TQ	-0.122	0.052	2.356 **	Effect
AGE -> EPS	-0.008	0.044	0.187	Not Effect
AGE -> TQ	0.036	0.054	0.672	Not Effect

** p < 0.01, *p < 0.05. Note: This table provides Path Coefficient and t-value for

Independent Variables. EPS denotes earning per share. TQ denotes TobinsQ measures by market value of a firm to replacement cost of firm assets. CR denotes Current ratio. CHR denotes Cash ratio. QR denotes Quick ratio. SD denotes Short term debt. LD denotes Long term debt. DTE denotes debt to equity. DP denotes Dividend policy. CI denotes Capital intensity. TV denotes Treading volume. SIZ denotes the firm size. AGE denotes the firm age.
The findings from Table 5 show relationships between liquidity, leverage, dividend policy, and financial performance. The current ratio (CR) has a significant positive effect on earnings per share (EPS), supporting H1 (H1a, $\beta = 0.201$, $t = 4.693$, $p < 0.01$), indicating that higher liquidity improves financial performance. This aligns with the Pecking Order Theory, which suggests firms prefer using internal funds first, reflecting strong liquidity. Studies by Tarigan et al. (2021) and Al-Taani (2013) support this, showing that higher CR enhances EPS by improving working capital management. However, CR does not significantly impact Tobin's Q (TQ), not supporting H1b (H1b, $\beta = -0.121$, $t = 1.553$, $p > 0.05$), consistent with findings of (Kramaric et al., 2021). This suggests that while higher liquidity may help meet obligations and boost EPS, it does not affect market valuation.

The cash ratio (CHR) also positively affects EPS, supporting H1 (H1c, $\beta = 0.270$, $t = 4.875$, $p < 0.01$), which aligns with the Pecking Order Theory's emphasis on internal financing. Studies by Mathews et al. (2021) and Abushammala & Sulaiman (2014) confirm this, linking high CHR to better profitability due to enhanced investment capacity. However, CHR negatively affects TQ (H1d, $\beta = -0.137$, $t = 1.819$, $p > 0.05$), suggesting that unused liquidity may signal inefficiency, potentially reducing market valuation. Studies by Lee and Lee (2009) and Kalcheva & Lins (2007) show that excessive cash can indicate inefficient resource use, leading to lower firm value. This dual effect of CHR in Jordanian service firms reflects a balance between maintaining liquidity for profitability (boosting EPS) and avoiding the inefficiency associated with excess cash (lowering TQ). This dynamic aligns with agency theory, where excessive cash may lead to low-return investments or cash hoarding by managers, ultimately impacting firm valuation (Jensen & Meckling, 1976).

The quick ratio (QR) does not significantly affect earnings per share (EPS), not supporting H1 (H1e, $\beta = 0.021$, $t = 0.366$, $p > 0.05$). This may suggest that excess liquidity can lead to inefficiencies, as managers might invest in lower-return projects, limiting any positive impact on EPS. Similar findings were reported by Nabeel & Hussain (2017) in Pakistan's banking sector and Elangkumaran & Kartika (2013) in Sri Lanka's food, beverage, and tobacco industries, where QR showed no significant impact on profitability. However, the quick ratio has a significant positive effect on Tobin's Q (TQ), supporting H1 (H1f, $\beta = 0.349$, $t = 3.960$, $p < 0.01$), consistent with the Pecking Order Theory. This implies that firms with higher liquidity

can finance operations internally, potentially boosting market perceptions and firm valuation. Study by Kendirli et al. (2018) in Turkish banks show a positive relationship between QR and TQ.

