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Analyzing the effects of COVID-19 pandemic on the financial performance of Chinese listed companies

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This study is aimed at analyzing the effects of COVID-19 pandemic on the financial performance of Chinese listed companies. We applied pooled ordinary least square (OLS) regression as a baseline methodology to determine the effects of COVID pandemic on the financial performance of Chinese listed companies. We found that the small- and medium-sized companies are most affected by this pandemic, in addition to that our analysis has revealed that serious-impact areas and industries which were worst hit by the COVID-19 experienced a sharper decline in financial performance as compared to other industries. The findings of this study have broad implications for policymakers, as it is evident that governments, banks, regulatory bodies, and central banks must combine forces to tackle the financial and economic impacts of COVID-19 crises. They should come up with comprehensive policies to tackle the adverse impact of such crises in the future as well. Actions such as proving loans and rescheduling existing loans to worst-hit sectors such as tourism, airline industry, etc. are starting point. The disclosure of facts and figure by officials regarding the status of health care number of infections can reduce the chances of panic situations in the future.

1 | INTRODUCTION

The present COVID-19 pandemic has its origins in Wuhan China the first official case, as per WHO¹ reports were December 31, 2019. The rapid spread of the virus can mainly be attributed to the fact that a large number of people moved from Wuhan to other parts of China to celebrate the Chinese New Year by mid of January 2020. This made the situation worse as the rapid spread of the virus epidemic situation turned in to the emergency and the Chinese government responded by imposing a complete travel ban by January 23, 2020 in the Wuhan region, but it was too late as the spread of the virus was rapid due to its contagious nature. This was followed by a declaration on international health emergency by WHO on January 30, 2020, as the virus had spread to other parts of the world and now the COVID-19 epidemic had become pandemic. One has to keep in mind that this is sixth-time such action has been taken. These include Ebola and Zika virus outbreaks in the Democratic Republic of Congo. The scientific analysis of the virus by Chinese scientist concluded that COVID-19 belonged to a family of viruses known as CORONA viruses, the

viruses belonging to this family had earlier caused SARS and MERS pandemics.

The symptoms of COVID-19 may vary from 2 to 14 days after the contraction of the virus via physical exposure as per the CDC. A person can contract this virus via physical contact or via contact with any object used by a person who is already infected. This poses an issue of controlling the spread of the virus at initial stages as unknowingly the people who have already caught the virus might not even know until symptoms start showing. The severity and contagion effect of led to its spread outside China and assessing the situation WHO on March 11, 2020, declared it a global pandemic. Although the rate of mortality from COVID-19 is much lower as compared to that of other viruses. At the same time, the spread of the virus is phenomenal and as on March 23, 2020 the number of COVID-19 cases in the USA was 31,573, in Italy, the cases were 59,138 and in China, the number was 19,81,601 as per world health organization (WHO). As per Centre of Disease Control and Prevention (CDC), at present, there is no known vaccine for the disease and researchers are trying day and night to come up with a vaccine to tackle the spread of the virus

(Anderson, Heesterbeek, Klinkenberg, & Hollingsworth, 2020; He, Deng, & Li, 2020; Wu, Chen, & Chan, 2020).

The long-term impact of the pandemic is very hard to estimate as we are in the midst of this crisis. The study on the impact of social, economic, and cultural impacts of such pandemics is very limited, all though the world has gone through many of such events in the past. The study of existing literature on impact relating to such events from history, generally show the lowering of returns on assets during and following such pandemics (Jordà, Singh, & Taylor, 2020).

After such events the people tend to avoid investment and prefer to cut their losses by withdrawing investments, which results in lowering the level of economic activity, leading to a reduction in general growth. In the present situation, the returns on investments in most cases are negative as economic activity has almost come to halt, one cannot predict whether or not people would show similar conservatism or not. Funk, Gilad, Watkins, and Jansen (2009) point out that changes in the behavior of the investors mainly relates to the protection of personal wealth, as they are more concerned about their safety rather than caring about whole society, one such example that can be related from present times is wearing of face masks. It is more to do with personal convenience rather than a general behavioral shift in society.

