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The Influence of Government Intervention on Enterprise Profitability—Take Chinese Scale Industrial Enterprises as an Example

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Abstract: *As one of the main actors of market economy, enterprises are easily affected by the external environment. Whether the external environment of government intervention affects the profitability of enterprises? Using the regression method of panel fixed effect to analyze the relevant data of scale industrial enterprises in Chinese 31 provinces and cities from 2011 to 2017, it found that government intervention has a negative effect on the improvement of the profitability of enterprises, and the negative effect of government intervention on the profitability of state-owned enterprises is far higher than that of private enterprises.*

Keywords: *Government intervention, Enterprise profitability, State-owned enterprises, Private enterprises.*

1. Introduction

Enterprise is one of the main participants of economic behavior, which can promote the regional economic development. Improving the profitability of enterprises is helpful to improve the survival ability of enterprises in the market so that it can promote the economic development of the region where the enterprises are located. How to improve the profitability of enterprises and what factors affect the profitability of enterprises are worthy of studying. Wang Jing and Zhang Yue (2015) based on the financial index data of 120 listed real estate companies in China from 2010 to 2012, and by empirical analysis found that the asset liability ratio and profitability of listed real estate companies in China are negatively correlated, but the ratio of equity to liabilities is positively correlated with profitability. Wang Bin and Wang lejin (2016) used the propensity score matching multiple difference method to test the impact of state-owned enterprise restructuring on the profitability of enterprises, and the results show that whether the state-owned enterprises are transformed into domestic non-state-owned enterprises or foreign-funded enterprises, its profitability can be improved. Xu Zhiwei and Guo Shulong (2018) studied the interaction between government subsidies, market access and enterprise profits based on the simultaneous equation model, and found that government subsidies worsened the profit performance of incumbent enterprises in most cases. In addition, commercial credit supply (Pei Zhiwei, Chen dianfa; 2016), RMB exchange rate (Chen Xiaoshan, Kuang Hewu; 2017), business to value-added policy (Liu Jianmin, etc.; 2017) , R&D investment and advertising expenditure (Wu Lihua, Huang Jingrong; 2018) will also affect the profitability of enterprises.

The profitability of an enterprise is affected by many factors, not only by the internal resources and organizational structure of the enterprise, but also by the external environment of the enterprise. External resources of enterprises contribute to product development and market expansion (Falemo, 1989). The difficulty of obtaining external resources is related to the tendency of market liberalization or government intervention. In the process of China's marketization, government intervention is essential: on the one hand, the provision of public goods and the adjustment of residents' income distribution gap need to be implemented by the government; on the other hand, it needs to regulate enterprise behavior, prevent negative external effects and prohibit illegal behaviors.

Then, in the process of marketization, whether the impact of government intervention on the profitability of enterprises is positive or negative, we need to do further research. Pan Hongbo et al. (2008) based on the case study of local state-owned listed companies' acquisition of non listed companies in 2001-2005, and found that local government intervention has a negative impact on the merger and acquisition performance of profit-making sample companies, but has a positive impact on the merger and acquisition performance of loss sample companies. Zhao Hongying et al. (2018) based

ISSN 2706-6827 Vol. 3, Issue 10: 18-26, DOI: 10.25236/IJFS.2021.031004

on the case analysis of China National Coal Group Corp, Datong Coal Mine Group and Hengding Industry Co., Ltd., and believed that the degree of government intervention is positively related to the operating performance of enterprises in financial distress. Yao Guohui and Yang Lihong (2018) based on the empirical analysis of the listed companies in Shanghai and Shenzhen A-share markets in 2010-2016, and found that the degree of government intervention inhibits the positive impact of accounting conservatism on loan contracts.

It can be seen from the above that the impact of government intervention on enterprise profitability is different with different study methods and samples. Therefore, this paper will use the panel fixed effect method to analyze the data of chinese scale industrial enterprises from 2011 to 2017, so as to find out the impact of government intervention on the profitability of enterprises. The next part is the theoretical analysis and research hypothesis, the third part is the empirical test and results, the last part is the conclusion.