Short-term debt (SD) positively influences earnings per share (EPS), not supporting H2 (H2a, $\beta = 0.242$, $t = 3.550$, $p < 0.01$), consistent with the trade-off theory, which suggests firms benefit from the tax advantages of short-term debt, thereby reducing tax burden and increasing net earnings. Empirical support for this relationship includes studies by Saeedi and Mahmoodi (2011) in Tehran Stock Exchange firms, Hasan et al. (2014) in Bangladeshi firms, and Saeed et al. (2013) in the banking sector, showing short-term debt's positive impact on ROA, ROE, and EPS. Additionally, SD has a positive effect on Tobin's Q (TQ), not supporting H2 (H2b, $\beta = 0.154$, $t = 2.830$, $p < 0.01$). Research by Salim & Yadav (2012), Saeedi & Mahmoodi (2011), aligns with this finding, demonstrating that short-term debt positively impacts TQ and firm performance. For Jordanian service companies, using short-term debt strategically improves operational efficiency, boosting EPS and enhancing market confidence, thereby raising TQ. Effectively balancing debt for operations while maintaining flexibility helps these companies optimize their capital structure, improving both profitability and market valuation. Long-term debt (LD) negatively impacts EPS, supporting H2 (H2c, $\beta = -0.197$, $t = 3.783$, $p < 0.01$), aligning with the pecking order theory, which suggests firms prefer internal financing over debt. High long-term debt levels may indicate limited internal funds, elevating financial risk and reducing EPS. Supporting studies include Salim & Yadav (2012) in Malaysian companies and Saeedi and Mahmoodi (2011) in Tehran Stock Exchange firms, as well as Bokhari & Khan (2013). However, LD has a positive (though not statistically significant) effect on TQ, not supporting H2 (H2d, $\beta = 0.095$, $t = 1.898$, $p < 0.05$), which can be explained by the trade-off theory, suggesting debt may boost firm value by providing tax benefits. Studie by Salim & Yadav (2012), found a similar positive relationship between long-term debt and TQ in Malaysian firms. The differing effects of long-term debt positively influencing TQ but negatively affecting EPS stem from the distinct measures these indicators reflect. While TQ captures market perception and confidence, potentially bolstered by strategic long-term debt signaling growth potential, EPS reflects immediate profitability, where high long-term debt elevates interest expenses, thereby reducing shareholder earnings.

The debt-to-equity ratio (DTE) has a negative impact on earnings per share (EPS), supporting H2 (H2e, $\beta = -0.168$, $t = 3.198$, $p < 0.01$). This aligns with the pecking order theory, indicating that firms with higher debt levels incur increased financial costs and risks, reducing earnings. Empirical studies support this view, with Nugroho et al. (2020) finding a negative impact of high DTE on EPS in Indonesian companies, and Tarigan et al. (2021) reporting similar results in manufacturing firms. However, DTE does not significantly affect Tobin's Q (TQ), not supporting H2 (H2f, $\beta = 0.043$, $t = 0.989$, $p > 0.05$), suggesting that the market does not view current debt levels as significantly influencing the firm's value. Simorangkir (2019) found no significant relationship between DTE and TQ in Indonesian firms.

The significant negative impact of dividend policy (DP) on EPS, supporting H3 (H3a, $\beta = -0.089$, $t = 2.122$, $p < 0.05$), also strong negative impact on TQ, supporting H3 (H3b, $\beta = -0.342$, $t = 7.438$, $p < 0.01$), supporting H3, this is consistent with support the pecking order theory. This theory suggests that firms prefer to finance their operations and investments using internal funds, such as retained earnings, rather than paying out dividends. Higher dividend payouts

reduce the amount of internal funds available for reinvestment, potentially increasing the need for external financing, which can raise costs and risks. Consequently, this can negatively affect both accounting-based (EPS) and market-based (TQ) performance measures, as the firm has fewer resources to invest in growth opportunities. Empirical studies support these findings; Ebire et al. (2018) found that dividend yield negatively affects EPS in Nigeria's oil and gas sector. Peter and Lynadon (2016) observed that firms with generous dividend policies often experience lower EPS growth, as high dividends reduce retained earnings for reinvestment. Widiyanti et al. (2019), and Lumapow & Tumiwa (2017) found that dividend policy negatively impacts firm value in Indonesian manufacturing companies.

The current ratio (CR) has a negative impact on dividend policy (DP), supporting H4 (H4a, $\beta = -0.181$, $t = 2.951$, $p < 0.01$), suggesting that firms with higher liquidity, as indicated by CR, may retain earnings instead of paying dividends. This reflects a tendency for firms with ample liquid assets to reinvest in operations or hold reserves for future needs, thus reducing dividend payouts. Supporting studies include Parsian and Koloukhi (2014), who found that a higher CR negatively impacts dividend policy in Tehran Stock Exchange firms.

