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Corporate financial strategies and performance: Insights from China's Shanghai Stock Exchange

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C H R O N I C L E

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A B S T R A C T

This study investigated the impact of corporate financial strategies-(CFSs) on the performance of companies listed on the Shanghai Stock Exchange-(SSE) from 2010-2023, analyzing data from 2,269 firms, yielding 31,766 balanced firm-year observations. Utilizing a mixed-methods approach with a quasi-experimental design grounded in pragmatism, the inquiry employed two-step System-GMM technique to address endogeneity, simultaneity, heteroscedasticity, reverse causality and Nickell bias. Fixed effects-(FE) and random effects-(RE) models were applied to handle unobserved heterogeneity, omitted variable bias and guarantee robustness. The results revealed that, total-debt-to-assets-ratio-(TDTAR) and dividend yield-(DY) significantly and negatively impacted firm performance-(FP), measured by return on assets-(ROA) and Tobin's Q-(TQ). Contrary, cash conversion cycle-(CCC), current ratio-(CR), total-assets-turnover-(TAT), tangibility-(TANG), total-equity-to-total-assets ratio-(TETAR), dividend payout ratio-(DPR), firm size-(SIZE), and firm age-(AGE) had a significantly positive effect on FP-(ROA and TQ). The study emphasizes the importance of effective CFSs in improving FP and offers insights for policymakers, investors, and managers, highlighting the need for corporate deleveraging, capital structure optimization and efficient asset and working capital management. Although focused on China, the study's framework is applicable to other emerging markets, providing valuable theoretical, conceptual, and methodological insights as it integrates CFS metrics into the resource-based view theory-(RBVT), extending the theory's scope making it more robust and generalizable.

1. Introduction

China's economy underwent a major transformation after the Great Proletarian Cultural Revolution (1966-1976), which aimed to preserve communist ideology but left the economy stagnant and inefficient. Following its conclusion, China initiated economic reforms, shifting from a centrally planned system to a market socialist economy, driving modernization and growth (Glawe and Wagner, 2021). China's economic transformation began in 1978 under Deng Xiaoping's "Reform and Open Door Policy," which promoted foreign investment, privatization of state-owned enterprises-(SOEs), and economic decentralization. Key reforms, including the establishment of special economic zones and stock exchanges (Shanghai-SSE in 1990, Shenzhen-SZSE in 1990, and Beijing-BSE in 2021), facilitated rapid industrialization and financial modernization. These stock exchanges support corporate growth and financial stability. China's reforms led to remarkable macroeconomic outcomes, including a surge in small and medium-sized enterprises-(SMEs), sustained high Gross National Product-(GNP) growth, and significant improvements in living standards and poverty reduction (Kwong, 2019). The shift to a market-driven economy in China has benefited some companies, while others face challenges (Cuigniez, 2016). In this context, effective corporate financial strategies(CFSs) are crucial. However, there is limited empirical research on the comprehensive

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impact of CFSs—such as working capital management strategies-(WCMS), capital structure management strategies-(CSMS), fixed assets and capital budgeting management strategies-(FACBMS), and dividend policies decisions-(DPDs)—on firm performance-(FP), especially for companies listed on the SSE. CFSs involve financial planning and decision-making processes aimed at optimizing financial performance, ensuring long-term sustainability, and achieving business goals (Hidayat & Sutria, 2023).

WCMS helps firms manage short-term assets and liabilities, ensuring liquidity and operational efficiency (Essel & Brobbey, 2021). CSMS influences financial risk and the weighted average cost of capital-(WACC) by determining the balance between debt and equity financing, aiming to minimize WACC and maximize shareholder value (Essel, 2023a). FACBMS guides the acquisition and management of long-term assets, using cash-flow techniques like Net Present Value-(NPV) and Internal Rate of Return-(IRR) to evaluate investment projects (Brealey et al., 2020). DPD determines how profits are distributed or reinvested, impacting shareholder satisfaction and signaling financial health (Essel, 2023d). In emerging markets, effective CFSs are crucial for business success and sustainability. For companies listed on China's SSE, CFSs enhance financial stability, manage risks, optimize resources, and improve performance (Zhou, 2019). As the world's second-largest economy after the USA in terms of Gross Domestic Product-(GDP), China's industrial growth and financial market expansion offer a unique context to study the influence of CFSs on FP. Strong CFSs boost profitability, market value, and investor confidence, while weak strategies can lead to instability and distrust. This study explores the CFSs of SSE-listed firms, assessing their impact and identifying global best practices for competitiveness and sustainability. Despite China's significant economic transformation and the rapid growth of its financial markets, including the SSE, there is a notable gap in understanding how CFSs impact FP within this unique market context. Existing research often focuses on macroeconomic growth, capital market development, and large companies in Western markets, with limited empirical analysis on the specific corporate financial strategies of SSE-listed firms (Liu and Suzuku, 2024). The distinctive challenges faced by these firms, such as differing regulations, market conditions, and investor expectations, and the complex interplay between state influence and market forces in China's hybrid economic system, remain underexplored (Wen, 2023). While some studies have investigated individual CFSs, there is a lack of comprehensive analysis on their combined effect on FP. This research seeks to fill this gap by examining how various CFSs—such as WCMS, CSMS, FACBMS, and DPDs—affect FP for companies listed on China's SSE. A holistic approach to studying these interrelated strategies offers deeper insights into their collective impact on FP, revealing synergies and trade-offs that individual analyses might miss. This comprehensive perspective is crucial for making strategic decisions that align with a firm's objectives within China's unique economic and regulatory environment, ultimately enhancing understanding of how CFSs contribute to sustainable growth.

Given the evolving regulatory environment in China, it is essential to explore how traditional corporate financial strategies intersect with new regulatory factors to influence firm outcomes in this dynamic market. This research aims to provide a nuanced understanding of how strategic financial decisions affect financial performance in one of the world's major emerging markets. The insights gained will enhance existing knowledge on listed company performance and offer practical guidance for policymakers, investors, and managers, helping to improve financial sustainability and competitiveness in China and other emerging markets.

This study enriches the finance and accounting literature by offering in-depth insights into financial performance dynamics within China's SSE, which caters to both large established companies and high-growth listed SMEs. Unlike most research focused on Western developed markets, this paper explores the unique Chinese financial market, where state control intersects with market forces. It examines the holistic impact of CFS—such as WCMS, CSMS, FACBMS, and DPD—on financial performance. The study provides a country-specific framework that could serve as a model for other emerging markets and extends the resource-based view theory-(RBVT) by integrating CFS metrics into the RBVT, extending its scope, making it more robust and generalizable to enhance understanding of financial performance and value creation. By applying advanced empirical techniques and analyzing firms across different SSE segments, it contributes methodologically to the field, bridging traditional financial theories with the evolving financial landscape in China. The research offers valuable insights and practical implications for corporate financial managers, investors, policymakers, and academics, particularly in transitional economies where state-owned and private firms coexist and operate.

The remaining sections of this paper are organized as follows: Section two provides a review of the theoretical and empirical literature and develops the study's hypotheses using the RBVT framework. Section three outlines the research methodology. In section four, the research results are presented and discussed. Section five offers the conclusion, along with the theoretical, managerial and policy implications. Finally, section six addresses the study's limitations and suggests areas for future research.

2. Literature review and hypotheses development

2.1. Theoretical review

The theoretical foundations for research on CFSs in accounting and finance literature are categorized into key areas: working capital management-(WCM), capital structure-(CS), fixed assets and capital budgeting management, and dividend policy.

Prominent theories include Harry Markowitz's-(1952) Modern Portfolio Theory, William F. Sharpe's-(1964), John Lintner's-(1965), Jan Mossin's-(1966) and Jack Trynor's-(1962) Capital Asset Pricing Model-(CAPM), Eugene F, Fama's-(1960) Efficient Market Hypothesis-(EMH), and Edith Penrose's-(1959), Birger Wernerfelt's-(1984) and Jay Barney's-(1991) RBVT for securities management; Kraus and Litzenberger's-(1973) Trade-off Theory, Van Horne's, Brealey and Myers' Operating Cycle, and Richard D. Morrow's-(1980s) Cash Conversion Cycle-(CCC) for WCM; the Franco Modigliani-Merton Miller's-(1961) Theorem, Stewart C. Myers and Nicholas S. Majluf's-(1984) Pecking Order Theory, Kraus and Litzenberger's-(1973) Trade-off Theory, and Michael C. Jensen and William H. Meckling's-(1976) Agency Cost Theory for capital structure; Irving Fisher's-(20th century) Net Present Value-(NPV) and Internal Rate of Return-(IRR), Robert Merton and Myron Scholes'-(1970s) Real Options, and the Payback Period for capital budgeting; and Franco Modigliani and Merton Miller's-(1961) Dividend Irrelevance, Myron Gordon's-(1963) Bird-in-the-Hand, Bhattacharya's-(1979) and Miller and Rock's-(1985) Signaling, and James Walter's-(1963) and Miller and Modigliani's-(1961) Clientele Effect theories for dividend policy.

