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Internal Controls and Corporate Strategy Choices: A Micro-Level Explanation of the Government Subsidies “Support for the Weak” Phenomenon

Chao Ge¹, Mengyuan Li², Yangyang Wang³, Wunhong Su^{4,*}

¹School of Economics, Shenzhen Polytechnic University, 518055 Shenzhen, Guangdong, China

²School of Accounting, Shaanxi Technical College of Finance & Economics, 712000 Xianyang, Shaanxi, China

³School of Accounting, Hangzhou Dianzi University, 310018 Hangzhou, Zhejiang, China

⁴International College, Krirk University, 10220 Bangkok, Thailand

*Correspondence: whsu@hdu.edu.cn (Wunhong Su)

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Abstract

The effective utilization of Government Subsidies funds has long been a focal concern for both scholars and policymakers, while elucidating the underlying mechanisms behind the government’s preferential support for vulnerable groups serves as a crucial foundation for mitigating and managing associated risks. Using a sample of A-share listed firms in China from 2009 to 2023, this study examines the relationship between firms’ Internal Controls quality and the government subsidies they receive. The results indicate that higher Internal Controls quality is associated with lower levels of government subsidies. Mechanism test results suggest that this negative correlation primarily stems from the fact that Internal Controls can mitigate a firm’s inclination to assume political obligations in exchange for government subsidies while simultaneously enhancing competitiveness and thereby reducing excessive dependence on governmental support. Further research results indicate that when firms belong to the new energy industry or receive innovation-related subsidies, the inhibitory effect of Internal Controls on government subsidies is weakened. This study elucidates the formation mechanism underlying the “support for the weak” phenomenon in Government Subsidies allocation. By integrating firm-level agency behavior and strategic choice, this study supplements the extant literature with a micro-level explanation, revealing that subsidy distribution is a bilateral matching process between the government and firms. These findings offer valuable insights into the interplay between firms and government subsidies, informing more rational policymaking and implementation.

Keywords: internal controls; government subsidies; operational capability; policy burden

JEL: G34, G32, G38, M41, H25

1. Introduction

Local governments in China possess considerable fiscal autonomy and administrative intervention powers. As marketization progresses, local governments are increasingly motivated to implement policy interventions within the market economy. Government subsidies, as a primary tool for local governments to influence economic development, have attracted growing attention. Over 99% of publicly listed firms in China receive government subsidies, although there are significant discrepancies in their distribution, with a clear tendency to support weaker entities.

Consider the contrasting cases of JAC Motors (Stock Code: 600418) and Sinotruk (Stock Code: 000951). From 2020 to 2022, JAC Motors reported net profits of CNY 250 million (USD 1 = CNY 6.8972 as of 30 December 2022), CNY 13 million, and a loss of CNY 1.727 billion, respectively. However, when factoring out CNY 4.379 billion in cumulative government subsidies and other non-recurring gains over three years, the firm actually sustained accumulated losses of CNY 6.398 billion. In contrast, Sinotruk—a renowned firm in the new energy automotive sector—

recorded three-year cumulative profits of CNY 2.966 billion after excluding non-recurring items, reflecting a significantly more robust performance. Nevertheless, during this same period, Sinotruk’s total government subsidies amounted to a mere CNY 25 million. Government subsidies granted to listed firms in China are characterized by their broad scope yet uneven distribution, with a pronounced tendency to favor weaker firms.

Consistent with this, local governments tend to allocate higher levels of subsidies to state-owned firms, domestic private firms, non-export firms, loss-making firms, and those with lower total factor productivity, all of which exhibit relatively weaker market competitiveness (Qiao and Fei, 2022). Existing research suggests that the “support for the weak” phenomenon in government subsidies is largely linked to firms aligning with governmental objectives.

For self-interested reasons, local governments are more inclined to direct subsidies to firms that help them fulfill certain social responsibilities or maintain close relationships, while weaker firms often conform to government behavior in a bid to ensure their survival. Specifically, dur-



ing the pre-subsidy stage, less competitive firms struggle to establish a foothold in the market and are compelled to align with local government objectives, thereby contributing to the achievement of specific social or economic goals. For instance, firms may hire additional employees to maintain social stability (Lin and Tan, 1999), while state-owned enterprises with close economic interests (Peng et al., 2021) and private firms with strong ties to local officials (Wu et al., 2012) are more likely to receive greater subsidies. In the post-subsidy phase, weaker firms may adopt short-sighted behaviors to please the government (Ivanović et al., 2023), thereby diverting funds originally meant for production and operations, reducing resource allocation efficiency, and weakening their competitiveness further, leading them to become even more reliant on local subsidies for survival (Zhao et al., 2024). This creates a vicious cycle of “weak competitiveness—relying on subsidies—further weakening competitiveness” (Sheng et al., 2025).

Nevertheless, existing literature has mostly explained the formation of the “support for the weak” tendency from the perspective of government self-interest or corporate alignment, neglecting the influence and underlying mechanisms of internal governance structures on this phenomenon.

Internal Controls, as a crucial mechanism of micro-level governance, plays a significant role in guiding firms towards achieving strategic development goals. On the one hand, it enhances resource allocation efficiency (Lai et al., 2020), promoting the channeling of limited resources into critical areas that strengthen the firm’s core competitiveness and enable self-sustenance (Feng et al., 2015). On the other hand, Internal Controls helps firms reduce the excessive social functions imposed on them by government pressures, preventing the dual focus on “social goals” and “strategic goals” from dispersing resources and hindering strategic development.

