

# The Influence of Government Subsidies on Enterprise Innovation Performance

Wang Lan<sup>1,\*</sup>

<sup>1</sup>Tianjin University of Finance and Economics Pearl River College, Tianjin, China, 301899

**Abstract.** In the current society of innovative development, the innovation and reform of enterprises is particularly important in the development of the entire industry, especially with the country's vigorous support for innovation and entrepreneurship in recent years. The rise of enterprises in the market is like mushrooms, and the development of enterprises will usher in a new challenge and opportunity, in order to be able to occupy a certain position among many enterprises and obtain greater advantages. Enterprises must constantly adjust their development strategies based on social reforms. However, the government subsidies to enterprises are one of the important starting points for China to realize the industrial policy, and they have played an important role in supporting and developing China's relatively weak and strategic industries. In the development of enterprises, the influence of government subsidies on the development of enterprises should not be ignored. For this reason, further exploration of the impact of government subsidies on the development of enterprise innovation performance has become an issue that governments and enterprises need to study and pay attention to. This article will further briefly introduce the impact of government subsidies on enterprise innovation performance.

## 1 Introduction

As the national economy gradually enters the new normal, the development of enterprises in the market has gradually changed from an extensive economy and investment-driven economic growth to an innovation-driven development model. The innovation economy is becoming more and more important in the market, and further exploration of the impact of government subsidies on the innovation performance of enterprises is also becoming increasingly critical. Taking government subsidies in 2017 as an example, a-share listed companies received government subsidies totaling 130.2 billion yuan in 17 years. In 2017, the total profit of listed companies reached 4,487.2 billion yuan, and the government subsidies of listed companies accounted for about 2.9% of the total profit. According to data, the total profit of all state-owned and non-state-owned industrial enterprises above designated size in 2017 was approximately 855.8 billion yuan. Assuming that the proportion of total corporate profits in various industries is roughly the same as the proportion of industry added value, it is estimated that total corporate profits in 17 years are about 25.33 trillion yuan [1]. Listed companies act as industry leaders. Whether in terms of scale or economic influence, it is generally higher than that of non-listed companies, so it may be easier to obtain government subsidies. In 2017, government subsidies of listed companies accounted for approximately 2.9% of

total profits. When estimating the amount of government subsidies received by non-listed companies, this proportion should be lowered. Assuming that government subsidies of non-listed companies account for 80%, 60%, 50%, 40%, and 20% of the total profits of listed companies, it is estimated that the amount of government subsidies received by Chinese companies in 17 years is 6142 billion yuan, 493.2 billion yuan, 432.7 billion yuan, 372.2 billion yuan and 251.2 billion yuan. It can be seen that in 2017, the scale of subsidies issued by the Chinese government to enterprises was in the hundreds of billions. If it takes a neutral assumption (non-listed company subsidies account for 50% of the profits of listed companies), the amount of subsidies received by the company will exceed 430 billion yuan.

## 2 A brief overview of the impact of government subsidies on corporate innovation performance

Government subsidies refers to the acquisition of monetary or non - monetary assets from the government without charge, but do not include the capital invested by the government as the owner of the enterprise. With the continuous progress of the national economy, the innovative economy has increasingly become the main theme in today's market competition, and various enterprises have continued to rise. However, with the rise of enterprises and technological upgrading, the effects of technological progress can be positive or negative, and as

\*tg667788@xzcstudio.com

the market direction swings, its impact will also change. For this reason, the government needs to actively adopt certain measures to face the phenomenon of market failure due to changes in environmental wind direction. However, the most common method among government-supported enterprises is government subsidies. In recent years, government subsidies have brought positive and negative effects to enterprises and gains have been increasing day by day [1]. The academic circles and the industry still have no clear results in the future about whether the effects of government subsidies are positive or negative. Whether the government's financial support for enterprises will promote the innovation and development of enterprises or inhibit them. This is the core issue that raises the development contradiction between enterprises and the government. This article will give a brief introduction to the relevant impact of government subsidies on enterprise innovation performance and its strategy in future development.

### 3 Problems in the relations between government subsidy and enterprise innovation performance

#### 3.1 Government subsidies affected by ownership

The current enterprises are roughly divided into two types, namely state-owned enterprises and private enterprises. State-owned enterprises are an important pillar of the national economy, of which the national economy occupies a dominant position. Between the government and state-owned enterprises, the two belong to the father and son relationship. For this reason, some governments tend to give priority to state-owned enterprises when issuing corresponding subsidies to enterprises. The existence of this phenomenon often makes the development of private enterprises in the market not paid attention to, and even the phenomenon of squeezing, which will inhibit the development of private enterprises in the long run. Although the status of private enterprises in China's economy is not comparable to that of state-owned enterprises. However, its impact on the country's entire economy cannot be ignored. For this reason, distinguishing the relationship between government subsidies and innovation performance between enterprises has become a more important issue before the government grants subsidies[2].

