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A literature Review on Government-business Relationship and R&D Manipulation in Enterprise

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ABSTRACT

Under the background of the current economic transformation, how to reduce the manipulative behavior of R&D in enterprises and improve the positive policy effect of industrial policy and tax relief policy is a hot topic of academic discussion, and also an urgent problem to be solved in the process of realizing high-quality development in China. At the same time, entering the new era of development, the traditional Government-business relationship is gradually being replaced by a new one. The Government-business relationship will affect the behavior of enterprises' R&D manipulation to a large extent. Therefore, this paper reviews the literature research related to the Government-business relationship and R&D manipulation in the enterprises, which helps to objectively evaluate the achievements, problems and challenges in constructing and improving the Government-business relationship, and clarify the direction and focus of further reducing enterprise R&D manipulation by optimizing the relationship between government and business.

KEYWORDS

Government-business relationship; R&D manipulation; Literature review

1. INTRODUCTION

The Government-business relationship is an important part of the institutional environment faced by enterprises. "The Government-business relationship is usually used to reflect a certain interaction mode formed between local governments and enterprises under their jurisdiction". As the "visible hand" of economic development, the government can significantly influence and determine normative and cognitive institutions, and control the allocation of some key resources [1]. Too close a relationship between government and business may lead to rent-seeking behavior, misallocation of resources, R&D manipulation, and distortion of the incentive mechanism of industrial policy. On March 4, 2016, General Secretary Xi Jinping pointed out that a new type of Government-business relationship can be summed up as "close" and "integrity". Specifically, it means that when private enterprises face challenges or problems, the government should take the initiative to provide support and help solve the problems. At the same time, it also requires the government to remain impartial and avoid using its power for personal gain or exchanging power for money.

Innovation is the primary driving force for development. In order to effectively stimulate and fully assist enterprises to maintain the vitality of R&D and innovation, the Chinese government has formulated a series of incentive policy frameworks, including R&D government subsidies, high-tech enterprise certification application, and additional deductions for R&D expenditures. Most of the researches on the effect of these policies believe that these policies can encourage enterprises to improve the level of innovation; However, at the same time, more and more policy studies have also

proposed that R&D incentive industrial policies may also cause enterprises to have R&D manipulation behaviors in order to cater to the policies [2-4]. The definition of R&D manipulation in this paper is that the real purpose of an enterprise is not to improve its own R&D capability, but to cater to the government to obtain financial support, to satisfy the management's private interests, or to cater to investors for performance. That is, the phenomenon that the reported R&D expenditure is different from the actual R&D expenditure, and the phenomenon that the real R&D investment cash flow is constructed by the enterprise, but these R&D resources are inefficiently allocated.

Therefore, in the context of the current economic transformation, how to reduce the behavior of R&D manipulation and improve the positive policy effect of industrial policies and tax relief policies is an urgent problem to be solved in the process of achieving high-quality development in China. And the Government-business relationship has a great influence on enterprises' R&D manipulation behavior. Therefore, by reviewing the literature on the Government-business relationship and enterprise R&D manipulation, this paper is helpful to objectively evaluate the achievements, problems and challenges in constructing and improving the relationship between government and business, and clarify the direction and focus of further reducing enterprise R&D manipulation by optimizing the relationship between government and business.

2. THE GOVERNMENT-BUSINESS RELATIONSHIP AND ENTERPRISE R&D MANIPULATION

According to Nie Huihua's Government-business relationship index system, government-business relationship is manifested in five specific aspects, namely, the government's concern for enterprises, the government's service to enterprises, the tax burden of enterprises, and the government's integrity. Most of the existing literature focuses on these five aspects to discuss whether enterprises' R&D manipulation behavior will be suppressed as the Government-business relationship becomes healthier. The opinions in the literature are mainly divided into two categories: one is that the better the five aspects of the Government-business relationship, the lower the degree of R&D manipulation; The other holds that the optimization of these five aspects may also lead enterprises to increase their R&D manipulation.