This study argues that high-quality Internal Controls can effectively guide firms to focus on building core competitiveness, thereby reducing short-sighted behaviors driven by the pursuit of government subsidies. Conversely, low-quality Internal Controls, lacking the necessary guidance and oversight mechanisms, encourages firms to adopt short-sighted behaviors in pursuit of government subsidies, obstructing the enhancement of their core competitiveness.

Building on the above considerations, this study employs a sample of Chinese A-share listed firms spanning from 2009 to 2023 to explore the relationship between Internal Controls quality and the magnitude of government subsidies. The findings reveal a significant negative correlation between Internal Controls quality and the extent of government subsidies. Mechanism testing reveals that this negative correlation arises from the emphasis Internal Controls places on strengthening a firm’s intrinsic competitiveness, thereby discouraging short-sighted behaviors aimed at fulfilling governmental functions merely to secure subsidies.

However, further research results show that when firms belong to the new energy industry or receive innovation-related subsidies, the inhibitory effect of Internal Controls on government subsidies is weakened.

The contributions of this study are threefold. First, this study supplements the micro-explanation of agency and strategic choice at the firm level, revealing that subsidy distribution is a bilateral matching between “government and firm” rather than a one-way process. Moreover, the internal governance mechanism of the firm plays an active role. Most of the existing literature explains the “support for the weak” government subsidies from the perspective of government self-interest or corporate pandering, and little attention is paid to how micro-level governance mechanisms affect resource allocation. From the perspective of Internal Controls, this study provides evidence that effective Internal Controls guides firms to focus on improving core competitiveness while curbing short-sighted behaviors aimed at catering to local governments. In doing so, it enriches the literature on the formation mechanisms of government subsidies that “support the weak”.

Second, this study contributes to a deeper understanding of the underlying mechanisms behind the inverse relationship between Internal Controls and government subsidies. On the one hand, Internal Controls mitigates the extent to which firms assume excessive political responsibilities in response to governmental pressure; on the other hand, it steers firms toward enhancing the competitiveness of their products. Together, these effects foster reduced reliance on governmental financial support.

Finally, this study offers valuable insights for other developing nations undergoing critical phases of transformation. As the world’s largest developing country, China is navigating a pivotal stage of market liberalization. Avoiding excessive dependence on government support and fostering corporate competitiveness are essential during this transition. Given the parallels between China’s reform journey and that of several Eastern European countries pursuing market-oriented economic systems, the developmental experiences of Chinese firms may serve as a meaningful point of reference.

2. Theoretical Analysis and Research Hypotheses

2.1 Internal Controls and Government Subsidies

Existing literature suggests that under the multiple evaluations of economic development and social stability, local governments tend to allocate subsidies to loss-making firms, those bearing significant political burdens, state-owned firms, and large-scale firms, all of which are at a competitive disadvantage (Qiao and Fei, 2022). The “support for the weak” phenomenon in government subsidies leads local governments to extend life support to weaker firms through fiscal transfers, while more competitive firms

are pushed out, resulting in a “reverse selection” mechanism for subsidy applications.

Resource dependence theory posits that excessive reliance on government funds can erode a firm’s intrinsic innovative drive, leading to rent-seeking, earnings management, and the hiring of redundant employees (Lin and Tan, 1999). Once a “subsidy—debt—resubsidy” vicious cycle is established, firms lose their market-driven competitive edge and become increasingly dependent on the government (Burt, 1983). A wealth of research indicates that, in their pursuit of government subsidies, firms may adopt short-sighted behaviors that ultimately undermine their competitiveness.

Although government subsidies inject vital support, they may also foster complacency, diminishing firm dynamism, and potentially creating “zombie firms”. Subsidies and tax relief measures have shielded unprofitable firms from bankruptcy, gradually eroding their vitality. In emerging economies such as those in Eastern Europe, firms receiving substantial state support have experienced a decline in export competitiveness (Ozturk-Kose et al., 2025). In Serbia, executives of state-owned firms have been known to pursue privatization during political appointments to secure subsidies, but the privatized entities subsequently faced higher costs, greater bankruptcy risks, and diminished profitability (Ivanović et al., 2023). Study of European Union (EU) subsidies for small and medium-sized enterprises (SMEs) in Eastern Europe reveal that while such support enhances survival rates and lowers financing costs, particularly in countries like Croatia, it fails to drive substantial growth in business revenues (Srhoj et al., 2021). Similarly, subsidies have been shown to negatively impact total factor productivity in firms across the Czech Republic and Italy (Bernini and Pellegrini, 2011; Dvoutely and Blažková, 2019). These findings collectively suggest that government subsidies may induce firms to engage in short-sighted behaviors, such as excessive accommodation, misallocation of investment, or undue reliance on external support.

In 2008, the Ministry of Finance of China, along with five other ministries, jointly issued the “Basic Norms for Firm Internal Controls”. These norms explicitly require: (1) listed firms to establish and maintain effective Internal Controls, (2) management to assume responsibility for the effectiveness of these controls and disclose relevant information, and (3) independent auditors to conduct Internal Controls audits. These provisions were largely influenced by the U.S. Sarbanes-Oxley (SOX) Act.

However, unlike the American Internal Controls system, the Chinese system is a comprehensive Internal Controls framework oriented towards strategic goals. There are two main reasons for this distinction: first, the difference in objective orientation. The Sarbanes-Oxley Act was primarily designed to address financial fraud scandals, focusing on controlling the quality of financial accounting information

(Dobre, 2011; Li et al., 2008). In contrast, the “Basic Norms for Firm Internal Controls” aim to help firms achieve their strategic objectives. These norms clearly stipulate that “the objective of Internal Controls is to reasonably ensure the legality and compliance of firm operations, asset security, accuracy and completeness of financial reporting and related information, improve operational efficiency and effectiveness, and promote the achievement of the firm’s development strategy”. Among these, strategic goals are broad, long-term, and fundamental, serving as the direction and blueprint for a firm’s future development. As such, they are the highest-level objectives and occupy a central position within the Internal Controls framework, playing a guiding role throughout the system (Xu and He, 2021).