2. Theoretical Analysis and Research Hypothesis

2.1 The Overall Effect of Government Intervention

In neoclassical economics, the production process of an enterprise is a black box. Enterprises need put factors into black boxes to obtain products. With the development of economic theory, the veil of the enterprise is constantly revealed, and the enterprise is considered as a subjective operator (or management team) in organizing production and business activities. The behavior of enterprises shows certain subjective initiative, which is related to the internal organizational structure and external living environment of enterprises. The way of obtaining the production factors, the strategy of products marketing, and the innovation of technology all are related to the external environment and the internal organization mode of the enterprise. The factors that determine and restrict the behavior of enterprises include two aspects: one is the internal factors of enterprises, including enterprise power, interests, goals, decisions, incentives, constraints, etc.; the other is the external factors of enterprises, mainly including business environment, market conditions, supply conditions, policies, laws and regulations, and legal systems, etc.(Sun Zheng et al. , 2005).

A good external environment is helpful for enterprises to obtain external resources and information at low cost and improve their profitability. The profitability of an enterprise is one of the main ways to show its competitiveness. To improve the profitability of an enterprise is helpful for the enterprise to have comparative advantages in occupying the market, realizing value and maintaining development. Because enterprise profitability reflects the ability or comprehensive quality that an enterprise can provide products or services to consumers (or markets) more effectively than other enterprises, then it have the capital to research and develop new products to adjust to consumers' preferences. The profitability of an enterprise is also the basis for an enterprise to achieve good performance and grow continuously. In the process of production and operation, enterprises as the main body of competition, effectively integrate and optimize the allocation of internal and external resources through the interaction of capacity resources, systems and mechanisms with the external environment, so that it can present a virtuous cycle situation with more advantages to realize the ability of sustainable development (Zhang Xiaowen et al., 2003).

The external environment faced by enterprises is composed of market structure, network information structure, system environment and so on. Before the market mechanism can effectively restrain agency behavior, administrative intervention can be used as an alternative to make up the missing market mechanism (Zhong Haiyan et al., 2010). The government intervention is helpful to the reasonable system arrangement, and the reasonable system restriction is beneficial for the sustained and steady economic growth. Stable economic growth can provide a more favorable business environment for enterprises, reduce the risk cost of future adverse impact of enterprises, and improve the business performance of enterprises (Jin Bei et al; 2014). However, government intervention, as a mechanism to replace the market, is a double-edged sword: it not only shows as "the hand of assistance" which gives appropriate financial subsidies to enterprises in order to reduce the production costs of enterprises and boost the sustained economic growth, but also shows as "the hand of plunder" which leads to resource mismatch and adds enterprises' external transaction costs. Government intervention mismatches resource through two ways—to protect the existing inefficient enterprises so that too much resources are allocated to the enterprises with low productivity and to prevent new enterprises from entering the workforce so that resources cannot be allocated to potential entrants with higher productivity (Han Jian, Zheng Qiuling; 2014).

ISSN 2706-6827 Vol. 3, Issue 10: 18-26, DOI: 10.25236/IJFS.2021.031004

At the same time, government intervention is often accompanied by the problem of administrative power corruption. Especially when the government intervenes excessively, the free decision-making power of the state administrative department will be lured, and there will be an opportunity to give priority to the personal interests over the social interests, resulting in administrative power corruption. On the one hand, corruption will inhibit the effective investment of some enterprises, on the other hand, it will aggravate the over investment behavior of some enterprises, thus weakening the investment efficiency of enterprises as a whole (Wan Liangyong et al; 2015). The corruption of administrative power will disturb the priority of production factor investment of the department, which leads to the fact that enterprises dare not invest in technology R&D and innovation but use a large number of talents for rent-seeking activities. The corruption of administrative power will also bring about the uncertainty of transaction, increase the transaction cost of enterprises, and lead to the sharp reduction of the trade and service activities of enterprises.

