

## Chapter 2

# Relationship Between Government Funding Supports and Innovation Performance of Latecomer Firms

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### ABSTRACT

*As an important component of enterprise external environment, government funding supports play a significant role in the innovation of latecomer firms. Therefore, the support methods adopted by the government during the innovation and catching-up of latecomer firms should be extracted in this chapter to clarify the internal relationship between the intermediate mechanism and innovation performance affecting the performance of latecomer firms. It is useful for activating the new energy and motivation of latecomer firms, and it could be a scientific decision-making reference for the government to formulate relevant public policies.*

### INTRODUCTION

Innovation would not only boost enterprises to form powerful core competitiveness in foreign and domestic markets, but also be a critical motivation of national and regional competitive advantage. Therefore, how to support and encourage corporate innovation efficiently has been a highlight of governments at all levels.

However, it is a truth that most Chinese enterprises participating in the competition of international market are the latecomer ones, so their knowledge of cutting-edge core technology is insufficient with limited available innovation resources; however, they have to fight for the market in the industry-leading technology paradigm and core technology evolution track established by leading enterprises (Wu & Chen, 2018).

Compared with international leading enterprises, most latecomer firms in China are on small scale with limited resources. While the high investment of innovation activity forces them to face multiple

DOI: 10.4018/978-1-6684-2314-1.ch002

uncertain risks during their growth, which affects the increase of their innovation performance (Liu & Xu, 2018). As a supplying object of innovation mechanism, the Chinese government plays a critical role in the improvement of enterprises' innovation performance (Han & Gao, 2018), and the policy of government funding supports to corporation innovation has been a key point to affect the innovation performance of latecomer firms (Shou, Wei, & Liu, 2018).

It could be concluded that government funding supports have been a focus of the country and society during the improvement process of latecomer firms' innovation performance. It mainly includes: what is the influence effect of different funding supports on the innovation performance of latecomer firms? What are the variables that influence the innovation performance of latecomer firms in the process of government support? Figuring out these problems is good for enhancing the scientificity of government to stipulate public policies so as to optimize the innovation environment of latecomer firms systemically. It would provide theoretical and practical references for the improvement and enhancement of latecomer firms' innovation performance and the definiteness of government service paths for latecomer firms.

## **LITERATURE REVIEW**

### **Government Supporting Methods (Providing Different Kinds of Funding Supports)**

There are some studies about the government supporting methods. It is pointed out by Christian and Christopher that the methods of government supporting innovation are mainly the government-led research and development of scientific research institutions, tax preference for the subjects engaged in research and development activities and providing government subsidies for enterprises, and the most common methods are government subsidies and tax preference (Stadler & Nobes, 2018). Habib et al. study the impact of government financial subsidy, tax preference policy and other factors on the innovation activity of technology-intensive industry (Habib, Luo, & Zhong, 2018). They think that the impact of government support on the innovation of technology-intensive process enterprises is more significant. Chiara et al. divide the government support into guiding support and policy support; and the former includes a technological plan, financing service, public technology platform supported by the government while the latter is such policies as special funds and tax relief support provided by the government (Del Bo, Ferraris, & Florio, 2017). Shu and Wang et al. analyze the objective of government supporting enterprises to carry out innovation activities, and they point out that government should support enterprises to carry out technological innovation by implementing policies suitable for the enterprise development prospect and providing technical and funding supports for enterprises to carry out technological innovation (Shu, Wang, Gao, & et al, 2015). Zhao Yuanjun et al. classify the government supporting behaviors with bigger influence on enterprises into vertical ones and horizontal ones; the vertical supports should be the funds for enterprise R & D subsidy and research institute projects, and the horizontal supports should be innovation policy and tax relief (Zhao, Xu, Liu, & Xie, 2017). Zheng Ye and Wang Huan split the government support into such direct guiding policies as R&D subsidy, loan discount, planned projects and indirect guiding policies of tax credits and government procurement from the perspectives of government regulation theory, resource-based theory and so on; they consider that providing multi-level policies according to local conditions could effectively increase the innovation efficiency of enterprises (Zheng & Wang, 2017). Huang Yuting et al. hold the opinion that funding supports for technological activities

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