2.1.1. Underpinning theory: resource-based view theory-(RBVT)

This present inquiry utilizes the RBVT as its theoretical framework/len/underpinning theory. The RBVT focuses on achieving competitive advantage by effectively managing valuable, rare, inimitable, and non-substitutable-(VRIN) resources to enhance FP. RBVT is an interdisciplinary concept rooted in organizational theory, economics, and strategic management, with key contributions from Edith Tilton Elura Penrose (1959) and Birger Wernerfelt (1984). Penrose emphasized the role of firm-specific resources and managerial capabilities in driving competitive advantage and growth. Wernerfelt further developed this idea, arguing that firms with unique, hard-to-replicate resources can sustain a long-term competitive edge. The RBVT shifted the focus from external factors, such as Michael Porter's five forces, to the importance of a firm's internal resources and capabilities in achieving superior performance. Lippman and Rumelt (1982) introduced the□onceptt of "uncertain imitability," explaining that uncertainty about the drivers of superior performance leads to efficiency differences among firms. They highlighted that the immobility of certain resources contributes to sustained competitive advantage through both tangible and intangible assets. Wernerfelt (1984) refined the economic methods for assessing the relationship between firm resources and profitability. Rumelt (1984) and Barney (1986) expanded on these ideas, with Rumelt proposing a strategic theory that viewed the firm as a collection of resources whose value depends on the context—a notion later central to RBVT (Barney and Arikan, 2005). Barney (1991) advanced the RBVT by introducing the 'VRIN' attributes—valuable, rare, inimitable, and non-substitutable resources—as essential for achieving sustainable competitive advantage. Both tangible and intangible resources play crucial roles in a firm's success. Zahra and Pearce (1989) highlighted that boards of directors can enhance corporate financial performance by leveraging firm-specific knowledge, linking firms to broader environments, and improving coordination and resource access. Wang et al. (2009) emphasized the importance of firm-specific knowledge resources for maintaining a competitive edge, although specialized, non-transferable human capital investments might deter employees. Effective utilization of these resources relies on both economic-based governance mechanisms (such as incentives) and relationship-based mechanisms (like teamwork). Ray, Barney, and Muhanna (2004) found that tangible and intangible resources, coupled with efficient business processes, positively affect competitive advantage, stressing the importance of selecting appropriate dependent variables in RBVT studies based on the research context. In the context of Business Financial Strategies (BFSs) among listed SMEs in Ghana, RBVT provides a robust framework for strategically managing these practices to enhance financial performance. By applying RBVT, SMEs can utilize their VRIN resources to achieve superior performance, as effective Working Capital Management (WCM) helps navigate liquidity challenges, and an optimal capital structure reduces financial risks.
This theoretical review underscores the necessity of integrating and strategically managing BFSs to secure a sustainable competitive advantage and improved performance in China's SZSE.

2.2. Empirical Literature and Hypotheses Development

2.2.1. Working Capital Management Strategies-(WCMS) and Firm Performance-(FP).

Keerativutisest and Luciani (2019) investigated the relationship between WCMS and FP by analyzing data from 150 prominent companies listed on the SSE and the SZSE during the period from 2013 to 2017. Their multivariate regression analysis revealed that a decrease in days payable is indirectly linked to higher ROA, indicating that lower trade creditor balances are associated with improved ROA. Furthermore, the study found a moderate indirect connection between the debt-to-assets ratio and ROA, and a direct relationship between the debt-to-assets ratio and firm revenue. Osei et al. (2023) explored the impact of WCMS on the sustainability of 55 large-scale manufacturing firms in Ghana from 2002 to 2022, employing FE and RE models. Their results underscore the crucial role of effective WCMS in ensuring the long-term viability of these firms. Likewise, Hassan et al. (2023) showed that efficient WCMS improves financial performance in Scandinavian countries by stabilizing cash-flows and enhancing financial stability, particularly during economic downturns. Umar and Al-Faryan (2024) assessed the influence of WCMS on profitability in 56 publicly listed halal food and beverage companies across Indonesia, Malaysia, Saudi Arabia, Pakistan, and the UAE. Utilizing a two-step system-GMM approach, their analysis revealed that the CCC and accounts receivable period-(ARP) negatively impact profitability, while the accounts payable period-(APP) positively affects it. They also found that the inventory conversion period-(ICP) negatively affects ROA but does not impact ROE. The study suggests adopting a more aggressive WCMS to improve FP.

Habib, Yang, and Cui (2024) investigated the effects of cost leadership strategies-(CLS) and differentiation strategies (DS) on WCMS in 235 non-financial firms across eight U.S. industries. Their findings indicate that both CLS and DS enhance WCMS, highlighting the importance of strategic positioning in managing working capital efficiently. Kumar et al. (2024) investigated the impact of WCMS on FP among 796 non-financial publicly traded companies in India. Utilizing logistic regression with FE, their study revealed that both the CCC and inventory conversion period-(ICP) have a negative impact on FP. This suggests that enhancing WCMS could significantly improve overall FP. Briones, Camino-Mogro, and Navas (2024) examined the effects of WCMS on profitability in micro, small, and medium enterprises-(MSMEs) in Ecuador. Analyzing 19,680 firms over 20 years using a two-step system-GMM approach, their findings indicated that MSMEs focusing on current assets tend to achieve higher profitability. This highlights the crucial role of effective WCMS in improving FP within a dollarized developing economy. Habib and Dalwai (2024) explored the relationship between IC, WCMS, and FP in the industrial sectors of the Gulf Cooperation Council-(GCC) countries, including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE. Using data envelopment analysis-(DEA) and regression on data from 2015 to 2019, their study found that firms with more efficient IC and WCMS demonstrated better performance. The research underscores the importance of optimizing both IC and WCMS to gain a competitive edge and enhance FP. This study formulates its initial hypotheses, stating the WCMS variables both positively and negatively, to allow for a more nuanced and comprehensive appreciation of the relationships between variables for enhancing the study's overall statistical rigor, which reflects real world complex relationships, reducing confirmation bias, increases the generalizability of results, and for greater conceptual clarity.

H_1: *There is a negative relationship between current ratio-(CR) and FP-(ROA and TQ).*

H_2: *There is a positive relationship between cash conversion cycle-(CCC) and FP-(ROA and TQ).*

2.2.2. Capital Structure Management Strategies-(CSMS) and Firm Performance-(FP)

Capital structure-(CS), refers to a company's mix of debt, preferred stock, and common stock used to optimize resource allocation and maximize stakeholder value. Studies examining the relationship between CS and FP have yielded mixed results due to varying factors and metrics. Nikhil et al. (2024) found that debt negatively affects FP in India's listed non-financial firms, particularly in highly profitable ones. Bawuah (2024) discovered that in Sub-Saharan Africa-(SSA), long-term debt boosts FP, while short-term and total debt reduce it, with corporate governance factors like board independence and gender diversity strengthening these positive effects. Tesema (2024) reported that both total and long-term debt harm FP in Ethiopian manufacturing firms. In Bangladesh, Ahmed (2024) observed that all types of debt negatively impact ROA, while short-term and total debt positively correlate with ROE. Dabi et al. (2023) found that in Ghanaian microfinance institutions, larger asset size enhances FP, although CS metrics significantly impact FP but do not affect self-sufficiency or stability. Essel (2023a) observed that in Ghana's listed firms, higher debt ratios and financial risk reduce performance, while total equity ratio and CCC improve FP, illustrating the complexity of CS in emerging markets. Toader et al. (2022) noted that in Romania, Bulgaria, and Hungary, profitability and liquidity reduce leverage, while institutional factors increase it. Ho and Gong (2022), using data from companies listed on the SZSE (2001-2018), showed that firms with more info-ratings-(IRs) had lower debt levels, indicating less leverage. They also found that both accounting-related and non-accounting-related aspects of IRs influenced CS decisions, highlighting the role of information discrepancies in shaping CS. Cuevas-Vargas et al. (2022) stressed that CS significantly affects innovation and indirectly impacts SME performance in Mexico, grounding their findings in the RBVT and existing literature. The study develops the next set of hypotheses, presenting the capital structure management strategies (CSMS) variables in both positive and negative terms. This approach offers a more nuanced and comprehensive understanding of the relationships between variables, enhancing the study's overall statistical rigor. It reflects the complexity of real-world dynamics, mitigates confirmation bias, increases the generalizability of the findings, and promotes greater conceptual clarity.