Reducing government intervention can effectively reduce the power scope of administrative personnel, reduce the opportunity of administrative power corruption, and then reduce the external transaction costs of enterprises. In the environment of low external transaction cost, enterprises will reduce nonproductive expenditure, concentrate funds on scientific research or develop core business to improve the number and frequency of transactions. In the frequent transaction interaction, enterprises can improve the core technology through "learning by doing", and finally achieve the improvement of enterprise profitability. The transaction cost caused by the distorted or alienated market relationship has a significant impact on the operating profit of the entity enterprise; reducing the transaction cost in the specific market relationship can become a new profit source for the entity enterprise, which is the "fourth profit source" besides reducing the material cost, labor cost and circulation cost (Wu Haimin, 2013).

Based on the above analysis, the following research hypotheses are proposed.

H1: Although government intervention is an effective means to replace the market mechanism, it will ultimately be detrimental to the improvement of the enterprise profitability.

2.2 Impact of Government Intervention on Different Ownership Enterprises

Institutional economists generally believe that the more complete the provisions of individual property rights, the more inclined to improve the efficiency of resource allocation. Because the new property rights internalize the "externality" derived from the problem of laziness in team production (Fromen, 2013), the allocation and utilization of resources will be more effective. The standard property right system environment is not conducive to the growth of opportunism, makes up for the uncertainty of property rights, helps to reduce the operating costs of enterprises, and improves the competitiveness of products. Different property rights arrangements lead to different reward and punishment structures, which may lead to different results (Furubotn and Pejovich, 1972). For example, clear property rights help property or knowledge owners to make full use of their knowledge, properly handle their own property, pursue the maximization of utility, and effectively encourage innovation and technology diffusion.

In the private sector, it is necessary for the property owner to let the agent (sometimes someone) perform the decision-making power of business activities on behalf of the enterprise. Generally speaking, in terms of property rights arrangement, private enterprises have great vitality. Because the manager's behavior is not supervised by the principal, but by the efficient stock market (Putterman, 1980). Different from private enterprises, the main managers of state-owned enterprises are mainly government officials, who have a better understanding of the institutional environment in which the enterprises are located, and have corresponding political connections. So its cost of information collection is relatively low. The government's corresponding subsidies and rewards are also more inclined to state-owned enterprises. In order to pursue the maximization of GDP and tax revenue, local government intervention was further strengthened and inclined to large enterprises and key enterprises, but at the same time, which also led to over investment, and non-cyclical capacity surplus (Wang Wenfu et al., 2014). After the state-owned enterprises are not well managed or have serious losses, they will generally have the government's finance as their bottom.

The existence of state-owned enterprises increases the convenience of government investment intervention, but this convenience substantially distorts the allocation of factor resources (Ji Xiaoqing, Qiao Yue; 2018). Compared with the private enterprises, the state-owned enterprises are more likely to obtain rent-seeking profits from the more strictly regulated institutional environment of the government.

ISSN 2706-6827 Vol. 3, Issue 10: 18-26, DOI: 10.25236/IJFS.2021.031004

Excessive government intervention alienated the use of cash holdings of local state-owned enterprises, making them more used for tax and non production expenditure, thus weakening the competitive effect of cash holdings (Wang Yong et al., 2013). Based on the data of Listed companies in China, Zhang Baozhu and Huang Hui (2009) conducted an empirical study on the relationship between government intervention and R&D behavior of enterprises in the transitional economy. They found that the R&D expenditure of listed companies directly controlled by the government was lower, and the more serious the government intervention was, the more obvious the phenomenon was.

From the above analysis, the following research hypotheses can be drawn.

H2: The existence of state-owned enterprises makes convenient for government intervention. So government intervention also makes state-owned enterprises lack subjective initiative to cope with the complex and changeable external market environment. The economic behavior of private enterprises is supervised by market participants (mainly stock holders) so the negative effect of government intervention on private enterprises is lower than that of state-owned enterprises.