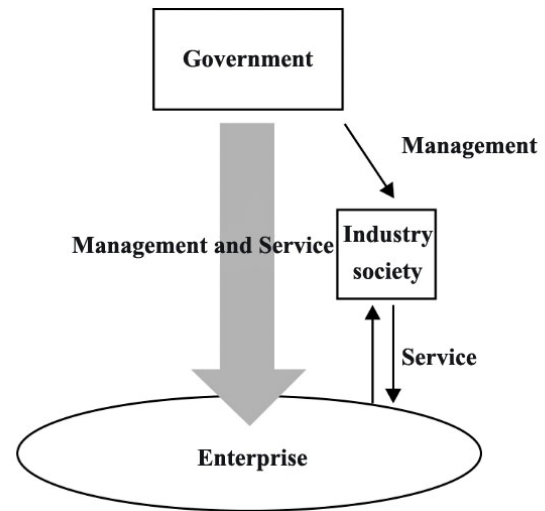


Fig1. Enterprises and government services

#### 3.2 Subsidy may lead to rent-seeking by enterprises

As China's state-owned enterprises occupy a dominant position in the entire national economy, government subsidies are often biased towards state-owned enterprises, and private enterprises occupy a disadvantageous position. When the government grants subsidies, private enterprises not only need to compete with state-owned enterprises, but also with peer private enterprises. Under extreme conditions, companies often lead to rent-seeking behavior. In order to obtain government subsidies for their own companies, relevant private companies do not hesitate to spend a lot of money or other benefits to seek government subsidies. This kind of phenomenon is becoming more and more common in the current enterprise competition in the market. The occurrence of this kind of phenomenon may not only lead to a bad competitive situation in the market gradually. At the same time, it may also make the development of the enterprise extreme, and excessive rent-seeking behavior may also bring certain losses to the enterprise. For this reason, building a relatively harmonious market economy system has become an urgent matter for improving the direction of economic operation [3].

#### 3.3 Government subsidies are insufficient to restrict the innovation performance of enterprises

Although the government can use subsidies to support and guide the development of enterprises. It can bring a certain positive impact on the development of the enterprise. But at present, some government subsidies tend to pay more attention to the subsidies. There are no clear regulations and restrictions on the destination and use of subsidies. For this reason, this will make some subsidized enterprises not install the original plan to implement the corresponding project construction after receiving the subsidy. Instead, it is used in other aspects of project construction according to the company's own

needs. The appearance of such a phenomenon may bring certain benefits to the development of the enterprise to a certain extent. However, from a long-term perspective, this is greatly detrimental to the entire market subsidy system. The destination of subsidy funds is unclear and unrestricted, and it is very likely to provide certain channels and material imports for enterprises to conduct related illegal activities. If subsidies are obtained for companies to invest a large amount of money in the manufacture of counterfeit products, it will have very serious consequences for the society [4].

## 4 Development strategies of government subsidies in enterprise innovation

### 4.1 Correctly understand the correlation between government subsidies and corporate performance

Because some Chinese governments do not correctly understand the correlation between government subsidies and enterprise innovation performance when implementing corresponding government subsidies, they often turn their perspectives on state-owned enterprises when selecting subsidized enterprises. Putting private enterprises in a very disadvantageous position in the development of the entire industry [5]. This requires relevant governments to continuously strengthen their understanding of the relationship between government subsidies and corporate innovation performance, correctly understand the correlation between government subsidies and corporate innovation performance, correct the perspective of the selection of subsidy objects, and strengthen the review and investigation of subsidy objects. Subsidies are used in the right enterprise project investment. Secondly, in order to correct the perspective of the payment of some government subsidies, various government agencies not only need to work hard on subsidy selection planning and subsidy distribution policies. At the same time, it should put our perspective on the market, and only continue to cater to the market. According to the development of the market, formulate a relatively strict and complete government subsidy system, and implement the subsidy policy to the grassroots of the market, so that it is possible to make the innovative economy bigger and more complete.