Second, there is a difference in judicial practice. While Internal Controls frameworks such as Committee of Sponsoring Organizations of the Treadway Commission (COSO) 1992 and COSO 2004 emphasize the need to address non-financial reporting control deficiencies, the Sarbanes-Oxley Act does not require auditors to identify and disclose such deficiencies. The “Basic Norms for Firm Internal Controls” mandate that auditors focus on non-financial reporting deficiencies and disclose any identified weaknesses, holding them accountable (Chen et al., 2020). Therefore, within the Chinese institutional context, Internal Controls is not only concerned with the quality of accounting information but also directly aligned with the firm’s strategic goals.

As such, Internal Controls can mitigate short-sighted behaviors arising from firms’ attempts to align with government objectives, guiding resources towards key areas that enhance the firm’s own competitiveness (Xu and He, 2021). Specifically, on the one hand, Internal Controls can oversee management and reduce short-sighted behaviors that arise from a desire to secure government subsidies by assuming social responsibilities. While government subsidies can provide “lifeblood” to support firm development, obtaining these subsidies often requires firms to adopt roles that help maintain social stability. Under the dual pressures of economic and social goals, resources intended for firm development may be diverted, leading to inefficiencies in resource allocation and potentially fostering rent-seeking and corrupt practices (Ivanović et al., 2023). Internal Controls possesses powerful governance capabilities, actively contributing to the supervision of senior management decisions (Wang, 2010) and curbing short-sighted behaviors such as real earnings management (Li et al., 2020). Thus, high-quality Internal Controls can mitigate a firm’s tendency to cater to government interests, reducing its reliance on subsidies.

On the other hand, Internal Controls guides firms to prioritize the investment of limited resources in areas that can enhance core competitiveness, decreasing their dependence on government subsidies. Internal Controls plays a crucial role in optimizing resource allocation and sup-

porting informed investment decisions. Effective Internal Controls can facilitate capital market financing (Kim et al., 2011; Schneider and Church, 2008), assist in efficient inventory management (Feng et al., 2015), optimize investment decisions (Cheng et al., 2013; Lai et al., 2020), and enhance firm value (Wang et al., 2018). In contrast, firms with poor Internal Controls fail to curb short-sighted behaviors effectively, undermining their core competitiveness. These firms, driven by survival concerns, become increasingly dependent on government subsidies, thereby creating a vicious cycle of “insufficient core competitiveness—reliance on subsidies—declining core competitiveness—greater reliance on subsidies”.

Based on this logic, the higher the quality of Internal Controls, the more effectively it can suppress short-sighted behaviors driven by government interests and foster the firm’s “self-sustaining” capabilities, thereby reducing the need for external support. Therefore, under the overall “support for the weak” framework, firms with high-quality Internal Controls are more likely to voluntarily withdraw from subsidy applications, thus receiving fewer subsidies. This study proposes the following hypothesis:

H1: The higher the quality of Internal Controls, the fewer government subsidies a firm receives.

2.2 The Mechanism by Which Internal Controls Reduces Government Subsidies

2.2.1 Policy Burden

The promotion assessments of local officials in China rely heavily on explicit indicators, such as Gross Domestic Product (GDP), fiscal revenue, and employment (Li and Zhou, 2005), motivating local governments to transfer policy burdens, including job stability and the placement of surplus employees, onto firms within their jurisdiction. While firms may align with government objectives by assuming such burdens in exchange for subsidies and regulatory leniency (Cull et al., 2015), this practice fosters rent-seeking, leads to resource misallocation, and ultimately hampers the enhancement of core competitiveness.

However, effective Internal Controls, grounded in the firm’s strategic goals, can mitigate the likelihood of such short-sighted behaviors. Internal Controls filters out inefficient decisions, such as “accepting burdens for subsidies”, through preemptive risk assessments (Chen et al., 2018), monitors processes during operations to prevent resources from being diverted to non-productive projects (Ma et al., 2023; Wang et al., 2022a), and increases the cost of government intervention through post-decision information disclosure. Thus, high-quality Internal Controls effectively curtails firms’ short-sighted behaviors of adopting non-economic policy burdens to satisfy government objectives, thereby reducing the amount of government subsidies received.

2.2.2 Competitiveness

The resource-based view posits that a firm’s competitive advantage stems from its core competencies. While government subsidies may provide temporary relief from financing constraints (Xu et al., 2022), such benefits do not inherently result in superior financial performance. Sustained competitive advantage is characterized by value, rarity, inimitability, and non-substitutability, forming a critical foundation for implementing corporate strategy (Barney, 1991). Effective Internal Controls serves as a guiding mechanism that facilitates the rational allocation of resources. By improving the financing environment (Kim et al., 2011; Schneider and Church, 2008), optimizing asset management efficiency (Feng et al., 2015), and enhancing investment decisions (Cheng et al., 2013; Lai et al., 2020), Internal Controls ultimately elevates firm value (Wang et al., 2018). Thus, Internal Controls directs firms to allocate their limited resources to areas crucial for building core competencies, thereby preventing non-productive projects from detracting from their competitive strength.