3. Empirical Analysis and Results

3.1 Index Selection

In order to test the research hypothesis accurately and reasonably, the explained variable of this paper is enterprise profitability (probit). According to the analysis of the theoretical part, the profitability of an enterprise is a comprehensive ability to obtain higher income at low cost in a complex and changeable external environment. The profitability of an enterprise not only reflects the operation status of the enterprise in the past time, but also reflects the potential capacity of the enterprise in the future time. The potential of the enterprise in the future is difficult to evaluate. Considering the comprehensiveness, comparability and measurability of the index, this paper uses the profit rate of the enterprise to measure which is the proportion of the profit of the enterprise in the sales revenue. The larger the index is, the stronger the profitability of the enterprise is.

The core explanatory variable is government intervention. Government intervention activities include production and supply of pure public goods and services, purchase of quasi-public goods and services and expenditure, regulation and subsidy of private goods and services, and regulation of income redistribution (Stiglitz, 1998). Government intervention is mainly accomplished by fiscal revenue and expenditure, and it is reasonable to measure government intervention by the proportion of fiscal revenue and expenditure. Based on the research of Lu Ming & Ou Haijun (2011) and Lian long (2016), this paper uses the proportion of general budget revenue to GDP (fintx) and the proportion of general budget expenditure to GDP (fexpx) to measure the degree of government intervention. The larger the index is, the higher the degree of government intervention is.

The control variables are population level, capital investment level, industrialization level, openness degrees, technology level, market process, etc. Among them, the population level (lhum) is expressed by the logarithm of the permanent population at the end of the year, the capital investment level (Linv) is expressed by the logarithm of the fixed asset investment of the whole society, the industrialization level (ind) is expressed by the proportion of the added value of the secondary industry in the GDP, the technology level (lrd) is expressed by the logarithm of the R&D funds of scale industrial enterprises, and the degree of opening up (empx) is expressed by the proportion of total exports to GDP where the enterprises located. The market process(mark) is expressed by the proportion of urban private enterprises employees and individual employers to urban unit employees. The larger the above index value is, the higher the corresponding level of the indicated variable is.

Since 2011, the statistical standards of scale industrial enterprises have changed. In order to maintain the consistency of statistical caliber, the research object of this paper is the profit rate of scale industries enterprises in China from 2011 to 2017. Among them, probit0 represents the profit rate of all scale industrial enterprises in each province, probit1 represents the profit rate of state-owned holding scale industrial enterprises in each province, and probit2 represents the profit rate of private scale industrial enterprises in each province. The data of core explanatory variables and control variables come from China Statistics Bureau, and the statistical description of main variables is shown in Table 1.

ISSN 2706-6827 Vol. 3, Issue 10: 18-26, DOI: 10.25236/IJFS.2021.031004

Table 1: Statistical description of main variables

variables	samples	mean	Standard error	minimum	maximum
probit0	217	0.066847	0.023984	-0.010575	0.176649
probit1	217	0.058223	0.043707	-0.151575	0.208738
probit2	217	0.069621	0.046426	0.003912	0.482947
fexpx	217	0.279185	0.211803	0.110270	1.379161
fintx	217	0.113599	0.030786	0.063932	0.227340
linv	217	9.359141	0.874645	6.246707	10.918770
empx	217	6.785830	7.875582	0.370014	37.111890
ind	217	0.449285	0.083780	0.190140	0.590454
markb	217	1.002744	0.397140	0.426751	2.729129
lrd	217	14.001090	1.695333	7.400620	16.741370
lhum	217	8.119794	0.842520	5.713733	9.320897

3.2 Model Construction

The basic form of empirical model as follows

$$Y_{it} = \alpha_{it} + \beta_{it} X_{it} + \sum_{j=1}^{n} \gamma_{j,it} W_{j,it} + \delta_i + \varepsilon_{it}$$

Among them, α_{it}、β_{it}、$\gamma_{j,it}$ are the parameters to be evaluated; i, t, j are the number of regional, year and the number of control variables. Y_{it} is the explained variable, indicating the profitability of the enterprise. X_{it} is the core explained variable, i.e. government intervention. $W_{j,it}$ is the control variable, including the population level, capital investment level, industrialization level, openness degrees, technology level and market process of the region , industry effect, etc. δ_i is the fixed effect of scale industrial enterprises that cannot be observed and does not change with time; ε_{it} is the random error term.