The present COVID-19 pandemic has forced the closure of many businesses and this has caused great disruption in global commerce, resulting in losses for almost all industrial sectors around the world. Some businesses such as retailers are bound to face difficulties in the short term, but other businesses such as supply chain based, manufacturing and health care are facing issues such as a decrease in demand, reduction in cashflows, lowering of sales revenues, availability of workforce, and issues regarding marketing. Their future mainly depends upon their ability to counter such challenges, even after countering these challenges their financial future might still hang in balance. As the after pandemic the world might not be the same, the industries such as travel and tours, hotel, and hospitality might even vanish for a considerable time. Most of the businesses are taking actions which save the cost, avoiding expansion, conserving their funds, and going for cost-cutting to preserve their hard-earned funds. These issues are compounded for newly established or small-scale business operations as they frozen hiring of new employees and are even going for downsizing. On the contrary, the situation has presented many companies such as online shopping, web-based entertainment, and online communication with a great opportunity, which has been duly cashed by these businesses.

This research comprises two main parts: first part comprises forecasting of financial performance and the second part comprises of determine the effects of COVID-19 on the financial performance of Chinese companies. In the first step, we utilized the published financial data of Chinese companies ranging from 2013 to 2019, to forecast their possible financial results for the first quarter of 2020. Then these results will be compared with the actual financial results of these companies. This comparison will enable us to create highlight the effects of COVID pandemic on the financial performance of companies across the industrial sectors. The quantification of the impact will be done by using the data from the first quarter of 2014–2020.

Our findings suggest that the overall financial performance of the Chinese companies has declined across industries since the COVID-19 pandemic struck China. This financial impact can be reduced by the injection of new investment. We used an alternative method to check the robustness test for alternative dependent variables and the consistency of findings validated our earlier findings.

The contributions of our research are as follows. The first, contribution relates to assessing the effects of the COVID-19 on the financial performance of Chinese companies, across industries. Most of the previous studies carried out have mainly focused on the effects of the COVID pandemic on the macro-level of the economy. The examples mainly include Gil-Alana and Monge (2020), who studied the effects of COVID pandemic on prices of crude oil. Njindan Iyke (2020) studied the effects of COVID pandemic on the exchange rate, while Apergis and Apergis (2020) studied the COVID-19's effects on the US partisan conflict index. We, rather than studying the macro-level impact focused on the financial performance of the Chinese firms by quantifying the impact by utilizing the methodology commonly known as the DID method. Secondly, we investigated the underlying mechanisms through which COVID-19 has impacted the financial performance of Chinese companies. Our findings indicate that spread of COVID-19 resulted in social and personal restrictions which adversely impacted the revenues of the companies which in turn led to a lowering of the financial performance of the companies. The impact can only be reduced by injecting fresh investment into the industries, which might boost the revenues, so to negate the financial effects of the COVID pandemic. The third contribution relates to the analysis of the financial effects of major pandemics and emergencies situation related to health on the economy. The reaction of the markets to COVID-19 has already been studied in detail by (Liu, Wang, & Lee, 2020; Narayan, 2020). Meanwhile, we concentrated our efforts on examining the effects of COVID pandemic on the corporate financial performance of Chinese companies as China is considered as one of the worst-hit countries by the current pandemic.

The rest of the research is structured in the following sections: Section 2 contains the review of pandemic related literature and research hypothesis, Section 3 contains the details about the data and statistical methodology used to test the hypothesis, Section 4 contains the results, and Section 5 concludes the study.

2 | LITERATURE REVIEW AND RESEARCH HYPOTHESIS

The effects of COVID-19 pandemic around the world is so severe both in terms of human lives and financial impact that many of the famous brands around the world might go bankrupt altogether, since people around the world, especially in developed countries are confined to their residence, leading to halting in economic activities (Tucker, 2020). One such example is the financial pressure faced by top US brands such as Donthu and Gustafsson (2020). Bagnera, Steinberg, and Edition (2020) point out that almost 90% of the airline industry employees have been laid off, hotels are operating at 20% of

their normal capacity, the tourism and travel industry is bound to suffer financial losses in 2020. All the social events such as sporting, cultural, music concerts, etc., which hosted large gatherings have been closed off indefinitely.

The lockdown imposed by governments around the world to cure the spread of COVID-19 has resulted in economic activities at all levels as people are unable to avail services like taxis, hairdressing, etc. The manufacturing industries such as electronics, automobiles were unexpectedly closed at first, which caused major disruption production process, even though they reopened approximately 60 days after the closure. The debate regarding the unexpected closure is endless. But the main questions related to the welfare of the employees, level of contingency planning, and preparedness of the companies to cope up with such situations. The role of companies and even countries in exploiting the situation to their benefit, as is the case of Chinese companies and government since they are acquiring European centered infrastructure and technology (Rapoza, 2020; Salman & Munir, 2012; Salman & Qamar, 2011).