The cash ratio (CHR) negatively impacts DP, supporting H4 (H4b, $\beta = -0.265$, $t = 4.459$, $p < 0.01$). Firms with higher cash ratios may prioritize liquidity buffers over dividends, reflecting a conservative approach to financial flexibility. This finding aligns with studies like Munyari & Kwenda (2016), who found that higher cash reserves often reduce dividend payouts in Zimbabwean firms, and Affandi et al. (2019), who reported a negative relationship between the cash ratio and dividend policy in Indonesian companies, suggesting that high cash reserves do not necessarily lead to more dividends.

The quick ratio (QR) does not significantly affect DP, not supporting H4 (H4c, $\beta = -0.012$, $t = 0.176$, $p > 0.05$), indicating that the capacity to convert assets to cash (excluding inventory) does not substantially influence dividend payouts. Bhayani & Ajmera (2019) found similar results in Indian cement companies, and Damayanti (2022) concluded that liquidity does not significantly impact dividend policy, suggesting that other factors may play a more substantial role.

The insignificant impact of short-term debt (SD) on dividend policy (DP), not supporting H5 (H5a, $\beta = -0.033$, $t = 0.665$, $p > 0.05$), suggests that firms do not alter dividend payouts based on short-term debt levels. This may be because short-term debt is primarily used for operational purposes and does not significantly affect the firm's overall financial structure or its ability to pay dividends. Study by Sarrah & Nour-Eddine (2021), similarly found no significant impact of short-term debt on dividend policy. Confidence Long-term debt (LD) positively and significantly influences DP, supporting H5b (H5b, $\beta = 0.102$, $t = 2.342$, $p < 0.01$). This finding aligns with agency cost theory, suggesting that firms with higher long-term debt levels may increase dividend payouts to reduce cash available to managers, limiting managerial discretion and associated agency costs. Increased dividends can signal a commitment to shareholder interests, especially with rising long-term debt. Supporting study by Kim et al. (2007) similarly found a positive relationship between long-term debt and dividend policy.

The debt-to-equity ratio (DTE) does not significantly influence DP, not supporting H5 (H5c, β = -0.022, t = 0.432, p > 0.05), indicating that total leverage levels, as represented by DTE, may not directly affect dividend decisions. This result suggests that dividend policy may be more closely linked to the type and maturity of debt rather than the overall debt ratio. Similar findings were reported by Gill et al. (2010), who also observed that long-term debt positively influences dividend policy, reinforcing the study's results.

The path coefficients show that capital intensity (CI) negatively affects EPS (β = -0.176, t = 3.717) but positively affects TQ (β = 0.145, t = 2.564). This difference arises because higher CI leads to increased fixed costs, reducing EPS, while investors may see high capital investments as indicating growth potential, increasing TQ (Setiawan, 2015; Chang et al., 2013). Firm size (SIZ) positively impacts EPS (β = 0.140, t = 2.424) due to economies of scale and market power but negatively affects TQ (β = -0.122, t = 2.356), possibly due to perceived lower growth potential or operational inefficiencies in larger firms (Ugwuanyi & Ibe, 2012). Trading volume (TV) does not significantly impact EPS (β = 0.017, t = 0.446) or TQ (β = 0.059, t = 1.253), suggesting that changes in trading volume do not affect the firm's profitability or market valuation, as share liquidity does not directly translate to financial performance (Li & Vermeulen, 2021). Firm age (AGE) also does not significantly influence EPS (β = -0.008, t = 0.187) or TQ (β = 0.036, t = 0.672), possibly because the advantages of experience and stability are balanced by the agility of newer firms (Hadlock & Pierce, 2010).