2.1. The Health Level of Government-Business Relationship is Negatively Correlated with the Degree of R&D Manipulation of Enterprises

First of all, from the perspective of the government's concern for enterprises, the overly distant relationship between government and business is not conducive to government officials understanding the real R&D needs of enterprises. Schleifer and Vishny found that the public governance intervention measures implemented by the government often hinder the realization of the operation objectives of enterprises, mainly because the Government-business relationship is too distant, resulting in inconsistent objectives between the government and enterprises. Therefore, the government's moderate concern for enterprises can accurately allocate R&D subsidies according to needs, and reduce the R&D manipulation behaviors caused by enterprises' competition for resources for the same subsidy project.

Secondly, from the perspective of government services to enterprises, the government can build the hard and soft infrastructure required by the development of enterprises, and also make up for the external losses of R&D activities, so as to overcome market failures. In the field of financial services, Cheng Ling (2019) confirmed that in areas with a higher level of financial development, enterprises are less likely to adopt R&D manipulation behaviors, because enterprises with more severe financing constraints are more likely to increase R&D expenditure by adjusting accounting subjects [5], while a higher level of financial development means that financing constraints will be relatively eased. In terms of infrastructure, for example, the high-speed railway makes the interaction between external

stakeholders and enterprises more convenient and faster, so that the real information of R&D activities can be obtained through the field, and the information asymmetry can be reduced, which can effectively restrict the speculative motive of managers and reduce the risk that they will manipulate real earnings by reducing R&D investment [6]. Wei Lin (2022) also proved that smart city construction can help government departments and regulatory agencies strengthen their ability to monitor and identify R&D activities of enterprises [7], because it can break the information barriers among the administrative departments of finance, science and technology, tax and social security, eliminate the information disadvantage of government and regulatory agencies in the market. Establishing a database including regulatory objectives is conducive to the government and regulatory agencies to continuously monitor the process of enterprises' research and development projects, and thus narrow the space for enterprises to conduct R&D manipulation behavior.

Thirdly, from the perspective of tax relief, many scholars have confirmed that the policy of additional tax relief on R&D expenses has brought positive effects to enterprises. The study of He Yanan (2021) shows that when an enterprise's R&D project investment is insufficient or its performance is poor, the tax incentive policies can effectively reduce the R&D risks faced by the enterprise, so that the company is more inclined to increase actual capital investment to promote innovation and development. This can not only improve the company's operating conditions, but also curb the occurrence of R&D manipulation [8].

Finally, from the perspective of government integrity, by investigating and punishing officials who take bribes, the anti-corruption campaign can break the existing interest chain between government and enterprises and can significantly reduce government interference in enterprise resource allocation [9]. This means that enterprises do not need to compete for R&D resources through rent-seeking. And since they have access to fair resources, enterprises may reduce the degree of R&D manipulation. From the perspective of government transparency, the disclosure of administrative and financial information increase the reputation cost of poor supervision by officials. Once discovered and exposed by the media, they may be held accountable by superiors, which is not conducive to the officials’ reputation and future career promotion. It inhibits the collusion between government and enterprises, and thus reduces the motivation to conduct R&D manipulation.

2.2. The Government-business Relationship is Positively Correlated with the Degree of Enterprise R&D Control

Firstly, from the perspective of the government's concern for enterprises, Stiglitzetal (1981) points out that the "helping hand" of government may be utilized by stakeholders. Due to the professional and complex characteristics of R&D activities, as well as the extremely asymmetric information between the government and enterprises, it is often difficult for the government to effectively identify the true level of enterprise R&D investment. At the same time, under the current political tournament mode, local governments are likely to intentionally cover up enterprises' R&D manipulation for the sake of local innovation performance [10]. Moreover, even in regions with developed media, it is difficult to expose enterprises' behavior of manipulating R&D information, because listed companies are usually the source of large financing needs, which can provide a large number of jobs and bear the main tax burden, so that negative media reports are often blocked by the local government to protect these companies [4]. In this case, strengthening the ties between government and enterprises may encourage the behavior of "seeking subsidies" [11]. Finally, given that the average tenure of local officials is about three years, under the "either rise or go" philosophy, officials need to show higher work effectiveness on encouraging innovation in the short term. Therefore, the more frequent the interaction between government and enterprise, the more likely it is that the government will inadvertently convey to enterprises the pressure of local innovation investment targets, and will promise more fiscal and tax support for enterprises with high R&D investment [12]. So enterprises will be encouraged to inflate R&D investment in order to maintain a "good and close" relationship with government.