The pandemic of COVID-19 has imposed major health emergencies around the world. Since January 2020 over seven million people have contracted the virus, almost no country of region is safe from this pandemic. Due to the highly contagious nature of the virus, almost all of the countries are forced to adopt social distancing measures along with quarantine. Which has led to a decrease in aggregate demand for most of the goods and services around the world, leading to a lowering of exports, imports, and general economic activities? Many countries around the world have restricted the movement of people via lockdowns and by shutting public places, at the same time many countries stopped the import of goods due to fear of the spread of the virus especially from China, which is one of the largest exporters of goods. This resulted in a fall in GDP of China by 6.8% in the first quarter of 2020. As at present (Narayan, 2020) studied the effects of COVID pandemic on oil process, while the impact of COVID 19 on the performance of the enterprises is even more scarce. We propose the following hypothesis.

Hypothesis (1) With other conditions remaining the same, the COVID-19 pandemic harms the financial performance of Chinese listed companies.

3 | METHODOLOGY

We employed the published financial reports of companies listed in China from a period ranging from 2013 up to 2019 to forecast financial performance in $t + 1$ period, that is, 2014–2020. Afterward, we took the financial information based on first quarter reports of companies' period starting 2014 up to 2020, as a sample to examine the effects of COVID-19 pandemic on the financial performance of Chinese listed companies. The data was extracted from CSMAR database, one of the premier databases of China and to minimize the presence of extreme values the continuous variables were once again winsorized levels of 1 and 99%, as to lower influence of outliers in the results.

The following research model was adopted to gauge the financial performance of the Chinese listed companies.

$$ROA_{it+1} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 GROWTH_{it} + \beta_4 REV_{it} + \beta_5 INDUSTRY + \beta_6 YEAR + \varepsilon_{it}$$

In the above model ROA denoting returns on assets is taken as a dependent variable, denoted by ROA. ROA represents the financial performance of the company; the period is represented by dummy variables of "pandemic impact degree." The size represents the natural log of assets of companies, LEV denotes leverage ratio or debt to equity ratio of companies, growth represents the growth rate of the overall income of the companies, REV, represents total revenues calculated by taking the natural log of total revenues of companies for the current period. The fixed effects of industry and period in the model are controlled by variables of INDUSTRY and YEAR.

4 | RESULTS AND ANALYSIS

4.1 | Descriptive statistics

The descriptive statistics relating to key variables are reported in Table 1 based upon the reported financial data from 2014 to 2020. The mean and median values for ROA are 0.009 and 0.013, respectively, indicative of a decrease in overall returns or profitability of the companies. The mean value of GROWTH is -0.154 , indicative of a reduction in overall investments in assets by the companies. The mean value of the revenue is 18.0856, which indicates volatility in the revenues of the companies. The value means the value of Lev is 0.424, which applies that companies so far have been able to control their debt to equity ratio.

4.2 | Regression analysis

At first, we checked the effect of COVID-19 on the financial performance of Chinese listed companies. For this purpose we considered ROA as the dependent variable; the results are provided in Table 2. The effects of COVID pandemic on the financial performance of Chinese companies is reported by Model 2 at a significance level of 1% the value of the coefficient for the above-mentioned period is -0.0032 , which is statistically significant, meaning that effect of

TABLE 1 Descriptive statistics

Variable	Obs.	Mean	Std. Dev.	Min	Max
ROA	8,081	0.009	0.013	-0.018	0.065
Size	8,081	20.324	1.140	17.745	24.213
LEV	8,081	0.424	0.214	0.046	0.765
Growth	8,081	-0.154	0.248	-0.643	1.345
REV	8,081	18.0856	1.6576	13.0323	22.7421

TABLE 2 The effect of Covid-19 on financial performance

Variables	Model 1		Model 2 (ROA)	
	Coef.	p-Value	Coef.	p-Value
Period	–		–0.0032***	0.003
Size	0.0015**	0.042	0.0017**	0.042
LEV	–0.0132**	0.004	–0.0140**	0.043
Growth	0.0054**	0.011	0.0068**	0.013
REV	0.0042***	0.001	0.0053***	0.001
Constant	–0.0643**	0.031	–0.0854**	0.042
Industry	Yes		Yes	
Year	Yes		Yes	
Adjusted R ²	24.18		26.78	

Note: Return on assets (ROA, net income over total assets) is the dependent variable. Size (SIZE, the natural logarithm of year-end total assets); capital structure (LEV, total debt over total assets); Growth rate (GROWTH, market value over book value of net assets). REV, total revenues calculated by taking the natural log of total revenues of companies for the current period. The fixed effects of industry and time in the model are controlled by variables of INDUSTRY and YEAR. ***, **, and * represent $p < 0.01$, $p < 0.05$, and $p < 0.1$, respectively.