Testing the Mediating Effect

The mediating role of dividend policy was examined using Smart PLS to understand its effect on the relationship between liquidity, financial leverage, and financial performance in Jordanian service companies. The analysis first tested direct relationships between liquidity indicators (current ratio, cash ratio, quick ratio), financial leverage indicators (short-term debt, long-term debt, debt to equity), and financial performance indicators (EPS and Tobin's Q), using path coefficients and t-values to determine significance. Next, the potential mediating effect of dividend policy was introduced by calculating the indirect effects of liquidity and leverage on financial performance through dividend policy. This involved assessing path coefficients and using bootstrapping to determine the significance of these indirect effects. The structural model for the mediating effect was then computed for path coefficients, R^2, and t-values, as shown in Figures 5 and 6. According to Figure 7 displays the PLS structural model with t-values and the mediating effect analyzed through bootstrapping.

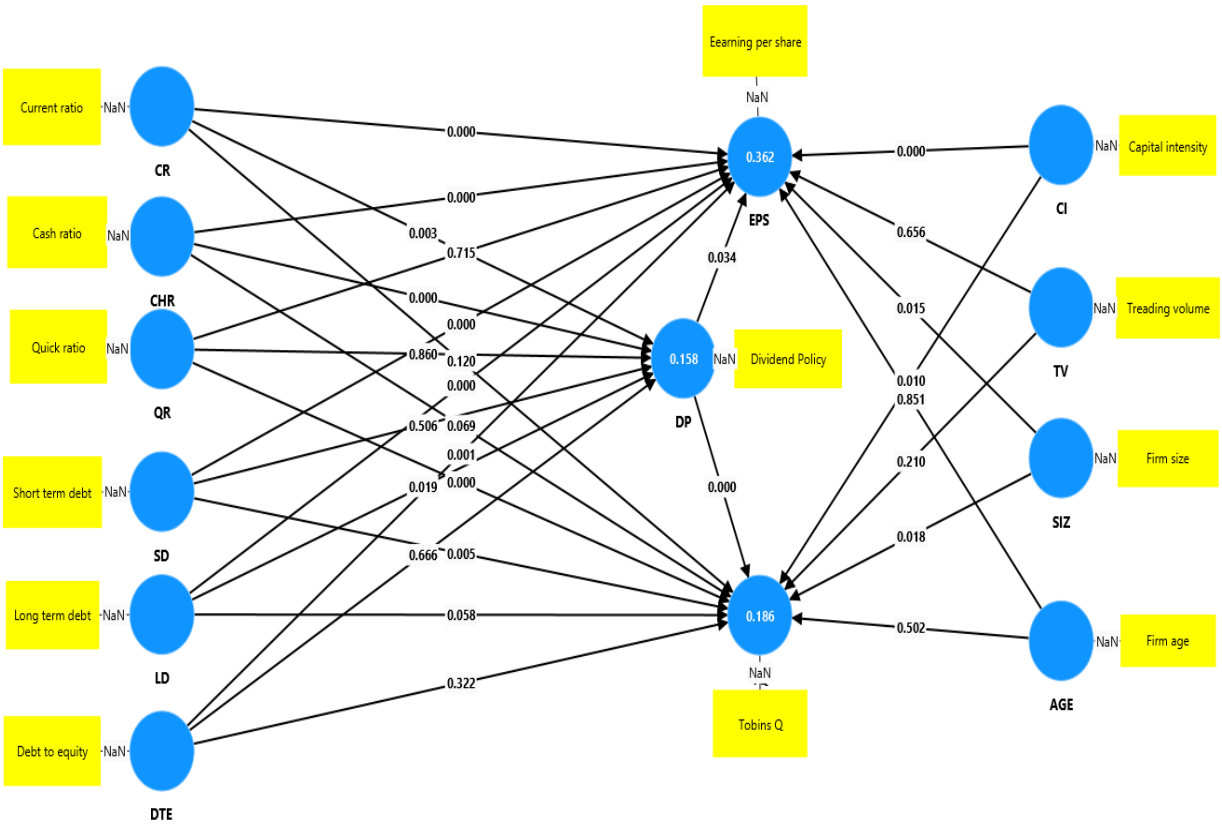


Figure 7: PLS Structural Model for T-Value with mediating Effect

To test for mediation, the following analyses are conducted: first, the indirect effect; second, the total effect; and third, the direct effect (Preacher & Hayes, 2008). This process examines whether the mediating variable, dividend policy, significantly transmits the effect of independent variables (liquidity and leverage) on the dependent variable (financial performance). By analyzing path coefficients and indirect effects, we assess how much dividend policy mediates this relationship. Confirming mediation would indicate that part of the impact of liquidity and leverage on financial performance is mediated through dividend policy, offering insights into the financial dynamics of Jordanian service companies. Table 5 shows the testing of the mediating effect of dividend policy.