H_3: *There is a negative relationship between total-debt-to-total-assets-ratio (TDTAR) and FP-(ROA and TQ).*

H_4: *There is a positive relationship between total-equity-to-total-assets-ratio (TETAR) and FP-(ROA and TQ).*

2.2.3. Fixed Assets and Capital Budgeting Management Strategies-(FACBMS) and Firm Performance-(FP)

Li, Karim, and Munir (2016) investigated factors influencing leasing decisions among non-financial SMEs in China using data from 2009 to 2013, employing Pooled Ordinary Least Squares and Tobit models. Their findings revealed that CEO ownership, tax rate, financial distress risk, and firm size are positively linked to a higher share of operating leases, while a higher debt ratio, profitability, and asset tangibility (TANG) negatively impact the share.
For capital leases, the share increases with a higher debt ratio, profitability, firm size, and strong corporate governance, but decreases with CEO ownership and financial distress risk. Hanif, Iqbal, and Wardi (2024) explored how Islamic corporate governance, the current ratio (CR), total asset turnover (TAT), and intellectual capital (IC) influence profitability in Indonesian Sharia commercial banks (2018-2022). They found that Islamic governance and IC significantly boost profitability, with CR and TAT also contributing positively.

Focacci (2022) introduced a "future worth" method for capital budgeting, focusing on evaluating the investment rate of return at the end of the period, aiming to improve investment assessment accuracy. Lui, Lei, Jin, and Teng (2023) discovered that for Chinese GEM companies, current R&D investment positively impacts financial performance, while past R&D has a negative effect. Financial performance, in turn, negatively influences future R&D investment. Both salary and equity incentives improve financial performance, though executives tend to focus on short-term gains. Additionally, equity incentives have a negative impact due to the need for stronger control rights in GEM's ownership structure. Putri et al. (2024) examined budget allocation and investment policies in Indonesia, finding that effective budget management and strategic policies significantly enhance financial performance. Shwiyat et al. (2024) found that sound capital budgeting techniques in Jordan improve cost management and investment decisions in MRPII systems. Sospeter and Awuzie (2024) studied capital budgeting in Tanzania's public sector construction firms, identifying key challenges affecting project outcomes. Tallapaneni Kishore Babu (2024) developed a data-driven framework for optimizing investment decisions at Penna Cement Pvt. Ltd. in India, improving capital budgeting efficiency and accuracy. Amira (2024) applied the ELECTRE decision support system to capital budgeting for export-oriented SMEs in Indonesia, demonstrating improved decision accuracy and investment optimization for PT. Mekar Saluyu Group. Hyvönen, Laine, and Pellinen (2024) examined the integration of carbon considerations into capital budgeting for municipal energy companies in Finland, finding that it enhances environmental accountability and decision-making. Otoo (2024) investigated financial management practices in Ghanaian SMEs, showing that effective budgeting, planning, cash flow management, and reporting significantly boost organizational performance, profitability, and efficiency. The study formulates the next set of hypotheses, presenting the FACBMS variables in both positive and negative contexts. This method provides a more detailed and thorough understanding of the relationships between variables, strengthening the study's overall statistical precision. It captures the intricacies of real-world situations, reduces confirmation bias, enhances the applicability of the results, and fosters clearer conceptual insights.

H_5: *There is a negative relationship between total assets turnover-(TAT) and FP-(ROA and TQ).*

H_6: *There is a positive relationship between tangibility ratio-(TANG) and FP-(ROA and TQ).*

2.2.4. Dividend Policy Decisions–(DPD) and Firm Performance-(FP)

Rafindadi and Bello (2019) identified a strong positive link between dividend payouts and FP in Nigeria, suggesting that increased dividends boost profitability and shareholder value. Nguyen et al. (2021) found that in Vietnam, dividend payments enhance financial performance, reflected in improved earnings per share and return on assets. Essel (2023d) revealed that in Ghana, dividend policy positively influences firm performance, moderated by board independence but not by board size or gender diversity. Wang and Lee (2022) examined the effects of investor and managerial irrationality on cash dividends in China's listed companies. Analyzing A-share data from 2011 to 2019, they uncovered irregularities in dividend distribution, with managerial overconfidence reducing dividends, while higher investor demand, controlling shareholders' shareholding ratio, and lower tradable share proportions significantly affecting dividend payouts. Ukpong and Ukpe (2023) discovered that well-structured dividend policies have a positive impact on financial performance in Nigerian firms. Khan and Kent Baker (2023) found that in India, greater board diversity correlates with higher dividend payouts, suggesting that diverse boards adopt more shareholder-friendly dividend policies. Mittal and Singh (2024) reported that in emerging markets, companies led by female CEOs tend to distribute higher dividends, indicating that CEO gender plays a role in dividend practices. Similarly, Khan, Yilmaz, and Aksoy (2024) found that in Turkey, more demographically diverse boards are associated with higher dividend payouts, showing that diverse boards prioritize shareholder returns. The study develops the final set of hypotheses, framing the DPD variables in both positive and negative contexts. This approach offers a more comprehensive and in-depth understanding of the relationships between variables, improving the study's statistical accuracy. It reflects the complexities of real-world scenarios, minimizes confirmation bias, enhances the relevance of the findings, and promotes greater conceptual clarity.

H_7: *There is a negative relationship between dividend payout ratio-(DPR) and FP-(ROA and TQ).*

H_8: *There is a positive relationship between dividend yield-(DY) and FP-(ROA and TQ).*

2.3. Conceptual Framework (Research Model)

The conceptual framework outlined in Fig. 1 illustrates how various components of CFSs impact FP. Specifically, it shows that WCMS-(CR and CCC), CSMS-(TDTAR and TETAR), FACBMS-(TAT, TANG, NDCFT, and DCFT), as well as DPD-(DPR and DY), collectively influence FP-(ROA and Tobin's Q-TQ). Additionally, firm age-(AGE) and firm size-(SIZE) are included as control variables, reflecting their role in shaping financial outcomes, as supported by existing finance and accounting literature.

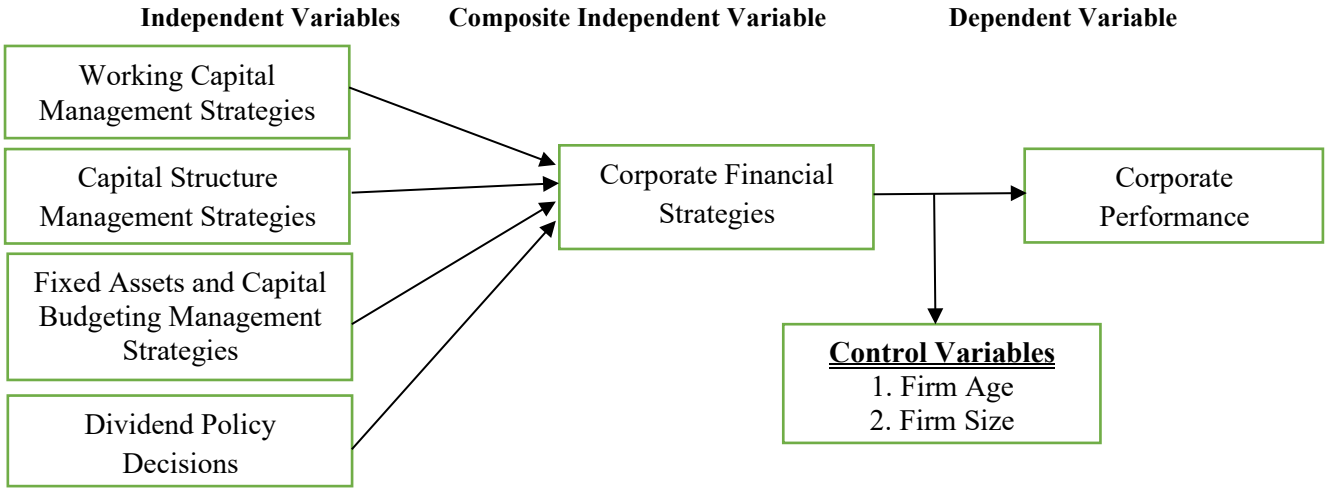

Fig. 1. Conceptual framework (Research model) of the nexuses between CFSs and corporate performance
Source: Researcher's conceptualization (2024)