In summary, the mechanisms of policy burdens and core competitiveness are independent yet inter-related, potentially forming a chain effect of “Internal Controls—burden reduction→competitiveness enhancement—subsidy reduction” (Internal Controls (IC)→Burden↓→Competitiveness (Compet)↑→Subsidy↓), which jointly explains why firms with more robust Internal Controls tend to receive fewer subsidies.

Based on the above analysis, this study proposes the following hypothesis:

H2: Internal Controls, through the chain path of “mitigating policy burdens→strengthening core competitiveness”, significantly reduces the amount of government subsidies received by firms.

3. Research Design

3.1 Data Sources

This study utilizes data from A-share listed firms in China, spanning the period from 2009 to 2023. Following established conventions, this study refines the sample as follows: (1) excludes special treatment (ST), Particular Transfer (PT), newly listed, and delisted firms; (2) excludes firms in the financial sector; and (3) removes observations with missing key variables. All data are sourced from the China Stock Market and Accounting Research (CSMAR) database, yielding an unbalanced panel dataset. To bolster the reliability of the findings, this study applies winsorization at the 1% and 99% levels to continuous variables.

3.2 Variable Definitions

3.2.1 Dependent Variable

In this study, government subsidies serve as the dependent variable, with the raw data derived from the total

subsidy amounts disclosed in the notes to the financial statements of listed firms. To control for heterogeneity in firms' operating scales and to mitigate the impact of extreme values on the error term, this study follows Wang et al. (2022b) in measuring subsidy intensity (Subsidy) as the ratio of total government subsidies to operating revenue.

3.2.2 Independent Variable

This study uses Internal Controls as the explanatory variable. Drawing on the research of Zhao et al. (2023) and Shen et al. (2024), this study employs the Shenzhen DIB Enterprise Risk Management Technology Co., Ltd. (DIB) Internal Controls Index to assess firms' Internal Controls quality. The DIB Internal Controls Index is the first—and currently the only—quantitative measure of Internal Controls quality in China to have obtained official endorsement from the Internal Controls Standards Committee of the Ministry of Finance, covering the entire A-share market. With the five elements of Internal Controls and the five objectives of Internal Controls as its basic framework, it evaluates firms' Internal Controls quality from a comprehensive perspective. It has now become a key standard for assessing the Internal Controls quality of Chinese firms. To mitigate the impact of extreme values, this study takes the natural logarithm of the explanatory variable Internal Controls Quality (ICQ), where a higher value indicates better Internal Controls quality within the firm. Additionally, based on the ratings provided by DIB, this study constructs a dummy variable (Internal Controls rating, ICF): firms rated B or higher are coded as 1, and all others are coded as 0.

3.2.3 Control Variables

Following Shen et al. (2024), Zhao et al. (2023), and Zhang et al. (2024), this study controls for variables at the following levels: (1) Firm fundamentals: firm size (Size), board size (Boardsize), listing age (Age), return on total assets (RoA), and leverage ratio (Lev); (2) Management characteristics: management compensation (Pay), management background (Background), management gender ratio (MaleRatio), proportion of independent directors (IndDirectorRatio), and ownership concentration (EquCon); (3) Macroeconomic variable: annual fiscal revenue of the province where the firm is located. For detailed descriptions of the variables, refer to Table 1.

3.3 Model Construction

To test the hypotheses, this study employs the following regression model (1):

$$\begin{aligned} \text{Subsidy}_{it} = & \beta_0 + \beta_1 \text{IC}_{it} + \sum \text{Controls} \\ & + \sum \text{Year} + \sum \text{Firm} + \epsilon_{it} \end{aligned} \quad (1)$$

Here, Subsidy_{it} denotes government subsidies; IC_{it} indicates Internal Controls quality; Controls represents a set of control variables; Year and Firm capture year and firm fixed effects; ϵ_{it} is the random error term. Additionally, standard errors are clustered at the firm \times industry level to account for potential heteroscedasticity and autocorrelation.

4. Empirical Results and Analysis

4.1 Descriptive Statistics

Table 2 presents the descriptive statistics for the main variables. Government subsidies (Subsidy) have a mean of 1.293%, indicating that, on average, subsidies account for 1.293% of a firm's operating revenue. The standard deviation is 1.733, the 25th percentile is 0.278, and the 75th percentile is 1.530, revealing substantial variation in subsidy intensity across firms. The average value of ICQ is 6.479 with a median of 6.500; the closeness of the mean and median confirms that using the log-transformed index is appropriate, consistent with Zhao et al. (2023). The standard deviations of ICQ and ICF are 0.129 and 0.371, respectively, indicating noticeable differences in Internal Controls quality among firms. All other control variables fall within reasonable ranges. To mitigate the influence of extreme values, all variables are winsorized at the 1st and 99th percentiles.

Additionally, a univariate test was carried out on Internal Controls quality and government subsidies. This study partitions the sample into two groups based on the annual medians of Internal Controls quality and then conducts *t*-tests between them. As shown in Table 3, firms with lower Internal Controls quality receive higher levels of government subsidies, providing initial evidence that more competitive firms rely less on government support.

4.2 Internal Controls Quality and Government Subsidies

Table 4 reports the effects of improved Internal Control Quality on the government subsidies received by listed firms. Columns (1),(2) present the results without control variables, columns (3),(4) add all control variables, and columns (5),(6) further include industry fixed effects and cluster standard errors at the firm \times industry level. Across all specifications, both the Internal Control Quality measure (ICQ) and the internal-control rating measure (ICF) are significantly and negatively associated with government subsidies. These results indicate that as Internal Control Quality improves, the amount of subsidies a firm receives declines markedly, providing preliminary support for H1.