3.3 Overall Regression Results

In order to test the research hypothesis, this paper first takes the national scale industrial enterprises as the samples to carry on the overall regression, and then separately carries on the regression analysis to the state-owned enterprises and the private enterprises.

Taking the profit rate of scale industrial enterprises in 31 provinces and cities of China from 2011 to 2017 as the explained variable. This paper uses the regression estimation methods of random effect and fixed effect. The regression results are shown in Table 2. According to the Hausman test statistics, at the 5% significance level, it is more effective to reject the original hypothesis that the individual effect is not related to the interference term, which means the fixed effect estimation method is more effective. From columns (1) and (3) in Table 2, it can be seen that government intervention has a significant negative effect on enterprise profitability at the level of 5%, which proves government intervention is not conducive to the improvement of enterprise profitability. So the hypothesis of H1 is proved.

ISSN 2706-6827 Vol. 3, Issue 10: 18-26, DOI: 10.25236/IJFS.2021.031004

Table 2. Overall regression results

	(1)	(2)	(3)	(4)
	FE	RE	FE	RE
fexpx	−0.236***	0.00956		
	(−3.71)	(0.37)		
linv	−0.0328***	−0.0283***	−0.0318***	−0.0272***
	(−5.66)	(−5.25)	(−5.34)	(−5.19)
empx	−0.00216***	−0.000300	−0.00201***	−0.000267
	(−4.38)	(−0.80)	(−3.98)	(−0.70)
ind	0.159***	0.112***	0.218***	0.110***
	(4.71)	(4.26)	(6.80)	(4.13)
markb	0.0178***	0.0107*	0.0146**	0.0110*
	(3.37)	(2.11)	(2.70)	(2.28)
lrd	0.0238***	0.00772	0.0267***	0.00575
	(3.69)	(1.68)	(4.04)	(1.54)
lhum	−0.116	0.00739	−0.130	0.00862
	(−1.33)	(1.14)	(−1.46)	(1.30)
fintx			−0.260*	0.0455
			(−2.23)	(0.50)
_cons	0.974	0.102	0.981	0.107**
	(1.42)	(1.91)	(1.39)	(2.89)
N	217	217	217	217
R-sq	0.4546	0.3452	0.4285	0.3386
Hausman (probability)	23.23 (0.0016)		14.53 (0.0425)	

Note: (1) the value in the expansion sign of the regression coefficient is the standard error, (2) the "*", "**", "***" respectively are significant at the levels of 5%, 1%, and 0.1%.

Specifically, when the proportion of general budget expenditure to GDP is used to measure government intervention, every 1% increase in government intervention will lead to a 0.236% decrease in enterprise profit rate. When the proportion of general budget revenue to GDP is used to measure government intervention, every 1% increase in government intervention will lead to a 0.26% decrease in enterprise profit rate. Among the control variables, except for the regional population level, the other control variables are all significant at the level of above 5%. The regression coefficient of regional capital investment level is negative, which shows that too much capital investment is not conducive to the improvement of enterprise profitability. The regression coefficient of openness to the outside world is also negative. The possible reason is that in the process of participating in global competition, Chinese industrial enterprises mainly fight price wars, which is not conducive to the improvement of enterprise profitability. The regression coefficient of industrial level, technological level, market process and other control variables is positive, which shows that the improvement of the scale industrial enterprises can through industrial production capacity and production technology, as well as the process of marketization.