Secondly, from the perspective of services provided by the government to enterprises, whether enterprises control or not depends on the cost-benefit comparison of the manipulation [13]. In terms of the number of intermediaries, it is mentioned in the Guidelines on High-tech Work that the applicant enterprises can choose their own intermediaries and only need the intermediaries to provide business licenses, but there are no strict regulations on the qualifications of intermediaries. Moreover, it is not clear how much intermediaries will charge enterprises to apply for high-tech enterprises, nor is it known whether there is collusion between intermediaries and enterprises applying for high-tech enterprises [14]. While the government encourages the increase in the number of intermediaries, it does not specify the qualifications of intermediaries, and does not give serious administrative punishment to intermediaries involved in "collusion" [10], which will lead to an increase in collusion and lead to more serious R&D manipulation. In terms of e-government, "self-judgment, independent application and preservation of necessary documents for verification" is the main way for companies to obtain financial support. This simple operation procedure and tolerant pre-audit conditions reduce the cost of R&D manipulation for enterprises, and increase the possibility of "seeking subsidies" [2]. In the case of applying for infrastructure projects, the government needs to meet the assessment requirements of the housing department, which will put pressure on the performance of local governments, and these pressures may eventually be transferred to enterprises, which may increase the level of R&D manipulation [7].

Thirdly, from the prospect of tax burden of enterprises. First of all, in order to promote innovation, the Chinese government has continuously updated and introduced the additional deduction policy, and the variability of the additional deduction policy may cause enterprises to manipulate R&D [8]. Secondly, although the scope and strength of deduction for R&D expenses are increasing and the declaration process is further simplified, the tax supervision is relatively weak, which may lead to opportunistic behaviors of enterprises [15].

Moreover, from the perspective of government integrity, in order to maintain the integrity of the government, the central government will investigate and punish corrupt officials regularly and transfer officials from different districts frequently, which will lead to the short term of local official appointment. The great uncertainty of their tenure leads to the lack of motivation for the transferred officials to reduce information asymmetry [16]. At the same time, due to promotion incentives, newly appointed officials hope to make more enterprises become high-tech enterprises, so they are more inclined to let more enterprises “wear the coat of high-tech enterprises” [4]. And because it is very difficult to identify whether it is R&D manipulation, and regulators will not trace whether enterprises conduct R&D manipulation behavior in the short term of office, the motivation of enterprises to conduct R&D manipulation will also be enhanced by the government's indulgence.

Finally, the transparency of financial information will inevitably lead to a problem, that is, the comparison between different regions will become more intuitive and visual, which will lead to more intense competition between regions. Under the influence of the GDP championship, Yuan Zeming (2020) pointed out that local governments are more likely to turn a blind eye on the “Pseudo high-tech enterprises” or even assisting these enterprises in evading regulation [17]. Therefore, fiscal transparency may also lead to more manipulation of R&D.

3. SUGGESTIONS AND IMPLICATIONS

Based on the above research conclusions, this paper puts forward the following suggestions on how to reduce enterprises' R&D manipulation behavior from the perspective of the Government-business relationship.

Firstly, in order to optimize the Government-business relationship, in addition to emphasizing that the government should be "close" and keep "clean" with enterprises, measures should also be taken to reduce the hidden "catering" effect of these two aspects. For example, in addition to paying

attention to whether the government cares enough about enterprises, it is also necessary to consider whether this degree of concern will aggravate the collusion between the government and enterprises.

Second, measures should be taken to reduce the asymmetry of government information, to reduce adverse selection of R&D enterprises, improve the ability to accurately identify the enterprises which manipulate R&D expense, and enhance the intensity of R&D supervision. Such as strengthening the digitization of tax collection and administration, implementing the construction of Golden Tax 4th Phase and the construction of smart interconnection.

Third, strengthen the intensity of administrative punishment and reputation punishment for R&D manipulation enterprises and intermediaries involved in collusive behavior. According to the current work guidelines, if an applicant has R&D manipulation, it will only be disqualified, refunded or exempted from tax, and the financial subsidies it has obtained will not be returned. This relatively light punishment will not make the enterprise reduce R&D manipulation after cost-benefit analysis.

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