Table 6
Testing the Mediating Effect

Total effects (CR ->EPS)			**Direct effects (CR ->EPS)**			**hypothesis**	**Indirect effects (CR ->DP ->EPS)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value	Lower	Upper
0.217	5.098	P<0.01	0.201	4.693	P<0.01	H6a Not Supported	0.016	0.010	1.622	P>0.05	0.00	0.039

Total effects (CR ->TQ)			**Direct effects (CR ->TQ)**			**hypothesis**	**Indirect effects (CR ->DP ->TQ)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value	Lower	Upper
-0.060	0.780	P>0.05	-0.121	1.553	P>0.05	H6b Supported	0.062	0.023	2.699	P<0.01	0.002	0.048

Total effects (CHR ->EPS)			**Direct effects (CHR ->EPS)**			**hypothesis**	**Indirect effects (CHR ->DP ->EPS)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value	Lower	Upper
0.294	5.241	P<0.01	0.270	4.875	P<0.01	H6c Supported	0.024	0.012	1.983	P<0.01	0.00	0.039

Total effects (CHR ->TQ)			**Direct effects (CHR ->TQ)**			**hypothesis**	**Indirect effects (CHR ->DP ->TQ)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value	Lower	Upper
-0.047	0.620	P>0.05	-0.137	1.819	P<0.05	H6d Supported	0.090	0.023	3.899	P<0.01	0.047	0.137

Total effects (QR ->EPS)			**Direct effects (QR ->EPS)**			**hypothesis**	**Indirect effects (QR ->DP ->EPS)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value	Lower	Upper
0.022	0.384	P>0.05	0.021	0.366	P>0.05	H6e Not Supported	0.003	0.005	0.584	P>0.05	-0.012	0.018

Total effects (QR ->TQ)			**Direct effects (QR ->TQ)**			**hypothesis**	**Indirect effects (QR ->DP ->TQ)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value	Lower	Upper
0.353	4.066	P<0.01	0.349	3.960	P<0.01	H6f	0.004	0.024	0.174	P>0.05	-0.043	0.056

						Not Supported						

Total effects (SD ->EPS)			**Direct effects (SD ->EPS)**			**hypothesis**	**Indirect effects (SD ->DP ->EPS)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value		
											Lower	Upper
0.245	3.620	P<0.01	0.242	3.550	P<0.01	H7a Not Supported	0.003	0.005	0.584	P>0.05	-0.07	0.014

Total effects (SD ->TQ)			**Direct effects (SD ->TQ)**			**hypothesis**	**Indirect effects (SD ->DP ->TQ)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value		
											Lower	Upper
0.166	2.822	P<0.01	0.154	2.830	P<0.01	H7b Not Supported	0.011	0.017	0.658	P>0.05	-0.023	0.045

Total effects (LD ->EPS)			**Direct effects (LD ->EPS)**			**hypothesis**	**Indirect effects (LD ->DP ->EPS)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value		
											Lower	Upper
-0.206	3.968	P<0.01	-0.197	3.783	P<0.01	H7c Not Supported	-0.009	0.006	1.451	P>0.05	-0.024	0.00

Total effects (LD ->TQ)			**Direct effects (LD ->TQ)**			**hypothesis**	**Indirect effects (LD ->DP ->TQ)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value		
											Lower	Upper
0.060	1.140	P>0.05	0.095	1.898	P<0.05	H7d Supported	-0.035	0.016	2.164	P<0.05	-0.069	-0.006

Total effects (DTE ->EPS)			**Direct effects (DTE ->EPS)**			**hypothesis**	**Indirect effects (DTE ->DP ->EPS)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value		
											Lower	Upper
-0.166	3.196	P<0.01	-0.168	3.198	P<0.01	H7e Not Supported	0.002	0.005	0.383	P>.05	-0.008	0.013