5. Mechanism Tests

As previously discussed, although listed firms may assume policy burdens to secure government subsidies as a form of "compensation", this approach undermines their normal operations and long-term development potential. By enhancing Internal Controls quality, firms can achieve

Table 1. Variable definitions.

Type	Name	Symbol	Definition
Dependent	Government Subsidies	Subsidy	Total government subsidies divided by operating revenue (%)
Independent	Internal Controls Quality	ICQ	Natural logarithm of the DIB Internal Controls Index
	Internal Controls Rating	ICF	Equals 1 if the DIB Internal Controls Rating is B or higher; 0 otherwise
Controls	Firm Size	Size	Natural logarithm of total Size
	Board Size	Boardsize	Number of directors on the board
	Independent Directors Ratio	IndDirectorRatio	Proportion of independent directors on the board (%)
	Listing Age	Age	Natural logarithm of (sample year - listing year)
	Return on Assets	Roa	Net profit divided by total assets (%)
	Leverage	Lev	Total liabilities divided by total assets (%)
	Management Compensation	Pay	Natural logarithm of total management compensation.
	Management Background	Background	Equals 1 if any manager has an overseas or finance-related background; 0 otherwise
	Management Gender Ratio	MaleRatio	Proportion of male managers in the management team
	Degree of Ownership Concentration	EquCon	Largest shareholder's equity divided by total equity of the top 10 shareholders (%)
	Provincial Fiscal Revenue	LnRevenue	Natural logarithm of the province's fiscal revenue

DIB, Shenzhen DIB Enterprise Risk Management Technology Co., Ltd; ICQ, Internal Controls Quality; ICF, Internal Controls rating.

Table 2. Descriptive statistics.

VarName	Obs	Mean	SD	P25	Median	P75
Subsidy	35,927	1.293	1.733	0.278	0.695	1.530
ICQ	35,927	6.479	0.129	6.431	6.500	6.550
ICF	35,927	0.836	0.371	1.000	1.000	1.000
Size	35,927	22.270	1.286	21.343	22.068	22.990
Roa	35,927	3.632	6.223	1.300	3.570	6.540
Lev	35,927	42.375	20.012	26.460	41.780	57.360
Boardsize	35,927	8.494	1.669	7.000	9.000	9.000
IndDirectorRatio	35,927	37.695	5.383	33.330	36.360	42.860
Age	35,927	2.185	0.773	1.609	2.303	2.833
MaleRatio	35,927	80.529	11.353	73.330	81.820	88.890
LnRevenue	35,927	18.677	0.775	18.189	18.833	19.284
Background	35,927	0.854	0.353	1.000	1.000	1.000
EquCon	35,927	59.142	19.110	44.170	58.380	74.399
Pay	35,927	15.369	0.751	14.893	15.355	15.838

Note: The sample in this study contains a total of 35,927 firm-year observations. Obs, Observations; SD, standard deviation; P25, 25th percentile; P75, 75th percentile.

Table 3. Univariate test.

Group	Obs	Mean	Standard deviation	[95% conf. interval]	t-value
Low Internal Controls	17,965	1.3973	1.8346	1.3705 1.4242	11.4193
High Internal Controls	17,962	1.1888	1.6194	1.1652 1.2125	

similar outcomes that better support their growth and development. Thus, firms have an incentive to mitigate policy burdens, thereby diminishing reliance on government subsidies. Furthermore, Internal Controls constitutes a valuable, scarce, inimitable, and non-substitutable resource that fosters competitive advantage, while its dynamic adaptabil-

ity sustains that advantage over time. The resulting expansion of competitive strength reduces firms' dependence on government subsidies.

Table 4. Regression results for Internal Controls quality and government subsidies.

	(1)	(2)	(3)	(4)	(5)	(6)
	Subsidy	Subsidy	Subsidy	Subsidy	Subsidy	Subsidy
ICQ	-0.479*** (-6.89)		-0.403*** (-5.61)		-0.387*** (-5.22)	
ICF		-0.153*** (-6.93)		-0.131*** (-5.75)		-0.129*** (-5.37)
Size			0.060 (1.62)	0.056 (1.51)	0.035 (0.96)	0.031 (0.85)
Roa			-0.010*** (-4.50)	-0.010*** (-4.71)	-0.009*** (-4.42)	-0.010*** (-4.58)
Lev			-0.004*** (-2.97)	-0.004*** (-3.00)	-0.003*** (-2.67)	-0.004*** (-2.70)
Boardsize			0.010 (0.72)	0.010 (0.73)	0.010 (0.68)	0.010 (0.69)
IndDirectorRatio			0.003 (0.74)	0.003 (0.72)	0.003 (0.70)	0.002 (0.68)
Age			-0.158*** (-3.18)	-0.156*** (-3.16)	-0.149*** (-3.04)	-0.148*** (-3.02)
MaleRatio			-0.000 (-0.11)	-0.000 (-0.13)	0.000 (0.03)	0.000 (0.01)
LnRevenue			0.205** (2.17)	0.203** (2.15)	0.194** (2.19)	0.192** (2.17)
Background			-0.002 (-0.08)	-0.002 (-0.08)	-0.005 (-0.17)	-0.005 (-0.17)
EquCon			0.001 (0.53)	0.001 (0.55)	0.000 (0.34)	0.000 (0.36)
Pay			-0.062** (-1.98)	-0.062** (-2.01)	-0.060** (-1.99)	-0.061** (-2.02)
_cons	4.400*** (9.75)	1.421*** (76.86)	0.013 (0.01)	-2.345 (-1.24)	0.629 (0.33)	-1.643 (-0.91)
Year	Yes	Yes	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes	Yes	Yes
Industry	No	No	No	No	Yes	Yes
N	35,927	35,927	35,927	35,927	35,927	35,927
Adj. R ²	0.539	0.539	0.541	0.541	0.546	0.546

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. *** and ** denote statistical significance at the 1% and 5% levels, respectively. Adj. R², Adjusted R-squared.