TABLE 3 The effect of Covid-19 on financial performance

Variables	Model 1		Model 2 (ROA)	
	Coef.	p-Value	Coef.	p-Value
Period	–		–0.0043**	0.013
Treated	–		–0.0010**	0.048
Treated × period	–		–0.0014**	0.011
Size	0.0015**	0.0421	0.0017**	0.045
LEV	–0.0132**	0.0043	–0.0140**	0.041
Growth	0.0054**	0.0114	0.0068**	0.018
REV	0.0042***	0.0015	0.0053***	0.004
Constant	–0.0643**	0.0311	–0.0854**	0.049
Industry	Yes		Yes	
Year	Yes		Yes	
Adjusted R ²	24.18		27.16	

Note: Return on assets (ROA, net income over total assets) is the dependent variable. Size (SIZE, the natural logarithm of year-end total assets); capital structure (LEV, total debt over total assets); Growth rate (GROWTH, market value over book value of net assets). REV, total revenues calculated by taking the natural log of total revenues of companies for the current period. The fixed effects of industry and time in the model are controlled by variables of INDUSTRY and YEAR. ***, **, and * represent $p < 0.01$, $p < 0.05$, and $p < 0.1$, respectively.

COVID-19 led to decrease in profit margins thus validating our first hypothesis.

The results related to high impact businesses are provided in Table 2, Model 2. The regression value of period × treated at a 95% confidence interval came to –0.0041, which is statistically significant. This validates our H1 hypothesis affirming the adverse effects of

TABLE 4 Robust test: The impact of Covid-19 on firm financial performance

Variables	Model 1		Model 2 (ROE)	
	Coef.	p-Value	Coef.	p-Value
Period	–		–0.0030***	0.002
Size	0.0015**	0.0421	0.0017**	0.041
LEV	–0.0132**	0.0043	–0.0140**	0.042
Growth	0.0054**	0.0114	0.0068**	0.010
REV	0.0042***	0.0015	0.0053***	0.006
Constant	–0.0643**	0.0311	–0.0854**	0.048
Industry	Yes		Yes	
Year	Yes		Yes	
Adjusted R ²	24.18		25.15	

Note: Return on assets (ROE, net income over shareholders equity) is the dependent variable; Size (SIZE, the natural logarithm of year-end total assets); capital structure (LEV, total debt over total assets); Growth rate (GROWTH, market value over book value of net assets). REV, total revenues calculated by taking the natural log of total revenues of companies for the current period. The fixed effects of industry and time in the model are controlled by variables of INDUSTRY and YEAR. ***, **, and * represent $p < 0.01$, $p < 0.05$, and $p < 0.1$, respectively.

COVID pandemic on the financial results of the Chinese companies (Table 3).

4.3 | Robustness tests

We used the alternative dependent variable of ROE to measure the corporate performance of the Chinese companies by establishing the following model. Our results are similar to the main findings.

$$ROE_{it+1} = \beta_0 + \beta_1 SIZE_{it} + \beta_2 LEV_{it} + \beta_3 GROWTH_{it} + \beta_5 REV_{it} + \beta_6 INDUSTRY + \beta_7 YEAR + \varepsilon_{it}.$$

In the above model, ROE denoting returns on equity is taken as a dependent variable, denoted by ROE. ROE represents the financial performance of the company; the period is represented by a dummy variable of “pandemic impact degree.”. The size represents the natural log of assets of companies, LEV denotes leverage ratio or debt to equity ratio of companies, Growth represents the growth rate of the overall income of the companies, REV, represents total revenues calculated by taking the natural log of total revenues of companies for the current period. The fixed effects of industry and period in the model are controlled by variables of INDUSTRY and YEAR (Table 4).