2.4. Overview of the operations of Shanghai Stock Exchange-(SSE)

The SSE, established on November 26, 1990, is a leading securities exchange located at 528 South Pudong Road in the Pudong New Area, Shanghai, within the city's key financial district, Lujiazui. It ranks as the largest exchange in Mainland-China and the third-largest globally by market capitalization. The exchange consists of several key segments. The main board is for large-cap companies, including blue-chip stocks and traditional industries like finance, energy, manufacturing, and SOEs. The Science and Technology Innovation-(STAR) Market, launched in 2019, is a NASDAQ-style platform for high-tech and innovative companies in fields such as biotechnology, artificial intelligence-(AI), and semiconductors, with flexible listing requirements to attract startups. Additionally, the SSE operates a bond market, trading government, corporate, and municipal bonds. The SSE lists 2,269 firms and 2,308 securities, accounting for a significant share of China's total market capitalization. Globally, it ranks first in capital raised through Initial Public Offering-IPOs, third in market capitalization-(around $US7 trillion equivalent to 42,088.38 billion Renminbi-RMB or Chinese Yuan-CNY), and fifth in total turnover-(228.17 billion Renminbi-RMB or Chinese Yuan-CNY), with an average price-earning ratio of 11.56 [source: http://english.sse.com.cn]. The exchange tracks performance with several indices, including the SSE Composite Index, covering all A-shares and B-shares, the SSE 50 Index, representing the top 50 companies by market capitalization and liquidity, and the SSE 180 Index, which includes the top 180 stocks based on size and liquidity. Trading on the SSE occurs on a modern electronic platform from 9:30 AM to 3:00 PM local time, with a break from 11:30 AM to 1:00 PM. Trades are settled on a T+1 basis, meaning settlement happens one day after the trade. The China Securities Regulatory Commission-(CSRC) oversees regulation, while the SSE ensures market transparency and fairness. The exchange offers various financial products, including index funds, exchange traded funds-(ETFs), and structured products, and has initiatives like the Shanghai-Hong Kong Stock Connect to boost international investor participation. Overall, the SSE plays a vital role in China's financial infrastructure, supporting capital raising, economic growth, and providing investment opportunities for domestic and international investors.

2.5. Research objectives

The main objective of this inquiry is to empirically investigate the impact of CFSs on the performance of all the 2,269 companies listed on China's SSE.

2.6. Research questions

The research questions for this inquiry are as follows:

i. How do working capital management strategies-(WCMS) [current ratio-(CR) and cash conversion cycle-(CCC)] influence the performance of companies listed on China's SSE?
ii. How do capital structure management strategies-(CSMS) [total-debt-to-total-assets ratio-(TDTAR) and total-equity-to-total-assets ratio-(TETAR)] influence the performance of companies listed on China's SSE?
iii. How do fixed assets (total assets turnover-TAT, and tangibility ratio-TANG) and capital budgeting management strategies [discounted cash-flow management techniques-(DCFT) and non-discounted cash-flow techniques-(NDCFT) influence the performance of companies listed on China's SSE?
iv. How do dividend policy management strategies [dividend payout ratio-(DPR) and dividend yield-(DY)] influence the performance of companies listed on China's SSE?

3. Materials and methods

3.1. Data and methodology

The study conducted a comprehensive analysis of CFSs for all 2,269 companies listed on the SSE from 2010 to 2023, producing 31,766 balanced panel firm-year observations. The industry/sector classification of firms listed on the SSE is

presented in Table 1. To prevent survivorship bias and ensure a thorough assessment of market behavior and financial performance, the analysis included data from delisted firms. Combining secondary quantitative data on WCMS-(CR and CCC), CSMS-(TDTAR and TETAR) fixed assets management strategies-(TAT and TANG) and DPD-(DPR and DY) from audited final accounts and the China Stock Market and Accounting Research (CSMAR)[2] database with primary qualitative insights from semi-structured interviews on capital budgeting, the study aimed to provide more accurate conclusions. Additionally, it assessed the SSE's performance, noting a market capitalization of US$7 trillion as of September 16, 2024, and covering various financial instruments and market indices.

Table 1
Industry/Sector Classification of Firms Listed on the SSE

Industry/Sector	No. of Firms	Percentages (%)
1. Manufacturing	1,455	64.12
2. Information Transmission, Software and IT Services	201	8.85
3. Wholesale and Retail	103	4.54
4. Scientific Research & Technical Services	40	1.76
5. Water Conservation, Environmental & Public Facility Mgt.	35	1.54
6. Electricity, Heat, Gas, & Water Production & Supply	83	3.65
7. Construction	55	2.42
8. Real Estate	61	2.68
9. Culture, Sports and Entertainment	31	1.36
10. Leasing & Business Services	21	0.93
11. Finance	87	3.83
12. Transportation, Storage and Post	80	3.52
13. Farming, Forestry, Animal Husbandry & Fishery	16	0.7
14. Media	32	1.41
15. Mining	53	2.33
16. Health and Social Work	3	0.13
17. Education	5	0.22
18. Conglomerates	7	0.230
19. Hotels and Catering	5	0.22
TOTAL	**2,269**	**100%**

Source: Expact Investment China (20th September 2024):

3.2. Econometric estimation technique

This study examined the effect of CFSs on the performance of companies listed on the SSE using the robust dynamic panel two-step System-GMM estimation method developed by Blundell and Bond (1998). This approach, valued for its precision, integrates difference and level equations to capture the dynamic nature of variables such as WCMS, CSMS, fixed assets management strategies-(FAMS) and DPD. It effectively addresses challenges including endogeneity, heteroscedasticity, simultaneity, reverse causality, non-linearity, and unobserved heterogeneity, ensuring that error terms are uncorrelated across observations and accounting for time-invariant effects. This study employed the system-GMM estimation method, treating all explanatory variables as strictly exogenous, except for lagged dependent variables, which were used as instrumental variables-(IV) to address endogeneity and reverse causality. The system-GMM approach is advantageous as it does not eliminate firm-level variations and allows for model specification without imposing unnecessary assumptions about error distribution. It manages inter-individual dependence, limits the proliferation of instruments, and prevents model over-identification. This method is particularly effective for analyzing panel data with unobserved effects, providing the lowest bias and highest precision, especially when the time dimension is relatively small-(14 years in this study) compared to the cross-sectional dimension (2,269 firms). It outperforms FE, RE, difference-GMM, and level-GMM estimators. To ensure the reliability of the system-GMM model, the study conducted four diagnostic tests: serial correlation tests AR(1) and AR(2) following Arellano and Bond (1991), Sargan and Hansen tests for overidentification restrictions-(OIR), and the contemporaneous correlation-(CD^3) test for cross-sectional dependence. These tests validated the model by confirming the validity of the IVs and their lack of correlation with residuals. Overall, the research applies a rigorous econometric approach to evaluate the impact of CFSs on the performance of listed companies on the SSE, addressing methodological challenges and ensuring the robustness and validity of the findings.

3.3. Empirical model specification

The study utilized two indicators of financial performance: ROA and Tobin's Q (TQ). ROA, an accounting-based measure, reflects profitability and is influenced by management decisions, whereas TQ, a market-based measure, represents investors' perceptions and is less prone to manipulation. By incorporating both ROA and TQ, the study improves robustness and mitigates the limitations of each measure. The analysis modeled ROA over time for each firm, using BFS metrics as explanatory variables and controlling for firm age as follows:

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 CCC_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 1}$$

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 CR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 2}$$

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 TAT_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 3}$$

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 TANG_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_i \quad \text{Model 4}$$

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 TDTAR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 5}$$

$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 TETAR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 6}$$
$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 DPR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 7}$$
$$ROA_{it} = \beta_0 + \beta_1 ROA_{it-1} + \beta_2 DY_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 8}$$

At time 't', the second set of models regressed the TQ for firm 'i' on CFSs constituents and their respective control variables of firm size and age as follows:

$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 CCC_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 9}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 CR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 10}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 TAT_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 11}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 TANG_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 12}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 TDTAR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 13}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 TETAR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 14}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 DPR_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 15}$$
$$TQ_{it} = \beta_0 + \beta_1 TQ_{it-1} + \beta_2 DY_{it} + \beta_3 AGE_{it} + \beta_4 SIZE_{it} + \mu_i + \lambda_t + \varepsilon_{it} \quad \text{Model 16}$$

Table 2 provides detailed descriptions, definitions, and empirical literature sources for the variables used in the study.