However, it is equally imperative to recognize that policy burdens can also undermine corporate competitiveness. Lin and Li (2008) argue that bearing policy burdens depletes corporate resources and disrupts normal operations, thereby weakening a company's competitive capacity. Similarly, Liao et al. (2009) argue that managers tend to attribute poor performance to policy burdens, diminishing their sensitivity to the true determinants of corporate performance and causing them to overlook the genuine performance drivers, ultimately eroding competitiveness. Consequently, in addition to examining the pathways (IC→Burden→Subsidy) and (IC→Compet→Subsidy), this study also examines the chain-mediated route (IC→Burden→Compet→Subsidy).

Accordingly, this study constructs the chained mediation models (2)–(5).

$$Burden_{it} = a_0 + a_1 IC_{it} + \sum Controls + \sum Year + \sum Firm + \delta_{it} \quad (2)$$

$$Compet_{it} = b_0 + b_1 IC_{it} + \sum Controls + \sum Year + \sum Firm + \mu_{it} \quad (3)$$

$$Compet_{it} = c_0 + c_1IC_{it} + c_2Burden_{it} + \sum Controls + \sum Year + \sum Firm + \eta_{it} \quad (4)$$

$$Subsidy_{it} = d_0 + d_1IC_{it} + d_2Burden_{it} + d_3Compet_{it} + \sum Controls + \sum Year + \sum Firm + \sigma_{it} \quad (5)$$

To measure $Compet_{it}$, this study follows Sui et al. (2024) and defines $Compet$ as (Total Profits + Taxes and Surcharges + Interest Expense) / Total Assets. This ratio captures the profitability of corporate assets and serves as a key indicator of operational capacity and profit levels.

Because redundancy has long been the most representative form of policy burden (Liao et al., 2009), governments often pressure firms to hire more workers to curb unemployment and preserve social stability, thereby shifting part of the policy burdens onto firms (Shleifer and Vishny, 1994). Following Bai et al. (2006) and Li et al. (2024), this study therefore measures $Burden_{it}$ by the extent of excess employment. The specific formula is as follows:

$$Burden_{it} = (Emp_{it} - Sales_{it} \times Emp_{jt}/Sales_{jt}) / Emp_{jt}$$

$Burden_{it}$ denotes the excess employment ratio; Emp_{it} denotes the actual number of employees in firm i in year t ; $Sales_{it}$ denotes the sales revenue of firm i in year t ; Emp_{jt} denotes the mean number of employees in the industry in year t ; $Sales_{jt}$ denotes the mean sales revenue in the industry in year t .

The findings are presented in Table 5. In column (1), the coefficient of ICQ is significantly negative, indicating that an improvement in Internal Controls quality can reduce firms' policy burdens. In column (2), the coefficient of ICQ is significantly positive, indicating that higher Internal Controls quality contributes to enhancing firms' competitiveness. In column (3), the coefficient of ICQ is significantly positive, while the coefficient of Burden is significantly negative—suggesting policy burdens weaken firms' competitiveness. In column (4), the coefficient of ICQ is significantly negative, the coefficient of Burden is significantly positive, and the coefficient of Compet is significantly negative. These findings demonstrate three pathways. First, Internal Controls reduces firms' reliance on government subsidies by alleviating policy burdens (Path 1). Second, Internal Controls reduces reliance by enhancing firms' competitiveness (Path 2). Third, a chain-mediated pathway exists wherein Internal Controls alleviates policy burdens, thereby improving firms' competitiveness, which in turn reduces their dependence on government subsidies (Path 3). These findings collectively corroborate H2.

To further bolster the credibility of the chain-mediated effects, this study conducted two thousand (2000) bootstrap replications. The results, reported in Table 6, reveal that all 95% confidence intervals exclude zero, confirming the validity of the chain mediation. Taking Table 6 as an example, the effect magnitudes are -0.0567 (-0.346×0.164) for Path 1, -0.0383 [$0.009 \times (-4.257)$] for Path 2, and -0.0044 [$(-0.346) \times (-0.003) \times (-4.257)$] for Path 3, indicating that Path 1 exerts the dominant influence among the three pathways (Considering space constraints and the need for conciseness, the test results related to ICF have been placed in Appendix Tables 14,15 for reference).

6. Robustness Tests

To reinforce the robustness of the baseline regression results, the following checks were conducted.

6.1 Instrumental Variable Approach

Considering potential endogeneity issues such as reverse causality, this study employs a two-stage instrumental variable (IV) method. It selects the mean Internal Controls index, calculated by excluding the sample firm's data within each year and industry (IV_mean), as the instrument. Table 7 presents the regression results. Column (1) shows that IV_mean is significant at the 1% level, indicating a strong correlation between the chosen instruments and Internal Controls quality. Column (2) reveals that ICQ remains significantly negative at the 1% level in the second stage, affirming the robustness of Internal Controls's inhibitory effect on government subsidies.

To confirm the appropriateness of the selected instrumental variables, this study conducts additional tests as shown in Table 7: (1) The Kleibergen-Paap rk Wald F statistic is 23.14, surpassing the 10% bias critical value of 16.38 from the Stock-Yogo weak Identification (ID) test, thus strongly rejecting the null of weak identification; (2) The Kleibergen-Paap rk Lagrange Multiplier (LM) statistic is 29.46, significant at the 1% level, rejecting the null of under-identification.