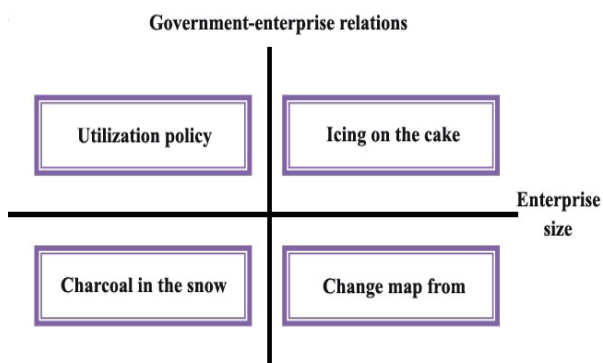


Fig 2. Government-enterprise relations

For example, when relevant governments are subsidizing enterprises, they first need to adjust and improve the entire subsidy payment system, including the selection of subsidy objects, the determination of subsidy amounts, and the destination of subsidy amounts. Regarding the selection of subsidy objects, in order to treat state-owned enterprises and private enterprises fairly, it can promote equal competition between state-owned enterprises and private enterprises. Relevant governments should continue to open the scope of the subsidy object selection when selecting subsidy objects, so that all enterprises in the meeting can get the opportunity of subsidy funding points. When selecting subsidy recipients, the government should formulate a strict and systematic review system for subsidy recipients, and have a complete understanding of the projects implemented by each enterprise, including the general plan of project operation, future development trends, and potential risks. The proportion of profits will win in the future, and so on. Secondly, in determining the amount of subsidies, the relevant government should also formulate corresponding reference standards. For some projects with great potential and development prospects, higher subsidies are adopted for enterprise projects. For some companies that do not have a major development trend, the amount of subsidies will be appropriately reduced. In short, the relevant government must measure the corresponding amount according to the development status of the enterprise and the future development trend before issuing subsidies. In addition, for the investigation and research on the destination of subsidies, the relevant government should continue to strengthen the review of the destination of subsidies and formulate a corresponding review system [6]. It can strictly check and understand the whereabouts of corporate subsidies, find out the whereabouts of bad funds in time, and punish them in time.

### 4.2 Improve the related system of government subsidies

Among the current funding subsidies for the country, because state-owned enterprises instinctively occupy a relatively advantageous position, some private enterprises have become more and more competitive with subsidies. In order to obtain government subsidies, they will not hesitate to spend higher funds or sacrifice corresponding benefits. The existence of this kind of phenomenon not only promotes market competition to lead to a bad competitive situation. At the same time, it is greatly detrimental to the development of the entire enterprise. For this reason, the relevant government needs to continuously improve its own subsidy system, formulate a corresponding subsidy payment system strictly according to the development of enterprises in the market, and at the same time correct the attitude of subsidy selection. It must adopt a fair and just attitude and treat the development of projects of all enterprises on an equal basis.

In addition, in order to prevent some governments and enterprises from seeing each other's bribes, if the

subsidies are not paid in practice, the relevant institutions should also formulate corresponding supervision departments and review departments, which are specifically responsible for the supervision and examination of subsidies.

Taking the government subsidies in 2017 as an example, the general situation of the subsidy industry leads the financial steel, and the leisure services are at the bottom. According to the existing listed companies receiving government subsidies in 2017, the amount of subsidies received by finance, steel and non - ferrous industries led the lead in various industries. The median level of government subsidies from listed banking companies in 17 years was about 58 million yuan, and the steel industry was worth nearly 35 million yuan. The median level of subsidies for all listed companies is only about 12 million yuan, less than a quarter of the banking industry and a third of the steel industry. Leisure service industry subsidies bottom, the median level of only about 05 million yuan. In addition to the financial, media two service industries, the amount of subsidies in other service industries is generally low, mostly below the average level. For example, when the relevant government strengthens the subsidy payment system, it must first proceed from the fundamentals, treat state-owned enterprises and private enterprises fairly, and understand the importance of private enterprises in the national economy and the value of their development. When selecting subsidies to be issued, the direction should be placed on the development potential of the project itself, rather than based on the size of the enterprise's rights, as shown in the figure below. Secondly, the relevant government should also formulate a relatively complete subsidy payment system. Both the destination of subsidies for enterprises and the selection of objects must be strictly controlled. In order to prevent some private exchanges between governments and enterprises, relevant agencies should also formulate corresponding supervision departments or auditing departments for subsidies. It can strictly monitor the target, amount, and destination of the government's subsidies. From the early stage of the target selection to the medium-term capital investment, and then to the later stage of the investment effect, long-term observation and understanding are carried out, and the corresponding inspection plan is formulated. Instead of ignoring the funds after the release, they feel that the task has been completed, which makes some enterprises in the later stage. In the capital investment, the phenomenon of capital shortfalls occurs due to extreme extremes. The government is not only the leader, but also actively guides the development of the enterprise in the direction of development. At the same time, it should also be the supervisor and reminder. When facing risks, it should prevent and stop in time.