Table 2
Measurement of Variables

Variable	Measurement	Variable Type	Expected Sign	Literature Sources
ROA	Represents Return on Assets, measured as earnings before interest and tax (EBIT) divided by total assets	Dependent	Positive	Essel & Brobbey (2021); Essel (2023d)
ROA_{it-1}	One-year lags of ROA	Independent	Positive	Essel & Brobbey (2021); Essel (2023a)
TQ	Represents Tobin's Q, measured as [(market value of equity) plus (book value of assets) minus (book value of equity)] all divided by book value of assets	Dependent	Positive	Essel & Brobbey (2021); Essel (2023b)
TQ_{it-1}	one-year lags of TQ	Independent	Positive	Essel & Brobbey (2021); Essel (2023c)
ROE	Represents Return on Equity, used as an alternative measure of FP-profitability measure for robustness checks purposes. Measured as earnings before interest and tax (EBIT) divided by total equity	Dependent	Positive	Essel (2023b)
CCC	Represents Cash Conversion Cycle, measured as [number of days inventory + number of days account receivables – number of days account payables]	Independent	Positive	Essel (2023a)
CR	Represents Current Ratio, measured as current assets/current liabilities	Independent	Positive	Essel (2023d)
TAT	Represents Total Assets Turnover, measured as total assets/sales	Independent	Positive	Essel (2023a)
TANG	Represents Tangibility, measured as total fixed assets/total assets	Independent	Positive	Essel (2023a)
TETAR	Represents Total Equity to Total Assets Ratio, measured as total equity/total asset	Independent	Positive	Essel (2023a); Essel (2022)
TDTAR	Represents Total Debt to Total Assets Ratio, measured as total debt/total assets	Independent	Negative	Essel (2023a); Essel (2022)
DPR	Represents dividend-payout-ratio, measured as dividend per share-(DPS) divided by Earnings per share (EPS)	Independent	Positive	Essel (2023d)
DY	Represents dividend yield, measured as dividend per share-(DPS) divided by market price per share	Independent	Negative	Essel (2023d)
SIZE	Represents Firm Size, measured as the natural logarithm of total assets	Control	Positive	Essel (2023a)
AGE	Represents Firm Age, denoted by the number of years of firm existence	Control	Positive	Essel (2023a)
FMSZ	Represents firm size, an alternative firm size measure for robustness check purposes, measures as natural logarithm of total sales.	Control	Positive	Nuber and Velte (2021)
β_0	Constant/Intercept			Essel (2023b)
β_1, β_2 ..β_{10}	Beta parameters (coefficients of the regressors) to be estimated			Essel (2023b)
μ_i	Unobservable heterogeneity (firm-specific effects)			Essel (2023b)
λ_t	Time dummy variable (time fixed effects)			Essel (2023b)
ε_{it}	Stochastic disturbance term (White noise)			Essel (2023b)
I	Cross-sectional dimension			Essel (2023b)
T	Time dimension			Essel (2023b)

Source: Researcher's Compilations (2024)

4. Results and discussion

4.1. Regression assumptions testing

The author verified that the standardized multivariate linear regression models met all the required axioms, including normality, heteroscedasticity, autocorrelation, endogeneity, and heterogeneity, essential for multiple linear regression

analysis. This validation confirms that the results are unbiased, consistent, and reliable. The adherence to these assumptions supports the suitability of the models for regression analysis, with detailed test results presented in Table 3.

Table 3
Regression Assumptions Testing Results

Test	Test Statistics and Hypotheses	**Null Decision**
1	**Test for Normality:** Econometric Tool: Kolmogorov-Smirnova/Shapiro-Wilk test Results: Statistics=0.757, df=100, Sig=0.071 Null Hypothesis: Data is normally distributed **Decision:** The model is fit for regression because, regression assumption is not violated. Since the p-value is greater than 0.05, the study ***fails to reject the null hypothesis of the test***. This means there is not enough evidence to conclude that the data significantly deviates from a normal distribution at the 5% significance level.	Accept
2	**Test for Heteroskedasticity:** Econometrics tool: Breusch-Pagan/Cook-Weisberg test Result: BP=2.55, P=0.12 Null Hypothesis: Data is homoscedastic **Decision:** BP statistic of **2.55** with a p-value of **0.11**, is ***considered low evidence of heteroskedasticity*** because the p-value exceeds the 0.05 threshold, indicating that the BP statistic does not provide strong evidence against the null hypothesis of homoskedasticity.	Accept
3	**Test for Autocorrelation:** Econometrics tool: Durbin-Watson statistics Result: R=0.481, R^2 =0.318, Durbin-Watson statistics=2.005 Null hypothesis: Autocorrelation **Decision:** Given that the Durbin-Watson statistic is **2.003**, it is very close to 2, suggesting that there is ***no significant autocorrelation*** in the residuals of the model. This indicates that the assumption of autocorrelation is not satisfied and as such rejected, meaning the regression model's residuals are not correlated over time, which is a good sign for the validity of the model.	Reject
4	**Test for Endogeneity:** To compare the consistency and efficiency of estimators i.e., compare the difference between the fixed effects-(FE) and random effects-(RE) or System-GMM coefficients. The goal is to assess whether the included explanatory variables are correlated or uncorrelated with the error term.	Accept
5	**Test for unobserved individual heterogeneity:** The HST helps determine whether individual-specific effects are correlated with the independent variables, thereby guiding the choice between the fixed effects-(FE) and random effects-(RE) or System-GMM coefficients. Econometrics tool: Hausman Specification Test (HST) Result: Prob.>F,Chi2(100)=0.088: This insignificant result suggests that there is ***no strong evidence to reject the null hypothesis***, which assumes that the System-GMM model is appropriate and does not suffer from endogeneity and individual unobserved heterogeneity. Null hypothesis: System GMM estimator is most appropriate **Decision:** The System-GMM estimator is suitable for the regression analysis because the HST confirmed the model's consistency under both null and alternative hypotheses. ***The coefficients are efficient and consistent indicating that the instruments are valid and there's no endogeneity or unobserved individual heterogeneity***. The insignificant HST statistic further supports the use of the System-GMM model, as it effectively addresses potential endogeneity issues. Since the probability value (Prob.>F) is greater than the significance level (commonly 0.05), i.e., 0.088, it suggests that there is no evidence of endogeneity or unobserved individual heterogeneity. This result indicates that the variables included in the model are exogenous and not correlated with the error term. Therefore, the model is free from endogeneity issues and unobserved heterogeneity among individuals.	Accept

4.2. Descriptive statistics

Table 4 reveals that SSE-listed firms have an average ROA of 7.12%, reflecting a moderate return of about 7% on their investments in relation to the capital utilized. The average Tobin's Q-(TQ) of 1.38 implies that the market views these companies as efficiently employing their resources to generate value, with investors willing to pay more for shares based on expected future growth and profitability. This suggests that investors value the firm's assets above their replacement cost,

though this optimism could indicate possible overvaluation in the market. The average CCC was around 90 days, with a CR of 1.55, indicating solid liquidity. Listed firms generally took about three months to convert inventory and receivables into cash, emphasizing the importance of regular monitoring to maintain healthy cash flow and operational efficiency. The TAT averaged 75.56%, and tangibility-(TANG) was 48.95%, reflecting moderate efficiency in fixed asset utilization, with roughly 76% of sales generated from total assets and nearly half (49%) of assets being non-current, showing balanced fixed asset utilization. External debt was predominantly used for financing, with a total-debt-to-assets ratio-(TDTAR) of 55.75% and a total-equity-to-assets ratio-(TETAR) of 44.25%, aligning with the pecking order theory and the findings of Liu et al. (2023). A DPR of 31% and a DY of 2% suggest that firms are retaining a large portion of earnings for reinvestment while providing shareholders with moderate dividends, signaling financial prudence and growth potential. The average firm age was 15 years.

