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Research Article

The Mediating Role of Dividend Policy on Financial Performance and Firm Value: A Literature Review

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Abstract.
Firms or companies are obligated to possess favorable worth in the perception of investors if they desire to establish the trust of various parties to cultivate the confidence to venture and desire to invest in the firm. The notion is held that company worth is capable of illustrating both the present and future financial performance. In addition to financial performance, dividend policies are believed to exert a noteworthy impact on company value. This literature study aims to ascertain whether there exist theoretical explanations that elucidate the link between financial performance and dividend policies, such as the link between financial performance and company value, the link between dividend policies and company value, and the impact of financial performance on company worth with dividend policies serving as a mediating variable. A literature review was conducted by finding and choosing numerous sources to evaluate, including publications accessible in the form of empirical studies papers and literature review papers, books, and conferences. According to the findings of multiple prior study sources utilized in this literature review, the majority of the empirical study's findings that the authors reviewed suggest that profitability, leverage, and liquidity have an impact on dividend policies. Profitability, leverage, liquidity, and a firm's size are all factors that impact company value. Dividend policies have an impact on company worth as well. It is also discovered that dividend policies can help to mediate the impact of profitability and liquidity on company value, but they cannot mediate the effect of leverage.

Keywords: financial performance, firm value, dividend policy

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1. Introduction

The main goal of forming a business is to create a profit by optimizing its resources and how the company may use and manage its money, debt, and assets. If the organization can optimally utilize and manage its resources, it is likely to make a high profit, which might impact the firm's worth in the eyes of financiers and investors [1]. Firms must have good worth in the perspective of investors if they wish to earn trust from diverse parties and inspire confidence to venture and invest in the business [2]. Company worth is the firm's performance as reflected by its stock price, which is decided by supply and demand in the capital market and represents the public's opinion of the firm's success

[3]. Increased company worth is indicated by an increase in stock prices, which is defined by a high rate of return for shareholders; this represents the belief that company worth may explain both current and future financial success [4].

Investors consider the firm's financial performance when making stock investing decisions. Financial performance may be quantified by calculating financial ratios based on information in the firm's financial statements; these ratios are intended to assist investors or analysts in evaluating the company based on its financial statements [5]. For basic considerations in investment decisions, analysts or investors will compute their financial ratios, which include the firm's liquidity, leverage, activity, and profitability ratios [6]. Aside from performance, company size is another internal element that can impact company worth [7].

Dividend policies is another factor considered to have a substantial impact on company value. Dividend policies is a choice concerning whether the firm's earnings at the end of the year will be given to shareholders as dividends or maintained to build capital to finance future projects [8]. A firm's capacity to pay dividends is strongly tied to its ability to produce profits. If the company makes a lot of money, it will be able to pay out a lot of money in dividends. A hefty dividend will improve the firm's worth [9].

According to the explanation above, the possibility of financial performance on business worth is extremely associated in investment analysis. Similarly, dividend policies is one of the elements thought to impact company value. As a result, predicated on the link of financial performance, dividend policies, and company value, the authors conduct this literature review, it intends to assess the impact of financial performance on company worth utilizing dividend policies as a mediator, as well as to contribute theoretically to the connection between financial performance, dividend policies, and firm value.

2. Empirical studies Methods

The goal of this literature review is to determine whether there are any theoretical explanations for the link between financial performance and dividend policies, financial performance and firm value, dividend policies and firm value, and the effect of financial performance on firm worth with dividend policies acting as a mediating variable. Based on these objectives, the author discusses the results of several empirical studies on the link between components. The author empirical studiesed and chose a variety of sources to evaluate, including publications in the form of empirical studies papers and literature review papers, books and hearings on financial performance, dividend policies, and company value, as well as theories linked to this issue. The writers did not limit the articles based on geographical context during the selection process because this issue is widely discussed across the world. Furthermore, the authors did not restrict their usage of literature to a single time period. However, in order to be relevant to contemporary business trends, this study stresses the utilization of recent empirical studies. Because prior studies exploring subjects relevant to the variables were not generally available, the authors examined a mix of literature published by respectable and less reputable publications. The majority of the literature was obtained from Google Scholar, Wiley, Emerald, Springer, and Elsevier. After that, the publications were scanned in line with the discussion offered in this literature review.