5 | DISCUSSION

Our research paper discusses the effects of the COVID-19 pandemic on the financial performance of Chinese listed companies. The findings of our research indicated the severe negative effects of

COVID-19 pandemic on the financial performance of the Chinese listed companies. This is reflected in a decrease in overall revenue, profitability, and investment in companies across industries. But the most severe hits are the travel and tourism, transport and other companies which are dependent on these industries for a major portion of their revenues in the first quarter of 2020.

The negative rate of return indicates the cutting down of business operation, sales, and production levels of the above industries. Such results also considered negative signals by investors and other stakeholders, leading to further financial constraints in the future. When we compared the spread of COVID-19 to that of the SARS pandemic of 2003, the main reason for rapid spread is attributed to the development and rapid growth in transport infrastructure which increased the mobility of the public. The prevention measures such as quarantine and restriction of movements in forms of lockdowns have also led to a reduction in economic activity. This led to a decrease in demand, which in turn led to a decline in production coupled with abrupt shutting down of most of the labor-intensive industries led to a rapid slowdown of economic activities. In the case of China the effects are more pronounced as most of the countries around the world also banned the import of goods in fearing the spread of the virus, this also greatly impacted Chinese companies as China is considered as one of the largest exporters in the world. Even if the pandemic can be controlled the global economic outlook suggests that most companies even industrial might not be able to convert their adverse financial performance of the first quarter of 2020 into a positive one by end of 2020. Present pandemic is having and will continue to have a severe impact on the global economy, and one should not expect stability in the financial performance of the companies and the stability in the economic situation of the world as well, the results of the third quarter of Chinese companies are expected to be any different as there is no definite end in sight of this pandemic.

5.1 | Policy guidelines

The worst-hit industries and companies require support from governments in form of financial support such as rescheduling or waiving of loans, subsidies, and possible tax rebates so they can once again be able to stand on their feet. Besides these measures, companies should also improve their financial planning aspects and focus on the policies to be followed in the post-pandemic situation. At the same time, investors should avoid speculative investments and should make informed decisions regarding their investments as speculation usually causes a panic situation in markets leading to further decline in the value of financial securities.

The services industries such as entertainment (such as theaters) and tourism-based industries such as hotels, tourism destinations, and resorts should have performed well as people have more spare time due to closure of offices and workplaces, but since these closures were coupled with travel restrictions in form of lockdowns and ban on social gatherings, also resulted in lowering of their overall revenues. So, the companies belonging to these service sectors also had bear brut of COVID-19.

The COVID-19 started as an epidemic in China but has become a global pandemic, it has forced governments and corporate decision-makers to rethink their strategies in terms of planning and how to counter the adverse impact of such events in future. The COVID-19 contagion and spread rate are phenomenal as the number of infections doubled in less than three days, this led to great fear amongst the population of the whole world. The rate of infection coupled with fear lead to a supply shock in industries that were labor-intensive as the governments forced these industries to curtail their activities to protect the workers and avoid chances of spread of the COVID-19 virus. Such measures ultimately hurt the financial performance of the companies, which reacted by massive layoff and cutting back investment and other capital spending or even shutting down entire industrial units.

This led to a panic situation in financial markets, resulting in a sharp decline in stock and other security prices, further reducing the economic activities, the chain reaction also put question marks on the future financial performances of the many companies and industries in general. Even before the actual impact of pandemic was evident the investors reacted by selling the stocks and other financial securities.

The findings of this study have broad implications for policymakers, as it is evident that governments, banks, regulatory bodies, and central banks must combine forces to tackle the financial and economic impacts of COVID-19 crises. They also must come up with comprehensive policies to tackle the adverse impact of such crises in the future as well. Actions such as proving loans and rescheduling existing loans to worst-hit sectors such as tourism, airline industry, etc. are starting point. The disclosure of facts and figure by officials regarding the status of health care number of infections can reduce the chances of panic situations in the future.

5.2 | Conclusion

The outbreak of epidemics and pandemics has been a rare event in history, but the occurrence of COVID-19 has reminded the whole world that, although rare but such events continue to happen. The only defense against such pandemics is to be prepared and formulate policies to tackle their effects. Like in past the adverse financial effects of such events are severe and global. Our study is one of the pioneers of such studies, as far as analyzing the effects of COVID pandemic on the financial performance of Chinese firms.

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ENDNOTE

¹ <https://www.who.int/emergencies/diseases/novel-coronavirus-2019>

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