Table 4
Descriptive Summary Statistics of Dependent and Independent Variables

Variables	Obs.	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis	Jarque-Bera (JB)
ROA (%)	31,766	7.12	0.03	0.01	0.99	0.67	3.68	4.35
TQ (%)	31,766	1.38	0.40	0.14	1.79	0.68	2.84	2.06
CCC (days)	31,766	89.95	28.72	21.55	149.45	0.68	3.12	4.80
CR	31,766	1.55	0.42	1.02	2.05	0.52	2.44	1.66
TAT (%)	31,766	75.56	25.32	21.55	91.76	0.66	2.72	3.83
TANG (%)	31,766	48.95	21.55	2.15	97.66	0.50	2.85	1.91
TDTAR (%)	31,766	55.75	53.45	19.71	250.22	0.61	2.33	0.45
TETAR (%)	31,766	44.25	103.61	14.67	411.55	0.63	2.82	1.83
DPR (%)	31,766	32.05	0.32	0.09	0.43	0.82	2.95	4.03
DY	31,766	0.02	0.01	0.00	0.08	0.61	3.02	2.23
SIZE	31,766	3.86	0.33	1.33	7.62	0.76	2.34	4.08
lnAge (AGE years)	31,766	2.72 (15)	0.29	1.74	3.36	0.64	2.58	3.20

Note: CCC can assume both negative and positive signs. A positive sign implies the number of days a firm must borrow or tie up capital while awaiting payment from a customer. A negative sign reveals the number of days a firm has received cash from sales before it must pay its suppliers.
Source: Researcher's Computations (2024)

4.3. Correlation analysis

The study conducted Pearson's correlation test to check for multicollinearity and assess the relationships between the independent and dependent variables in the dataset. The analysis involved mean centering and calculating the Variance Inflation Factor-(VIF) to stabilize regression coefficients. Results indicated that all independent variables were appropriate for inclusion in the regression models, with correlations below 0.6. The highest VIF values ranged from 1.37 to 1.96, well below the threshold of 4, confirming no multicollinearity issues (Kennedy, 1998). Aside from the total debt-to-total assets ratio-(TDTAR) and dividend yield-(DY), which had negative correlations, all other independent and control variables showed significantly positive relationships with ROA and TQ, indicating improved financial performance.

Table 5
Pearson Correlation Analysis with Mean Centering for Dependent and Independent Variables

	ROA	**TQ**	**CCC**	**CR**	**TAT**	**TANG**	**TDTAR**	**TETAR**	**DPR**	**DY**	**SIZE**	**AGE**
ROA	1											
TQ	0.41** (0.000)	1										
CCC	0.34** (0.000)	0.29** (0.000)	1									
CR	0.33** (0.002)	0.41** (0.000)	0.37** (0.000)	1								
TAT	0.31** (0.000)	0.21** (0.000)	0.38** (0.000)	032** (0.000)	1							
TANG	0.44** (0.000)	0.33** (0.000)	0.24** (0.000)	0.38** (0.000)	0.27** (0.000)	1						
TDTAR	-0.29** (0.000)	-0.31** (0.004)	-0.27** (0.000)	-0.37** (0.000)	-0.28* (0.000)	-0.32** (0.000)	1					
TETAR	0.31** (0.000)	0.33* (0.000)	0.19** (0.006)	0.37* (0.000)	0.31** (0.000)	0.36** (0.005)	0.31** (0.000)	1				
DPR	0.42** (0.000)	0.39** (0.001)	0.37** (0.000)	0.32** (0.000)	0.19** (0.000)	0.33** (0.000)	0.22** (0.000)	0.31** (0.000)	1			
DY	-0.27** (0.000)	-0.37** (0.000)	-0.29** (0.000)	-0.24** (0.000)	-0.18** (0.000)	0-.25** (0.000)	-0.38** (0.004)	-0.29** (0.000)	-0.37* (0.000)	1		
SZ	0.35** (0.003)	0.41** (0.000)	0.30** (0.000)	0.29** (0.000)	0.38** (0.000)	0.34*** (0.000)	0.37* (0.000)	0.39** (0.000)	0.32*** (0.000)	0.28*** (0.000)	1	
AGE	0.32** (0.000)	0.34** (0.000)	0.37** (0.001)	0.31*** (0.000)	0.31*** (0.000)	0.36*** (0.000)	0.23* (0.000)	0.26* (0.000)	0.40* (0.002)	0.27* (0.000)	0.29** (0.000)	1
VIF	-	-	1.79	1.96	1.51	1.65	1.49	1.75	1.67	1.78	1.37	1.72
Toler.	-	-	0.64	0.80	0.61	0.95	0.27	0.87	0.67	0.53	0.61	0.29

Note: ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.
Source: Researcher's computations (2024)

4.4. Empirical baseline regression results and discussion

The research examined the impact of CFSs, along with firm age and size as control variables, on the performance of companies listed on China's SSE using a two-step system-GMM estimation approach. The Blundell and Bond (1998) estimator confirmed the robustness of the model, with Hansen and Sargan tests indicating no over-identification issues, and AR(1) and AR(2) tests confirming no first- or second-order autocorrelation in errors. The CD^3 test ruled out cross-sectional dependence.

Table 6

System-GMM Regression Results of Financial Management Practices Effect on ***Return on Assets-(ROA)*** as Dependent Variable

VARIABLES	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**	**Model 8**
Constant/intercept	1.8247	1.7852	1.6321	1.6014	1.7412	1.8524	1.6324	1.7524
Main Predictors								
CCC	.0789** (.021)							
CR		.0751** (.0031)						
TAT			.0631** (.0086)					
TANG				.0609** (.0064)				
TDTAR					.-0597** (.024)			
TETAR						.0875** (.033)		
DPR							.0587** (.0213)	
DY								.-0392** (.0204)
1-year lagged ROA								
$ROA_{(t-1)}$	.5213** (.0121)	.3785** (.0011)	.2698** (.0003)	.4782** (.0002)	.6411** (.0014)	.4331** (.0022)	.3433** (.0011)	.4421** (.0013)
Control Variables								
SIZE	.0486*** (.0201)	.0491*** (.0013)	.0469*** (.0221)	.05425*** (.0201)	.0579*** (.0511)	.0491*** (.0512)	.0586*** (.0122)	.0489*** (.0121)
AGE	.0322*** (.0114)	.0375*** (.0221)	.0127*** (.0121)	.0286*** (.0129)	.0381*** (.0211)	.0348*** (.0210)	.0279*** (.0211)	.0388*** (.0121)
Weighted Statistics								
R^2	.6824	.6859	.6892	.6967	.6917	.6795	.6895	.6799
Adjusted R^2	.6741	.6761	.6771	.6877	.6823	.6674	.6741	.6615
S.E. of Regression	.3332	.3415	.3046	.4023	.3162	.3542	.4112	.3925
F-Statistics	197.55	196.24	194.44	195.22	191.85	194.65	193.44	192.29
Prob(F-statistics)	.0000	.0000	.0000	.0000	.0000	.0000	.0000	.0000
Mean VIF	1.8254	1.7987	1.9875	1.8455	1.9245	1.9124	1.8995	1.8989
AR(1) *p*-value	.0003	.0011	.0004	.0001	.0011	.0012	.0001	.0002
AR(2) *p*-value	.7852	.4753	.5951	.3158	.3856	.4758	.3753	.5725
Sargan OIR Test	.3958	.3125	.3752	.3956	.3257	.3985	.3547	.3758
Hansen OIR J Test	.3854	.3752	.3777	.3954	.3850	.3751	.3913	.3172
Observations	31,766	31,766	31,766	31,766	31,766	31,766	31,766	31,766
Group count	2,269	2,269	2,269	2,269	2,269	2,269	2,269	2,269
Instrument count	120	120	120	120	120	120	120	120

Source: Author's computations (2024).

Note: The robust standard errors (SEs) are reported in parentheses. The eight models (1, 2, 3, 4, 5, 6, 7 and 8) recorded highest mean VIF of 1.8254, 1.7987, 1.9875, 1.8455, 1.9245, 1.9124, 1.8995 and 1.8989, respectively for the explanatory variables. These VIFs fall below the criteria of 10, suggesting the absence of multicollinearity (Kennedy, 1998). Each model estimation incorporated both time and industry dummies, but the estimates are not reported. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively. AR (1) and AR (2) gives the p-values for the null hypothesis of no first-order and second-order autocorrelation in the first differenced residuals. Hansen OIR J test is a test for over identification restrictions-(OIR). The original number of instrument count was 250, but to avoid over-fitting which was likely to weaken the instruments and the Hansen J-test of overidentifying restrictions may fail to provide reliable results, the Author in STATA, collapsed the instruments, which reduced the number of instruments to 120 by grouping them, instead of creating a separate instrument for each lag and time period. The collapsed instruments are more parsimonious, which helped avoid over-fitting and kept the number of instruments smaller relative to the number of groups.