3.4 Regression Results of Enterprises with Different Ownership

Taking the profit rate of state-owned enterprises and private enterprises as explained variables, the regression results are shown in Table 3. From the Hausman value, at the significant level of 1%, the original hypothesis that the individual effect is not related to the interference term is rejected, so the fixed effect estimation method is more effective. Under the fixed panel effect, whether state-owned enterprises or private enterprises, the coefficient of government intervention is significantly negative at a significant level of 5%, which indicates that government intervention is not conducive to the improvement of enterprise profitability, which is also consistent with the H1 hypothesis in the theoretical part. From columns (1) and (3) in Table 3, it can be seen that for state-owned scale industrial enterprises , every 1% increase in the proportion of general budget expenditure to GDP will lead to a 0.514% decrease in enterprise profit rate; every 1% increase in the proportion of general budget revenue to GDP will lead to a 0.556% decrease in enterprise profit rate. From columns (5) and (7) in Table 3, it can be seen that for private scale industrial enterprises , every 1% increase in the proportion of general budget expenditure to GDP will lead to a 0.295% decrease in the enterprise profit rate; every 1% increase in the proportion of general budget revenue to GDP will lead to a 0.43% decrease in the enterprise profit rate. It can be seen that the negative effect of government intervention on the improvement of the profitability of state-owned enterprises is greater than that of private

ISSN 2706-6827 Vol. 3, Issue 10: 18-26, DOI: 10.25236/IJFS.2021.031004

enterprises, which means the hypothesis H2 in the theoretical part is proved. From the regression coefficient of control variables, the regression coefficient of regional capital investment level, population level and openness degree is negative, which shows it cannot improve the profitability of scale industrial enterprises relying on labor force, capital and foreign markets. For the state-owned enterprises, only by constantly improving the technological level of enterprises, the level of domestic economic development (i.e. the level of industrialization), and the degree of marketization can the profitability of enterprises be improved. For private enterprises, the improvement of industrialization level and market process cannot increase the profitability. Only through R&D investment, the technical level of enterprises can have the opportunity to enhance the profitability of enterprises in the China existing market conditions.

Table 3. Regression results of enterprises with different ownership

	State-owned scale industrial enterprises				private scale industrial enterprises			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	FE	RE	FE	RE	FE	RE	FE	RE
fexpx	-0.514***	-0.196***			-0.295**	0.222***		
	(-4.21)	(-4.20)			(-2.70)	(5.98)		
linv	-0.0413***	-0.0360***	-0.0393***	-0.0471***	-0.0475***	-0.0410***	-0.0458***	-0.0373***
	(-3.72)	(-3.71)	(-3.41)	(-4.86)	(-4.78)	(-4.54)	(-4.55)	(-4.23)
empx	-0.00323***	-0.000586	-0.00288**	-0.000887	-0.00234**	-0.000290	-0.00222**	-0.000315
	(-3.40)	(-0.87)	(-2.96)	(-1.23)	(-2.76)	(-0.49)	(-2.61)	(-0.48)
ind	0.246***	0.0963*	0.373***	0.162**	-0.105	0.0760	-0.0289	-0.0247
	(3.79)	(2.04)	(6.03)	(3.22)	(-1.82)	(1.90)	(-0.53)	(-0.53)
markb	0.0360***	0.0233*	0.0291**	0.0139	-0.00294	-0.0114	-0.00745	-0.00345
	(3.55)	(2.57)	(2.78)	(1.53)	(-0.32)	(-1.40)	(-0.81)	(-0.42)
lrd	0.0387**	0.00598	0.0451***	0.0265***	0.0386***	0.0174*	0.0429***	0.00462
	(3.13)	(0.72)	(3.52)	(3.61)	(3.48)	(2.46)	(3.83)	(0.68)
lhum	-0.209	-0.0134	-0.241	-0.00327	-0.476**	0.0307***	-0.482**	0.00602
	(-1.25)	(-1.15)	(-1.40)	(-0.25)	(-3.18)	(3.34)	(-3.19)	(0.49)
fintx			-0.556*	0.0626			-0.430*	-0.382*
			(-2.47)	(0.36)			(-2.18)	(-2.39)
_cons	1.618	0.413***	1.641	0.0668	3.988***	-0.122	3.898**	0.365***
	(1.23)	(4.33)	(1.20)	(0.91)	(3.39)	(-1.67)	(3.27)	(5.31)
N	217	217	217	217	217	217	217	217
R-sq	0.3484	0.2531	0.3074	0.2267	0.3464	0.1711	0.3375	0.2478
Hausma (probability)	47.54 (0.000)		48.39 (0.000)		39.69 (0.000)		51.21 (0.000)	