6.2 Heckman Two-Stage Model

Unobserved factors may generate self-selection bias. To mitigate this issue, the Heckman two-stage procedure is employed. First, a high-quality internal-control dummy (IC_dummy) is constructed, which takes the value of 1 if a firm's internal-control index exceeds the annual median and 0 otherwise. In the first stage, a probit model is used to estimate the probability that IC_dummy equals 1, and the Inverse Mills Ratio (IMR) is derived from this estimation. The second stage then re-estimates the baseline subsidy regressions, incorporating the IMR to eliminate residual bias. Since the first-stage probit model serves solely to predict selection and cannot incorporate firm-by-year fixed effects, it is estimated without fixed effects.

Table 5. Mediation effect test.

	(1)	(2)	(3)	(4)
	Burden	Compet	Compet	Subsidy
ICQ	-0.346*** (-8.01)	0.009*** (8.31)	0.008*** (7.44)	-0.307*** (-4.27)
Burden			-0.003*** (-12.23)	0.164*** (7.26)
Compet				-4.257*** (-6.63)
Size	-0.205*** (-8.18)	-0.003*** (-8.25)	-0.004*** (-9.78)	0.080** (2.13)
Roa	-0.014*** (-11.26)	0.009*** (106.46)	0.009*** (106.30)	0.033*** (5.71)
Lev	-0.002*** (-2.77)	-0.000*** (-4.40)	-0.000*** (-4.86)	-0.004*** (-2.93)
Boardsize	0.010 (1.32)	-0.000 (-0.20)	-0.000 (-0.00)	0.009 (0.60)
IndDirectorRatio	0.002 (0.83)	0.000* (1.89)	0.000** (2.00)	0.003 (0.77)
Age	-0.002 (-0.08)	0.000 (0.72)	0.000 (0.71)	-0.156*** (-3.16)
MaleRatio	0.001 (1.53)	-0.000 (-1.28)	-0.000 (-1.03)	-0.001 (-0.33)
LnRevenue	0.005 (0.08)	-0.000 (-0.05)	-0.000 (-0.03)	0.204** (2.19)
Background	-0.011 (-0.67)	0.000 (0.44)	0.000 (0.34)	0.000 (0.01)
EquCon	0.001 (0.78)	-0.000** (-2.13)	-0.000** (-1.99)	0.001 (0.38)
Pay	-0.052*** (-2.71)	0.005*** (13.11)	0.005*** (12.88)	-0.032 (-1.04)
_cons	7.311*** (5.23)	-0.042* (-1.90)	-0.019 (-0.86)	-1.365 (-0.70)
Year	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
N	35,927	35,927	35,927	35,927
Adj. R ²	0.637	0.957	0.957	0.545

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Table 6. Bootstrap.

	Coefficient	Bootstrap SE	[95% conf. interval]	
ICQ→Burden→Subsidy	-0.0567	0.0078	-0.0721	-0.0414
ICQ→Compet→Subsidy	-0.0383	0.0065	-0.0518	-0.0263
ICQ→Burden→Compet→Subsidy	-0.0044	0.0010	-0.0063	-0.0031
Total indirect effects	-0.0994	0.0112	-0.1225	-0.0787
Direct effect	-0.3070	0.0698	-0.4435	-0.1701

SE, Standard Error; 95% conf. interval, 95% confidence interval.

In contrast, the second stage reinstates both firm and year fixed effects alongside the IMR. Table 8 reveals that the coefficient of IV_mean in column (1) is significantly positive, while the coefficients of ICQ, ICF, and the IMR

in columns (2) and (3) are significantly negative. These results confirm that the negative relationship between Internal Control Quality and government subsidies remains robust after accounting for potential endogeneity.

Table 7. Instrumental variable regression results.

Variables	(1)	(2)
	first	second
IV_mean	ICQ 0.138*** (4.81)	Subsidy
ICQ		-7.325*** (-2.88)
Size	0.013*** (5.44)	0.152*** (2.93)
Roa	0.006*** (30.73)	0.034** (2.12)
Lev	0.000** (2.18)	-0.003 (-1.62)
Boardsize	0.000 (0.09)	0.011 (0.66)
IndDirectorRatio	0.000 (0.57)	0.004 (0.95)
Age	-0.021*** (-6.42)	-0.306*** (-3.92)
MaleRatio	-0.000 (-0.36)	-0.000 (-0.24)
LnRevenue	0.000 (0.01)	0.205* (1.95)
Background	-0.003 (-1.13)	-0.020 (-0.59)
EquCon	-0.000 (-0.30)	0.000 (0.31)
Pay	0.007*** (3.15)	-0.011 (-0.28)
Kleibergen-Paap rk Wald F statistic		23.14
Kleibergen-Paap rk LM statistic		29.46***
Year	Yes	Yes
Firm	Yes	Yes
N	35,850	35,850
R ²		0.408

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. N, Number of observations; LM, Lagrange Multiplier. Observations in single-firm year-industry cells are dropped due to the exclusion restriction in IV_mean construction.

6.3 Propensity Score Matching (PSM)

Firms may differ along both observable and unobservable dimensions. Whereas the Heckman two-step estimator focuses on bias arising from unobservables, PSM addresses self-selection driven by observables. This study, therefore, constructs a matched sample by 1:1 matching with replacement sampling, using the annual median of Internal Control Quality (IC_dummy) as the treatment indicator and all control variables as covariates. As shown in Table 9, the dampening effect of Internal Control Quality on government subsidies persists in the matched sample.