The adjusted R^2 values for all 16 models in Table 6 and Table 7 were significant, accounting for a substantial portion of the variance in the dependent variables. Additionally, the F-statistics for all models demonstrated strong overall performance and model fit, confirming the validity of the regression outcomes. Table 6 and Table 7 reveal that the TDTAR and DY negatively influenced financial performance, while the CCC, CR, TAT, asset TANG, TETAR, DPR, firm-age, and firm-size positively affected FP. These findings align with Resource-Based View (RBV) theory, highlighting that effective internal CFSs and resource utilization are essential for gaining competitive advantages and improving performance in emerging markets. The positive impact of CCC and CR on FP-(ROA and TQ) suggests that listed companies that espoused WCMS improved profitability and operational efficiency, supporting the RBVT. This is consistent with prior studies by Keerativutisest and Luciani (2019) and Langhari et al. (2023), confirming the importance of managing internal financial resources for better performance. *Consequently,* ***Hypothesis 1 (H_1) is rejected, while Hypothesis 2 (H_2) is supported****.* Both TAT and TANG had a positive impact on FP-(ROA and TQ), suggesting that companies with efficient use of fixed assets and adequate investments in long-term assets achieved stronger financial results. These findings are consistent with the RBVT and align with prior research such as Essel (2023a), though they contradict the conclusions of Li, Karim, and Munir

(2016). ***As a result, Hypothesis 6 (H_6) is confirmed, while Hypothesis 5 (H_5) is rejected.*** Table 6 and Table 7 reveal a significant negative relationship ($p<0.05$) between TDTAR and FP-(ROA and TQ), with $\beta1=-0.0587$ for ROA and $\beta1=-0.0576$ for TQ. This suggests that increased debt financing reduces profitability-(ROA) and market value-(TQ), with a 1% rise in total debt leading to a 0.0587 decline in ROA and a 0.0576 drop in TQ. ***As a result, Hypothesis 3 (H_3) is supported.*** Excessive debt burdens a firm's financial resources, heightens risk, and negatively impacts performance, indicating that while debt can drive growth, too much debt is unsustainable. These results align with Essel (2023a) but contrast with findings from Liu et al. (2023) and Liu and Suzuki (2024).

Table 7

System-GMM Regression Results of Financial Management Practices Effect on ***Tobin's Q-(TQ)*** as Outcome Variable

VARIABLES	Model 9	Model 10	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16
Constant/intercept	1.9741	1.8524	1.8632	1.7752	1.8821	1.9854	1.9632	1.8885
Main Predictors								
CCC	.0789** (.021)							
CR		.0718** (.0031)						
TAT			.0635** (.0087)					
TANG				.0608** (.0064)				
TDTAR					-.0512** (.010)			
TETAR						.0895** (.024)		
DPR							.0566** (.0202)	
DY								.-0388** (.0212)
1-year lagged ROA								
$ROA_{(t-1)}$	.5324** (.0111)	.3754** (.0012)	.2789** (.0012)	.4798** (.0013)	.6499** (.0023)	.4449** (.0014)	.3444** (.0016)	.4758** (.0017)
Control Variables								
SIZE	.0499*** (.0201)	.0462*** (.0021)	.0483*** (.0103)	.0573*** (.0210)	.0579*** (.0512)	.0478*** (.0503)	.0588*** (.0104)	.0498*** (.0110)
AGE	.0312*** (.0211)	.0321*** (.0111)	.0153*** (.0102)	.0249*** (.0100)	.0355*** (.0210)	.0392*** (.0212)	.0282*** (.0205)	.0377*** (.0124)
Weighted Statistics								
R^2	.6789	.6889	.6812	.6952	.6919	.6624	.6998	.6885
Adjusted R^2	.6663	.6735	.6711	.6825	.6815	.6552	.6879	.6774
S.E. of Regression	.3547	.3695	.3712	.3924	.3887	.3735	.3787	.3911
F-Statistics	196.55	197.65	198.75	195.55	196.95	197.25	199.95	194.77
Prob(F-statistics)	.0000	.0000	.0000	.0000	.0000	.0000	.0000	.0000
Mean VIF	1.8885	1.8899	1.8955	1.8798	1.9721	1.7664	1.8785	1.7651
AR(1) *p*-value	.0001	.0014	.0002	.0011	.0013	.0012	.0004	.0005
AR(2) *p*-value	.7258	.7779	.7826	.7723	.7987	.7325	.7425	.7515
Sargan OIR Test	.4412	.4487	.4488	.4455	.4668	.4625	.4725	.5445
Hansen OIR Test	.3851	.3871	.3877	.3887	.3898	.3865	.3813	.3872
Observations	31,766	31,766	31,766	31,766	31,766	31,766	31,766	31,766
Group count	2,269	2,269	2,269	2,269	2,269	2,269	2,269	2,269
Instrument count	120	120	120	120	120	120	120	120

Source: Author's computations (2024).

Note: The robust standard errors (SEs) are reported in parentheses. The seven models (1, 2, 3, 4, 5, 6, 7 and 8) recorded highest VIF, though not reported, of 1.8885, 1.8899, 1.8955, 1.8798, 1.9721, 1.7664, 1.8785 and 1.7651, respectively for the explanatory variables. These VIFs fall below the criteria of 10, suggesting the absence of multicollinearity (Kennedy, 1998). Each model estimation incorporated both time and industry dummies, but the estimates are not reported. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively. AR (1) and AR (2) gives the p-values for the null hypothesis of no first-order and second-order autocorrelation in the first differenced residuals. Hansen test is a test for over identification restrictions-(OIR). The original number of instrument count was 250, but to avoid over-fitting which was likely to weaken the instruments and the Hansen J-test of overidentifying restrictions may fail to provide reliable results, the Author in STATA, collapsed the instruments, which reduced the number of instruments to120 by grouping them, instead of creating a separate instrument for each lag and time period. The collapsed instruments are more parsimonious, which helped avoid over-fitting and kept the number of instruments smaller relative to the number of groups.

The findings in Table 6 and Table 7 demonstrate a statistically significant ($p<0.05$) positive association between the TETAR and FP-(ROA and TQ), with $\beta1=0.0844$ for ROA and $\beta1=0.0834$ for TQ. This suggests that companies relying more on equity financing—both internal-(retained earnings) and external-(new share issuance)—achieved better profitability-(ROA) and market value-(TQ). A higher equity ratio signals a robust capital structure and financial stability, aligning with the RBVT by emphasizing financial strength as a valuable asset. ***Therefore, Hypothesis 4 (H_4) is confirmed***, consistent with the findings of Liu et al. (2023) and Liu and Suzuki (2024). The study's findings show a significantly positive ($p<0.05$) relationship between the DPR and FP-(ROA and TQ), with $\beta1=0.0598$ for ROA and $\beta1=0.0589$ for TQ. This suggests that

firms increasing their DPR saw improved performance, supporting Dividend Relevance Theory. A 1% rise in DPR resulted in a 0.0598 unit increase in ROA and a 0.0589 unit rise in TQ. A well-balanced dividend payout signals financial stability, boosting investor confidence and aligning with RBVT by supporting resource allocation for future growth. ***This rejects Hypothesis 7 (H_7)*** and is consistent with Wang and Lee (2022). Conversely, DY exhibited a significantly negative ($p<0.05$) relationship with ROA and TQ, with $\beta1$=-0.0381 for ROA and $\beta1$=-0.0378 for TQ. A 1% rise in DY corresponded to a 0.0381 unit decline in ROA and a 0.0378 unit drop in TQ, indicating that higher DY may signal a declining share price, negatively affecting financial performance, which is unfavorable for investors. ***This leads to the rejection of Hypothesis 8 (H_8)*** and aligns with the findings of Laghari et al. (2023). Additionally, firm size and age demonstrates a significant positive correlation with financial performance indicators such as ROA and TQ, suggesting that larger and older firms tend to be more profitable due to the operational and managerial efficiencies and expertise they have developed over time. This finding is consistent with the observations of Liu and Suzuki (2024).

4.5. Sensitivity analysis (Robustness checks)

This study investigated how CFSs influence the performance of firms listed on China's SSE. The analysis utilized a robust dynamic panel two-step system-GMM approach to address endogeneity, heteroscedasticity, measurement errors, autocorrelation, simultaneity, and reverse causality.

To verify the findings' robustness, sensitivity analyses were performed using alternative econometric techniques, specifically fixed effects-(FE) and random effects-(RE) models, which handle unobserved heterogeneity and omitted variable bias. Additionally, an alternative performance metric, return on equity-(ROE), defined in **Table 1**, was computed and included in the regression analyses. The results, shown in **Table 8**, align consistently with the expected theoretical signs and significance levels reported in **Tables 6 and 7**, thereby validating the stability, credibility, reliability, and robustness of the study's conclusions.