3. Results and Discussion

Before discussing the results and discussion of this literature review, the author attempts to sort out various articles based on the criteria that have been established to support the production of this article in line with each sub-topic that will be described in greater depth. To bridge the discussion of dividend policies's mediating function on financial performance and firm value, the author will briefly cover the impact of financial performance on firm value, the impact of financial performance on dividend policies, and the impact of dividend policies on firm value. The following is a table of articles that the author has read and described (Table 1):

Table 1: Articles.

No	The Scope of Empirical studies	References
1.	Financial Performance and Dividend Policy	[10-20]
2.	Financial Performance and Firm Value	[15, 16, 18-28]
3.	Dividend Policy and Firm Value	[15, 18, 19, 23, 26, 29]
4.	Dividend Policy as Mediating Role Through Financial Performance and Firm Value	[15, 17-20, 26, 27]

3.1. Financial performance and dividend policy

According to certain empirical studies, financial performance impacts dividend policies. The majority of empirical studies on financial performance factors has used profitability, liquidity, and leverage ratios, whereas dividend policies variables employ Dividend

Payout Ratio (DPR) and Dividend Per Share (DPS). Budagaga [12], company size, profitability, capital adequacy, credit risk, and company age have all been identified as variables or important determinants influencing dividend policies. Basri [11] discovered that profitability has a influential and beneficial impact on dividend policies. Empirical studies by Thakur and Kannadhasan [13] demonstrates that profitability has a influential positive impact on dividend policies. Astuti and Yadnya [15]; Indahsari and Asyik [16], it was also shown that profitability has a positive and influential impact on dividend policies. Empirical studies by Pattiruhu and Paais [14] demonstrates that leverage has a influential and positive impact on dividend policies. Sugiastuti et al. [17], Sari et al. [18], and Setyabudi [19] demonstrates that profitability and leverage were found to have a favorable and substantial effect on dividend policies. Then, empirical studies by Rahmasari et al. [20] found that liquidity has a strong and beneficial impact on dividend policies. The majority of the study results that the authors reviewed suggest that profitability, leverage, and liquidity all have an impact on dividend policies.

Profitability impacts dividend policies, according to Brigham and Houston [10], profitability is the most important factor in determining dividend distributions. Firms that can create big profits can also pay out influential dividends. Setyabudi [19] also states that the higher the firm's earnings, the more likely it will pay dividends.

Leverage impacts dividend policies because a high level of debt reduces firm's profitability, businesses are more obligated to use profits to pay debts than to pay dividends, and these conditions are taken into account by firms when choosing the proportion of debt payments and dividend distribution [17]. Sari et al. [18] also stated that Firms with debt will have a fixed financial burden, interest and credit returns, resulting in the business paying lesser dividends since it must pay its creditors first.

High liquidity implies investor trust in the firm's capacity to pay the promised dividends, which impacts dividend policies. High company liquidity reflects the firm's capacity to fund its operations and pay off its short-term creditors without withholding company earnings, which impacts the proportion of dividend payout to investors [20]. Likewise, Astuti and Yadnya [15] also said that Firms with a high amount of liquidity can pay dividends while still meeting its short-term responsibilities.