Note: (1) the value in the expansion sign of the regression coefficient is the standard error, (2) the "*", "* *", "* * *", respectively are significant at the levels of 5%, 1%, and 0.1%.

4. Conclusion and Advices

Enterprise profitability is the prerequisite for enterprises to survive in the market, which is affected by many factors. This paper mainly analyzes the impact of government intervention on the profitability of enterprises in the process of Chinese marketization. By using panel fixed effect model to analyze the scale industrial enterprises of 31 provinces and cities in China from 2011 to 2017, it found that whether the government intervention expressed by the proportion of general budget revenue or the proportion of general budget expenditure, it has a significant negative effect on the profitability of all enterprises, which means government intervention is not conducive to the improvement of enterprises profitability. Taking the profit rate of state-owned enterprises and private enterprises as explained variables respectively, the results of panel fixed effect regression also show that government intervention is not conducive to the profitability improvement of state-owned enterprises and private enterprises, and the negative effect of government intervention on state-owned enterprise profitability is higher than that of private enterprises. It shows that in the process of marketization in China, excessive government intervention will lead to resource mismatch, increase the transaction costs of enterprises, so it is not conducive to the improvement of enterprises profitability, and the negative effect is more obvious in

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state-owned enterprises, which means the negative effect of government intervention on the profitability of state-owned enterprises is far higher than that of private enterprises. From the regression effect of each control variable, under the fixed effect, the regression coefficient of regional capital investment level, population level and openness to the outside world is negative, which shows that it is difficult to improve the profitability of scale industrial enterprises only relying on labor force, capital and foreign markets. The regression coefficients of the control variables such as industrialization level, technology level and market process are positive, which shows that the improvement of the profitability of scale industrial enterprises mainly depends on the industrial production capacity, production technology and marketization.

It can be seen that in the process of marketization in China, we can improve enterprises profitability through following advices. First is to reduce government intervention. Because the excessive government intervention will lead to resource mismatch, increase the transaction costs of enterprises, which is not conducive to the improvement of the profitability of enterprises. In order to provide an easy external environment for enterprises to reduce the enterprise's external transaction costs, the government needs to put all its priority into the cage of the institution, simplify the approval procedures, narrow the scope of administrative power. Besides government also should formulate laws to standardize the market order, form a fair competition market environment, and eliminate enterprise ownership discrimination. Second is reforming state-owned enterprises to improve their operational efficiency. The existence of state-owned enterprises has brought certain convenience to government intervention in economy, but the negative effect of government intervention on the state-owned enterprises profitability is far higher than that of private enterprises. Therefore, We should actively promote the separation of government and enterprise, government and capital, government and business, and government and market intermediary organizations, reduce and standardize the examination and approval matters, and improve the efficiency of government operation. We should also improve the information disclosure system, improve the scientific decision-making mechanism, deepen the reform of state-owned enterprises, increase the efforts of concurrent reorganization of enterprises, promote the diversification of property rights, and establish and improve the modern enterprise system. Third is changing the way of investment. The empirical results show that with the improvement of peoples' income level in China, it is difficult for enterprises to improve their profitability simply by relying on foreign markets and traditional factors such as labor force and capital. If an enterprise wants to enhance its profitability and enhance its comprehensive competitiveness, it should not only rely on labor, capital and global market, but also rely on technology innovation especially in the process of accelerating the aging process of China's population and the decline of the international economic situation. Only by enhancing their own technological innovation ability and core competitiveness can enterprises further enhance their profitability.

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