Table 8

Robustness checks-(Sensitivity analyses): Fixed Effect-(FE) and Random Effect-(RE) regression results of Corporate Financial Strategies-(CFSs) and other control variables effect on FP proxy by Return on Equity-(ROE) as the Outcome/Dependent/Response variable

Variables	Fixed Effect (Standardized β Coefficient)	Random Effect (Standardized β Coefficient)
Constant	1.7257	1.6587
Main Independent Variables		
CCC	.0699** (.0042)	.0688** (.0002)
CR	.0682**(.0021)	.0681**(.0008)
TAT	.0646** (.0012)	.0655** (.0005)
TANG	.0618** (.0021)	.0625** (.0004)
TDTAR	-.0576** (.0040)	-.0544** (.0021)
TETAR	.0844** (.0032)	.0806** (.0002)
DPR	.0597** (.0001)	.0578** (.0003)
DY	-.0572** (.0002)	-.0548** (.0001)
Control Variables		
FMSZ	.0212*** (0.0011)	.0121*** (0.0008)
AGE	.0149*** (0.0021)	.0102*** (0.0006)
Weighted Statistics		
R^2	0.6889	0.6879
Adjusted R^2	0.6778	0.6698
S.E. of Regression	0.3287	0.3997
F-Statistics	197.77	195.55
Prob(F-statistics)	0.0000	0.0000
Mean VIF	1.7988	1.7766
Observations	31,766	31,766
Hausman Test	Prob.> F, Chi2 (29,488) = 0.000	Prob.> F, Chi2 (31,755) = 0.18

Note: The robust standard errors (SEs) are reported in parentheses. The FE and RE models recorded the highest VIF of 1.5988 and 1.6166, respectively for the explanatory variables. These VIFs fall below the criteria of 10, suggesting the absence of multicollinearity (Kennedy, 1998). Each model estimation incorporated both time and industry dummies, but the estimates are not reported. ***, ** and * denote significance at the 1%, 5%, and 10% levels, respectively.

Source: Researchers' computations (2024).

4.6. Qualitative findings from Key Informant Interviewees (KIIs)

The research explored the link between CFS and the performance of firms listed on the SSE through a mixed-methods approach. The quantitative component encompassed descriptive statistics, correlation analysis, and regression analysis. The quantitative techniques were applied on assets management strategies, capital structure strategies, dividend policy strategies and working capital management strategies. The qualitative methods, which involved semi-structured interviews with top management of 2,269 listed firms were applied on capital budgeting techniques since these informations could not be directly extracted from the financial statements of the listed companies. This approach aimed to strengthen the findings' validity, minimize bias, and offer practical insights into the impact of capital budgeting on financial performance.

4.6.1. Study population, sampling procedure and sample size: The study's target population comprised all 2,269 companies listed on the SSE. Consequently, the sampling frame and size included these 2,269 firms, making the sampling process a complete enumeration.

4.6.2. Data collection instrument: Semi-structured interview with the aid of interview guide were espoused from similar studies from extant literature with modifications to suit the Chinese context.

4.6.3. Data collection procedure: The semi-structured interview questions were initially designed based on prior finance and accounting studies but were later refined for accuracy by three academic and industry specialists. The researcher and thirty trained assistants conducted these interviews between January and June 2024 at the offices of managers from the listed companies. Each interview lasted for about 10 minutes. This approach allowed respondents to freely express their views, opinions, and experiences. The interviews were conducted in Mandarin Chinese (Putonghua), the official language commonly used in government, education, and media, to accommodate various linguistic backgrounds. Participants gave written or verbal informed consent, and each interview generally lasted between five and ten minutes. Ethical considerations were rigorously upheld throughout the study, ensuring participant confidentiality. The conclusions and recommendations were drawn in alignment with ethical research standards.

4.6.4. Data processing and analysis: Interview responses were recorded, transcribed, translated, organized into categories, and analyzed using qualitative methods via thematic analysis. The data were analyzed using a combination of qualitative explanatory and interpretative approaches, allowing the data to largely speak for itself with minimal researcher interjection.
Question 1: Does your company invest in capital-intensive, long-term projects that involve the acquisition of fixed assets?
Responses: All 2,269 managers of the listed companies interviewed responded positively.
Question 2: Does your company have a formalized procedure, such as a manual, for executing capital budgeting projects?
Responses: All 2,269 managers of the listed companies interviewed responded positively.
Question 3: Respondents were asked to identify the capital budgeting techniques employed by their companies, including non-discounted cash flow methods (e.g., payback period, accounting rate of return-ARR) and discounted cash flow methods (e.g., discounted payback period, NPV, profitability index-PI, internal rate of return-IRR, modified internal rate of return-MIRR), or whether they utilize a combination of both approaches.
Responses: Six hundred and eighty (680) firms, representing 29.96%, exclusively utilize non-discounted cash flow techniques. In contrast, 1,361 firms (59.98%) rely solely on discounted cash flow methods, while 228 companies (10.04%) employ a combination of both approaches, depending on their specific requirements.
Question 4: Respondents were asked to specify the factors that influence their choice of capital budgeting techniques.
Responses: The majority of listed firms, 1,565 (68.97%), select capital budgeting techniques according to company policy. Meanwhile, 295 firms (13%) make their decision based on available financing, and 409 companies (18.03%) base their choices on project risk and prevailing economic conditions.
Question 5: Respondents were asked to identify which of the two capital budgeting techniques leads to better financial performance and the indicators used in their evaluation.
Responses: The majority of listed firms, i.e., 1,452 (63.99%), indicated that discounted cash-flow techniques, such as NPV and IRR, improved financial performance by incorporating the time value of money.
Meanwhile, the remaining 817 companies (36.01%) favored non-discounted methods like the payback period for their simplicity and ability to quickly recover investment costs.
Question 6: The respondents were asked to describe the challenges or difficulties they face when executing capital budgeting projects.
Responses: Out of the companies surveyed, 749 (33.01%) reported a lack of financing, while 908 (40.01%) cited unavailability of data. Additionally, 363 (15.99%) pointed to an unpredictable economic environment, and 249 (10.99%) highlighted a lack of top-level management support.

In conclusion, effective capital budgeting strategies, particularly the use of discounted cash flow methods with positive NPV, lead to improved financial performance for firms listed on China's SSE.

5. Conclusion

This study examined how CFSs affect the financial performance of listed firms on China's SSE. The results showed that high total debt-(TDTAR) and dividend yield-(DY) have a negative impact on financial performance. Conversely, factors such as equity financing-(TETAR), effective working capital management strategies (CCC and CR), efficient fixed asset management strategies (TAT and TANG) and capital budgeting management strategies, prudent dividend policy decisions via payout ratio-(DPR), firm size and firm age positively contribute to financial performance.

6. Theoretical implications

The study indicates that control variables play a significant role in shaping the relationship between CFSs and financial performance, influencing both the dependent and independent variables. Moderators can change the strength and direction

of these relationships, while mediators can clarify how explanatory variables impact financial performance. While this research concentrated on the direct effects of CFSs on financial performance, it did not address the roles of moderators and mediators. Future studies could investigate these factors to gain a more comprehensive understanding of the CFS-financial performance relationship in China.

7. Managerial implications

The study offers several recommendations to enhance the financial performance of companies listed on China's SSE. Managers should focus on improving inventory management, speeding up receivables, and extending payables within reasonable limits, while maintaining a healthy current ratio for liquidity. Effective management of fixed assets and working capital, along with leveraging the firm's age, can further boost financial outcomes. Companies should use assets more efficiently to drive revenue and carefully evaluate investments in tangible assets for positive returns. Equity financing is advised over debt, with an emphasis on deleveraging and using retained earnings for growth. Diversifying capital budgeting projects with positive NPV is recommended to ensure stable cash flows for dividends and future investments. Given the negative effects of high dividend yields, firms should reassess their dividend policies to balance payouts with reinvested profits. Additionally, scaling up operations and leveraging the firm's established market presence, particularly for older companies, are also suggested strategies.

8. Policy implications

Policymakers, including the CSRC, should aim to rejuvenate the SSE and encourage firms to enhance profitability by adopting international best practices in corporate financial management. Regulations should promote sound working capital and fixed asset management to foster a competitive and sustainable business environment. Policies should support equity financing over debt by offering tax incentives and easing equity issuance, while also imposing limits on total-debt-to-asset ratios to reduce financial distress that might arise due to excessive borrowing/gearing/financial leverage. Guidelines should curb excessive profit distribution and increase transparency in financial reporting to help stakeholders evaluate financial health. Additionally, improving financial literacy and management skills among company executives is recommended. These actions are intended to boost financial performance in emerging capital markets.

9. Limitations and areas for future research

This study has limitations, as it focused exclusively on listed firms on the SSE, ignoring non-listed firms, firms listed on the SZSE, and the BSE. To enhance the generalizability of the findings, future research should include these additional categories of firms to provide a more comprehensive understanding of how CFSs impact financial performance in China.

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Availability of data and material

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