3.2. Financial performance and firm value

According to certain empirical studies, financial performance impacts a firm's worth. The majority of the empirical studies carried out in this area has focused on financial performance indicators Profitability, liquidity, leverage, activity, and corporate size are all examples of ratios. In contrast, the variable reflecting company worth is quantified using measures such as Price to Book Worth (PBV), Price Earning Ratio (PER), and Tobin's Q. Dang et al. [23] found that the impact on company worth is positively influential for both profitability and company size. Husna and Satria [24] found that profitability and the size of a company have a notable and affirmative impact on the worth of the firm. Then Al-Slehat et al. [25] found that The size of a company positively and influentially impacts the worth of the firm.. Empirical studies by Astuti and Yadnya [15], Indahsari and Asyik [16], Sari et al. [18], and Santosa et al. [26] found that company worth is notably enhanced by the positive and substantial impact of profitability. Liquidity and leverage have a influential beneficial impact on business value, according to the findings by Jariah [27]. Rahmasari et al. [20] discovered that liquidity has a positive and influential impact on company value. Then, Setyabudi [19] found that profitability and leverage have a beneficial and influential impact on company value. According to multiple past studies, the majority of the study findings that the authors examined indicate that profitability, company size, leverage, and liquidity all have an impact on company value.

Profitability impacts company worth because businesses with high profitability tend to have high company value. Firms with improved earnings create favorable mood from shareholders since their performance is deemed good and has an impact on rising stock prices and company worth [28]. Likewise explained by Sugiastuti et al. [17] that a business with great profitability also has strong company performance, which contributes to positive investor impressions and can lead to an increase in stock price. The growth in the firm's share price indicates that the firm's worth has increased.

Company size impacts company worth because the larger the business, the more recognized by the public, making it simpler to obtain information that will raise company value. Even huge enterprises with high total assets will attract investors, increasing the firm's worth [23]. Company size is believed to have an impact on company worth since the larger the firm's size or scale, the easier it will be for the company to access finance sources, both internal and external [25].

Leverage impacts company worth because according to Jensen and Meckling [21] states that agency charges will be lower when debt is involved. Small agency charges boost the firm's worth. According to Jensen and Meckling [21], debt can reduce the firm's free cash flow, reducing the possibility of deceit by management (agents). Furthermore, if the amount of company debt is large, the risk held by the company is likewise influential, which, of course, impacts public views of company worth [17].

Liquidity impacts company worth because a high Dividend Payout Ratio (DPR) will offer a good signal to shareholders regarding profitability and the firm's prospects for the future, increasing company value, but a company with low liquidity will find it difficult to fulfill its liabilities, reducing shareholder confidence [15]. According to Djarwanto [22] a high degree of liquidity indicates that the firm's short-term liabilities can be satisfied, ensuring that the firm's operational operations are not disturbed and that big profits may be realized. The greater the number of investors interested in investing their cash, the higher the stock price, which increases the firm's worth.

3.3. Dividend policy and firm value

The writers studied various past studies, and the majority of the study results suggest that dividend policies affects the worth of the firm. The majority of empirical studies on dividend policies variables has used the Dividend Payout Ratio (DPR) and Dividend Per Share (DPS), whereas the company worth variable has used Price to Book Worth (PBV), Price Earning Ratio (PER), or Tobin's Q. Empirical studies conducted by Alenazi and Barbour [29] shows that dividend policies have a favorable and considerable impact on company value. Dang et al. [23] revealed that dividend policies has a positive and influential impact on company value. In addition, empirical studies by Astuti and Yadnya [15], Setyabudi [19], Sari et al. [18], and Santosa et al. [26] demonstrates that dividend policies has been shown to have a positive and influential impact on company value.

Dividend policies impacts company worth because large dividend distribution is a favorable signal for investors who have invested their capital and can raise investor expectations, so indirectly increasing stock prices. The stock price reflects the firm's value. The bigger the quantity of dividends issued will effect the response to variations in stock prices, resulting in a rise in company worth [19]. Sari et al. [18] mentioned that The Bird In The Hand theoretical paradigm states that a decline in dividend equals a drop in company value, and vice versa. Dividends appeal to investors because they provide a predictable payment. Today's dividends outperform future capital gains. This is because investors receive dividends with greater assurance than they do capital gains in the future, which are plainly unpredictable.