Total effects (DTE ->TQ)			**Direct effects (DTE ->TQ)**			**hypothesis**	**Indirect effects (DTE ->DP ->TQ)**				**Percentile bootstrap 95% confidence interval**	
Coefficient	T value	p-value	Coefficient	T value	p-value		Coefficient	SE	T value	p-value		
											Lower	Upper
0.051	1.127	P>0.05	0.043	0.989	P>0.05	H7f Not Supported	0.007	0.018	0.425	P>0.05	-0.026	.043

Note: This table provides testing the mediating Effect for the study variables. EPS denotes earning per share. TQ denotes TobinsQ measures by market value of a firm to replacement cost of firm assets. CR denotes Current ratio. CHR denotes Cash ratio. QR denotes Quick ratio. SD denotes Short term debt. LD denotes Long term debt. DTE denotes debt to equity. DP denotes Dividend policy.

Table 6 shows the mediation analysis was conducted to evaluate the mediating role of dividend policy (dividend yield) in the relationships between the independent variables liquidity (current ratio, cash ratio, and quick ratio), leverage (short-term debt, long-term debt, and debt-to-equity ratio), and financial performance (earnings per share, EPS, and Tobin's Q, TQ). The results in Table 5 revealed an insignificant indirect effect of the current ratio (CR) on EPS through dividend policy (DP) (H6a, $\beta = 0.016$, $t = 1.622$, $p > 0.05$), indicating that DP does not mediate the relationship between CR and EPS. However, there was a significant indirect effect of CR on TQ through DP (H6b, $\beta = 0.062$, $t = 2.699$, $p < 0.01$), while both the total effect ($\beta = -0.060$, $t = 0.780$, $p > 0.05$) and the direct effect ($\beta = -0.121$, $t = 1.553$, $p > 0.05$) of CR on TQ were insignificant, showing a full mediating role of DP in the relationship between CR and TQ. The findings suggest that dividend policy fully mediates the relationship between liquidity (CR) and market valuation (TQ) by mitigating agency costs through the distribution of excess liquidity to shareholders, signaling prudent management and aligning shareholder interests, in line with agency cost theory. However, dividend policy does not mediate the relationship between liquidity and profitability (EPS), consistent with the pecking order theory, where firms prefer to use internal funds for operations and investments, meaning liquidity directly impacts earnings generation without relying on dividend decisions. This indicates that firms use dividends strategically to influence market perception while utilizing internal resources to enhance profitability.

The analysis shows a significant indirect effect of the cash ratio (CHR) on EPS through dividend policy (DP) (H6c, $\beta = 0.024$, $t = 1.983$, $p < 0.05$), with a significant total effect of CHR on EPS ($\beta = 0.294$, $t = 5.241$, $p < 0.01$) and a significant direct effect of CHR on EPS ($\beta = 0.270$, $t = 4.875$, $p < 0.01$). This indicates a complementary partial mediation role of DP in the relationship between CHR and EPS. Similarly, there is a significant indirect effect of CHR on TQ through DP (H6d, $\beta = 0.090$, $t = 3.899$, $p < 0.01$), while the total effect of CHR on TQ is insignificant ($\beta = -0.047$, $t = 0.620$, $p > 0.05$), and the direct effect of CHR on TQ is significant ($\beta = -0.137$, $t = 1.819$, $p < 0.05$), showing a competitive partial mediation role of DP in the relationship between CHR and TQ. The partial mediation of dividend policy in the relationship between the cash ratio (CHR) and financial performance (EPS and TQ) aligns with both agency cost theory and pecking order theory. According to agency cost theory, firms with high liquidity may use dividends to distribute excess cash, thereby mitigating potential agency problems and reassuring investors, which positively influences market valuation (TQ). Meanwhile, pecking order theory suggests that firms with a higher cash ratio prefer to use internal funds for investments, directly enhancing profitability (EPS) while also paying dividends to signal financial stability. Thus, the cash ratio impacts financial performance both directly and indirectly through dividend policy. For H6e, the analysis shows an insignificant indirect effect of the quick ratio (QR) on EPS through dividend policy (DP) (H6e, $\beta = 0.001$, $t = 0.157$, $p > 0.05$), indicating that DP does not serve as a mediator between QR and EPS. Similarly, for H6f, the indirect effect of QR on TQ through DP is also insignificant (H6f, $\beta = 0.004$, $t = 0.147$, $p > 0.05$), showing no mediating role for dividend policy between the quick ratio and financial