### 4.3 Strengthen corporate internal management

Since the current subsidy distribution system is not very complete, some companies often choose legal loopholes after obtaining subsidies and use their funds for some bad

behaviors. The emergence of this kind of phenomenon not only increases the risk of national social security, but also may cause enterprises to go to bad reasons. In order to prevent the proliferation of such phenomena, the relevant government not only needs to improve the subsidy distribution system, strictly follow the enterprise's whereabouts of subsidy funds, strengthen the efficiency of the use of subsidy funds, and promote the effective use of resources. Related companies should also continue to strengthen their internal management, clarify the functions of each department, and link each department together. It can let various departments not only implement the corresponding rights, but also supervise each other, promote the innovative thinking operation of the enterprise, and improve the innovation performance of the enterprise.

For example, when solving the problem of unreasonable use of subsidies by some enterprises, and the unclear destination of subsidies, which has caused potential crisis in the market. Relevant governments first need to continuously improve their own subsidy distribution system and strictly formulate corresponding subsidy destination review systems. It should strictly review the companies that receive subsidies, including the review of the company's operating projects and the destination of subsidies, etc. Before granting subsidies, it can set strict requirements on the whereabouts of funds, or change the past popular funding methods. It can choose to invest directly in the project to avoid some companies from using subsidies in undesirable directions, as shown in the figure below. Secondly, relevant companies should continue to strengthen their internal management. Regardless of whether it is in the direction of business projects or the direction of funds, it should be used in corresponding fields in accordance with relevant national regulations. In addition, in order to improve the operational efficiency of enterprises, relevant enterprises should also implement corresponding responsibility systems to clarify the functions of various departments within the enterprise. In order to strengthen the cooperation between various departments, enterprises can set up corresponding cooperation projects on the basis of not destroying the original departmental chain, and at the same time it can establish a corresponding supervision system, strengthen cooperation and supervision between various departments, and avoid the unknown, or illegal flow of corporate funds.

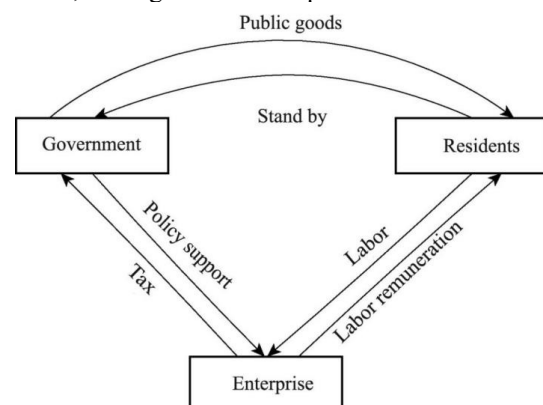


Fig 3. Government and residents

## 5 Conclusion

To sum up, the impact of government subsidies on the innovation performance of enterprises depends on the specific circumstances, resulting in corresponding positive and negative effects. In the actual government subsidy process, there are both government subsidies in the form of monetary assets, such as financial appropriation, financial discount interest and tax return, and also government subsidies in the form of non - monetary assets, such as free allocation of land use rights. In order to avoid the occurrence of corresponding adverse consequences caused by unreasonable subsidies, relevant governments should correctly understand the relationship between government subsidies and enterprise innovation performance, continuously improve the subsidy payment system, and strengthen internal management of the enterprise.

## Acknowledgment

Project Support: Scientific Research Project of Tianjin Education Commission

Project Name: Research on Innovation Performance Improvement of Tianjin Manufacturing Industry Based on Value Network Perspective  
Item No.: sk132 2020

## References

1. Wang Zhen. A review of the impact of government subsidies on enterprise innovation. *Modern Management Science*, Issue 01, 2018
2. The impact of Wei Yuchen government subsidies on enterprise innovation. *Cooperative Economy and Technology*, Issue 07, 2019. Chinese Library Classification Number: F276 Document Identification Code: A
3. Li Guanglong and Lu Xiaofan: Research on the impact of government subsidies on the innovation ability of enterprises. *Journal of Hefei Normal University*, 2019, Vol.037, No.001
4. Zhao Ying. Overview of the impact of government subsidies on technological innovation of high-tech enterprises. *Times Finance* 2017, Issue 16
5. Chen Xudong, Mu Xueying. The impact of government subsidies on the operating performance of technological innovation companies——take the GEM listed companies as an example. *Science and Technology Progress and Countermeasures* Vol. 35 No. 12 June 2018. Article No. 1001-7348(2018)12-0085-07
6. Yang Ye, Wang Peng, Li Yihong, Yang Dakai. Research on the impact of financial subsidies on enterprise R&D investment and performance. *Finance and Economics* Issue 1, Total Issue 190. January 2015. Article Number: 1004-4892 (2015) 01-0024 -08.