3.4. Dividend policy as mediating role through financial performance and firm value

Several studies have demonstrated that dividend policies can moderate the impact of financial success on company value. Empirical studies conducted by Sugiastuti et al. [17] demonstrates that dividend policies have the capacity to modify the link

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between profitability and company value. Santosa et al. [26] revealed that profitability has a favorable and influential impact on the company worth when dividend policies is implemented, however leverage has no effect. Setyabudi [19] demonstrates that dividend policies has been shown to mediate the impact of profitability on company value, but leverage has no effect on company value. Astuti and Yadnya [15] demonstrates that dividend policies was also shown to have a mediating effect on company worth when comparing profitability and liquidity. Then, empirical studies by Jariah [27] found that dividend policies have been shown to successfully reduce the impact of liquidity and profitability on company value. Sari et al. [18] found that dividend policies was shown to be ineffective in reducing the impact of leverage on company value. Rahmasari et al. [20] found that dividend policies was also shown to be ineffective in mediating the effects of leverage on company value. According to multiple prior studies, the majority of the study results that the authors examined suggest that dividend policies can help to mediate the impact of profitability and liquidity on company value, but it cannot mediate the impact of leverage.

Dividend policies can mediate profitability that has an impact on company worth since big companies with high earnings benefit from competent management in terms of dividend distribution so that proper dividend distribution can provide favorable signals for the market, resulting in a rise in company worth [26]. An rise in company earnings implies that the business may transfer profits to shareholders in the form of dividends, which will entice investors to invest more in these shares, so that the increasing amount of investment in the company will undoubtedly increase the firm's worth [19]. The bigger the profit, the corporation can boost its Dividend Payout Ratio (DPR). According to Signaling Theory, dividend distribution provides investors with a favorable signal about the firm's future prospects. Regular and even enhanced dividend payments will offer investors a picture of the firm's strong condition and prospects, which will ultimately boost the firm's worth [15].

Dividend policies can mediate the impact of liquidity on company worth since a high liquidity ratio enables businesses to pay bigger dividends with less risk. A high Dividend Payout Ratio (DPR) will offer a favorable signal to shareholders regarding profitability and the business's prospects in the future, hence increasing company value; nevertheless, organizations with poor liquidity may find it difficult to meet their responsibilities, reducing shareholder trust. A firm's liquidity determines its capacity to cover short-term liabilities. If the liquidity level is high, in this example using the Current Ratio (CR) indicator, the business may have extra money and current assets that may be utilized to pay dividends, pay long-term debt, and for investments that can yield a better rate of return, so that the company worth grows [20].

Dividend policies cannot mediate the impact of leverage on company worth because the amount of debt utilized does not change the magnitude of the dividend distribution, this is due to the firm's debt is deemed not very influential on funding decisions in distributing dividends has a high risk, therefore it does not impact funding decisions in distributing dividends, which implies that for leverage to effect company value, there is no need to pay attention to dividend policies [18]. Santosa et al. [26] state that it is acceptable to conclude that dividend policies cannot mediate the impacts of leverage on company value, leverage has no effect on dividend policies because the firm's debt is now regarded not overly hazardous, as a result, financial decisions for dividend distribution are unaffected. Therefore, the amount of debt used will have no effect on the amount of dividends distributed.

4. Conclusion

Firms must have good worth in the eyes of investors if they want to acquire the trust of diverse parties and encourage confidence in their ability to venture and invest in them. Firm worth is thought to be capable of describing both present and future financial performance. In addition to financial success, dividend policies is thought to have a substantial impact on firm value. According to the findings of various prior study sources utilized in this literature review, the majority of the empirical studies results that the authors reviewed indicate that profitability, leverage, and liquidity all have an impact on dividend policies. The majority of previous empirical studies has concluded that profitability, leverage, liquidity, and company size all affect firm value. Previous empirical studies on the impact of dividend policies on firm worth has mainly found that dividend policies impacts firm value. Dividend policies has also been found to mediate the impact of profitability and liquidity on firm value, but not the effect of leverage.

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