performance. Consequently, the mediation tests for this path were not further pursued. The finding that dividend policy does not mediate the relationship between liquidity (measured by the quick ratio, QR) and financial performance (EPS and TQ) is consistent with both agency cost theory and pecking order theory. Agency cost theory suggests that quick liquidity does not create the kind of agency problems that dividends are meant to mitigate, as it pertains to short-term assets rather than excess cash that managers might misuse. Meanwhile, pecking order theory indicates that firms prioritize the use of internal funds to meet operational needs rather than adjusting dividend payments in response to short-term liquidity. Therefore, factors such as cash management or reinvestment opportunities are more directly relevant to how quick liquidity influences profitability and market value.

On the other side, H7a, the analysis shows an insignificant indirect effect of short-term debt (SD) on EPS through dividend policy (DP) (H7a, $\beta = 0.003$, $t = 0.584$, $p > 0.05$), indicating that DP does not mediate the relationship between SD and EPS. Consequently, no further mediation tests were conducted for this path. Similarly, for H7b, the indirect effect of SD on TQ through DP is also insignificant (H7b, $\beta = 0.011$, $t = 0.658$, $p > 0.05$), showing no mediating role of DP between SD and TQ. These findings align with both agency cost theory and pecking order theory. According to agency cost theory, short-term debt naturally limits free cash flow, reducing the need for dividend policy to address agency conflicts. Meanwhile, pecking order theory suggests that short-term debt is primarily used for immediate liquidity needs, not for influencing dividend decisions; thus, its effects on financial performance are more directly related to debt management and operational efficiency. For H7c, the analysis shows an insignificant indirect effect of long-term debt (LD) on EPS through DP (H7c, $\beta = -0.009$, $t = 1.451$, $p > 0.05$), indicating no mediating role of DP between LD and EPS. However, for H7d, there is a significant indirect effect of LD on TQ through DP (H7d, $\beta = -0.035$, $t = 2.164$, $p < 0.05$). While the total effect of LD on TQ is insignificant ($\beta = 0.060$, $t = 1.140$), the direct effect is significant ($\beta = 0.095$, $t = 1.898$, $p < 0.05$), suggesting a competitive partial mediation role of DP in the relationship between LD and TQ. The study indicates that dividend policy does not mediate the relationship between long-term debt (LD) and profitability (EPS), meaning that the effect of long-term debt on earnings is managed directly without changes in dividend payments. However, dividend policy partially mediates the relationship between long-term debt and market valuation (Tobin's Q). This finding is consistent with agency cost theory, which suggests that dividends can help reduce agency problems and reassure investors, and pecking order theory, which proposes that dividends signal financial stability even with higher debt levels, thereby positively influencing market valuation (TQ). For H7e, the analysis shows an insignificant indirect effect of the debt-to-equity ratio (DTE) on EPS through dividend policy (DP) (H7e, $\beta = -0.002$, $t = 0.383$, $p > 0.05$), indicating no mediating role of DP between DTE and EPS. Similarly, for H7f, the indirect effect of DTE on TQ through DP is also insignificant (H7f, $\beta = 0.007$, $t = 0.425$, $p > 0.05$), showing no mediating role of DP between DTE and TQ. Consequently, further mediation tests for this path were not pursued.The study's finding that dividend policy does not mediate the relationship between the debt-to-equity ratio (DTE) and financial performance (EPS and TQ) is consistent with agency cost theory and pecking order theory. Agency cost theory suggests that high debt levels inherently help control agency conflicts, reducing the need for adjustments in dividend policy. Meanwhile, pecking order theory implies that firms prioritize financing decisions according to a hierarchy, rather than altering dividends based on their debt levels. Therefore, the impact of DTE on financial

performance is more directly linked to how firms manage their capital structure and operational efficiency rather than through changes in their dividend policies.

Conclusion

The current ratio (CR) boosts earnings per share (EPS), showing that higher liquidity supports profitability by meeting short-term obligations. However, CR's impact on Tobin's Q (TQ) is insignificant, suggesting liquidity may influence market valuation indirectly through financial stability. Managers' use of liquidity is key to profitability, though market perceptions may remain unaffected if they focus solely on short-term gains. The cash ratio (CHR) positively affects EPS by providing liquidity for immediate obligations but negatively impacts TQ, as excess liquidity may signal inefficiency. Retaining excess cash rather than investing in high-return projects can lead to a negative perception. Dividend policy partially mediates the CHR-TQ relationship, highlighting the need to balance liquidity and dividends for optimal profitability and market value. The quick ratio (QR) does not impact EPS but positively affects TQ, suggesting that higher liquidity supports stability and market valuation. Managers effectively using quick assets can enhance market value without necessarily increasing profitability. Dividend policy does not mediate the QR-financial outcomes relationship, so QR's impact depends largely on managerial decisions.

Short-term debt (SD) enhances both EPS and TQ by providing operational capital and signaling growth potential. Strategic use of SD while maintaining investor confidence is crucial. Dividend policy does not mediate the SD-performance relationship, suggesting that debt's impact is unaffected by dividend decisions. Long-term debt (LD) negatively affects EPS due to financial burdens but positively influences TQ, signaling growth potential. Managers strategically using LD can increase market value despite costs, with dividend policy partially mediating LD's impact on TQ. The debt-to-equity ratio (DTE) negatively affects EPS due to financial distress risks, with no significant impact on TQ, showing that debt management complexity affects profitability more than market value. Dividend policy does not mediate the DTE-performance relationship, indicating that other factors play a more critical role.

Dividend policy negatively impacts both EPS and TQ by limiting reinvestment, signaling limited growth. Managers prioritizing dividends over reinvestment may weaken long-term financial health. Dividend policy fully mediates the CR-TQ relationship, suggesting dividends are used strategically to manage perceptions of excess liquidity and reinforce prudent financial practices. Partial mediation in cases like the CHR-EPS and TQ and LD-TQ relationships suggests dividend policy helps balance shareholder interests, signaling stability and reducing agency conflicts. However, the absence of mediation in other cases implies dividend decisions do not always affect liquidity or leverage's direct impact on performance, aligning with theories that prioritize internal financing or debt control.

Limitations include focusing on Jordanian listed service firms, possibly limiting generalizability. Reliance on secondary data may involve inaccuracies affecting result reliability. Specific liquidity and leverage indicators (CR, CHR, QR, SD, LD, DTE) were used; other measures might yield additional insights. The cross-sectional design captures relationships at one point in time, limiting causal inference and accounting for change over time. Using dividend policy as the sole mediator excludes other variables like firm size or growth opportunities, which might influence liquidity, leverage, and financial performance

relationships. Future research should expand to different sectors, use longitudinal data, and consider additional mediators for a broader understanding.

This study makes significant contributions to both theory and practice by advancing the understanding of the interplay between liquidity, leverage, dividend policy, and financial performance, particularly in the context of the Jordanian service sector. Theoretically, it extends the applicability of the Pecking Order and Agency Cost theories to developing economies, demonstrating how firms in resource-constrained environments prioritize internal funds and leverage to address financial challenges. The research provides new insights into the mediating role of dividend policy, showing how it balances liquidity and leverage to influence financial performance. By analyzing the nuanced effects of specific liquidity and leverage indicators, such as short- and long-term debt, the findings refine these theories for broader applicability. Contextually, this study addresses the unique challenges of the Jordanian service sector, which is critical to the national economy but faces issues such as liquidity shortages, high reliance on debt, and volatile financial performance. It highlights the importance of tailoring financial strategies to align with sector-specific dynamics, offering actionable insights for managers to optimize dividend policies that enhance liquidity, manage leverage, and build investor confidence. Furthermore, the study provides valuable guidance for policymakers in developing regulatory frameworks that promote financial stability and safeguard shareholder interests. By bridging theoretical constructs with practical realities, this research enriches academic discourse while equipping practitioners and policymakers with strategies to address the financial challenges of emerging markets, making its findings relevant not only to Jordan but also to other economies with similar socio-economic conditions.

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