Table 8. Heckman two-stage model.

Variables	(1)	(2)	(3)
	IC_dummy	Subsidy	Subsidy
IV_mean	1.591*** (9.18)		
ICQ		-0.392*** (-5.44)	
ICF			-0.131*** (-5.73)
Size	0.157*** (19.29)	0.021 (0.50)	0.012 (0.29)
Roa	0.075*** (48.89)	-0.031*** (-3.10)	-0.033*** (-3.40)
Lev	0.003*** (7.47)	-0.005*** (-3.53)	-0.005*** (-3.64)
Boardsize	0.005 (0.89)	0.009 (0.62)	0.009 (0.62)
IndDirectorRatio	0.003** (2.28)	0.002 (0.53)	0.002 (0.48)
Age	-0.095*** (-9.03)	-0.132*** (-2.61)	-0.128** (-2.54)
MaleRatio	0.000 (0.00)	-0.000 (-0.17)	-0.000 (-0.20)
LnRevenue	0.082*** (8.26)	0.183* (1.93)	0.179* (1.89)
Background	-0.031 (-1.56)	0.005 (0.15)	0.005 (0.18)
EquCon	0.001*** (2.72)	0.000 (0.32)	0.000 (0.32)
Pay	0.076*** (6.37)	-0.073** (-2.30)	-0.075** (-2.37)
IMR		-0.384** (-2.23)	-0.429** (-2.50)
_cons	-16.926*** (-14.12)	1.846 (0.85)	-0.223 (-0.10)
Year	Yes	Yes	Yes
Firm	Yes	Yes	Yes
N	35,850	35,850	35,850
Adj. R ²		0.540	0.540

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. IMR, Inverse Mills Ratio; IV_mean, the mean internal control index of other firms within the same year and industry. Observations in single-firm year-industry cells are dropped due to the exclusion restriction in IV_mean construction.

6.4 Entropy Balancing

Although PSM can mitigate endogeneity caused by self-selection, it typically discards unmatched control observations, thereby sacrificing useful information. To overcome this drawback, this study adopts the entropy balancing method developed by Hainmueller (2012). Unlike PSM, entropy balancing does not require a first-stage Logit spec-

Table 9. Propensity score matching (PSM).

	(1)	(2)
	Subsidy	Subsidy
ICQ	-0.407*** (-3.63)	
ICF		-0.118*** (-3.42)
Size	0.040 (0.78)	0.037 (0.71)
Roa	-0.008** (-2.11)	-0.008** (-2.18)
Lev	-0.002 (-1.22)	-0.002 (-1.23)
Boardsize	0.029 (1.50)	0.029 (1.50)
IndDirectorRatio	0.005 (1.05)	0.005 (1.06)
Age	-0.160** (-2.41)	-0.160** (-2.40)
MaleRatio	0.001 (0.52)	0.001 (0.51)
LnRevenue	0.223 (1.54)	0.220 (1.51)
Background	-0.023 (-0.60)	-0.023 (-0.60)
EquCon	0.001 (0.55)	0.001 (0.59)
Pay	-0.081** (-2.05)	-0.080** (-2.03)
_cons	0.001 (0.00)	-2.409 (-0.85)
Year	Yes	Yes
Firm	Yes	Yes
N	17,055	17,055
Adj. R ²	0.541	0.541

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. *** and ** denote statistical significance at the 1% and 5% levels, respectively.

ification but instead assigns continuous weights to all control observations, ensuring balance on the mean, variance, and skewness of all covariates while retaining the full sample. Consequently, this study uses entropy balancing as an additional robustness test. As reported in Table 10, the coefficients on ICQ and ICF remain significantly negative after matching, confirming that the main results are robust to this adjustment.

6.5 Placebo Test

It remains possible that the negative effect of Internal Controls on government subsidies is due to random external

Table 10. Entropy balancing.

	(1)	(2)
	Subsidy	Subsidy
ICQ	-0.428*** (-5.60)	
ICF		-0.139*** (-4.92)
Size	0.047 (1.15)	0.042 (1.03)
Roa	-0.012*** (-4.26)	-0.013*** (-4.46)
Lev	-0.003** (-2.15)	-0.003** (-2.17)
Boardsize	0.009 (0.64)	0.009 (0.66)
IndDirectorRatio	0.003 (0.81)	0.003 (0.80)
Age	-0.125** (-2.32)	-0.124** (-2.30)
MaleRatio	-0.001 (-0.58)	-0.001 (-0.60)
LnRevenue	0.295*** (2.95)	0.294*** (2.92)
Background	-0.011 (-0.37)	-0.011 (-0.37)
EquCon	0.000 (0.23)	0.000 (0.25)
Pay	-0.052* (-1.74)	-0.052* (-1.74)
_cons	-1.421 (-0.68)	-3.931* (-1.94)
Year	Yes	Yes
Firm	Yes	Yes
N	35,927	35,927
Adj. R ²	0.578	0.578

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

factors. To address this, this study conducts a placebo test. Specifically, we randomly shuffle the explanatory variable (ICQ) and reassign it to different firms 1000 times, then re-run the baseline regressions. As shown in Fig. 1, the distribution of placebo coefficients approximates a normal distribution, and the original estimated coefficient from the baseline regression falls significantly outside this range. This finding largely excludes the interference of other random factors.

6.6 Controlling for Ownership Structure

Local governments wield substantial discretion over the magnitude of subsidies they disburse. State-owned enterprises (SOEs) are more closely intertwined with lo-

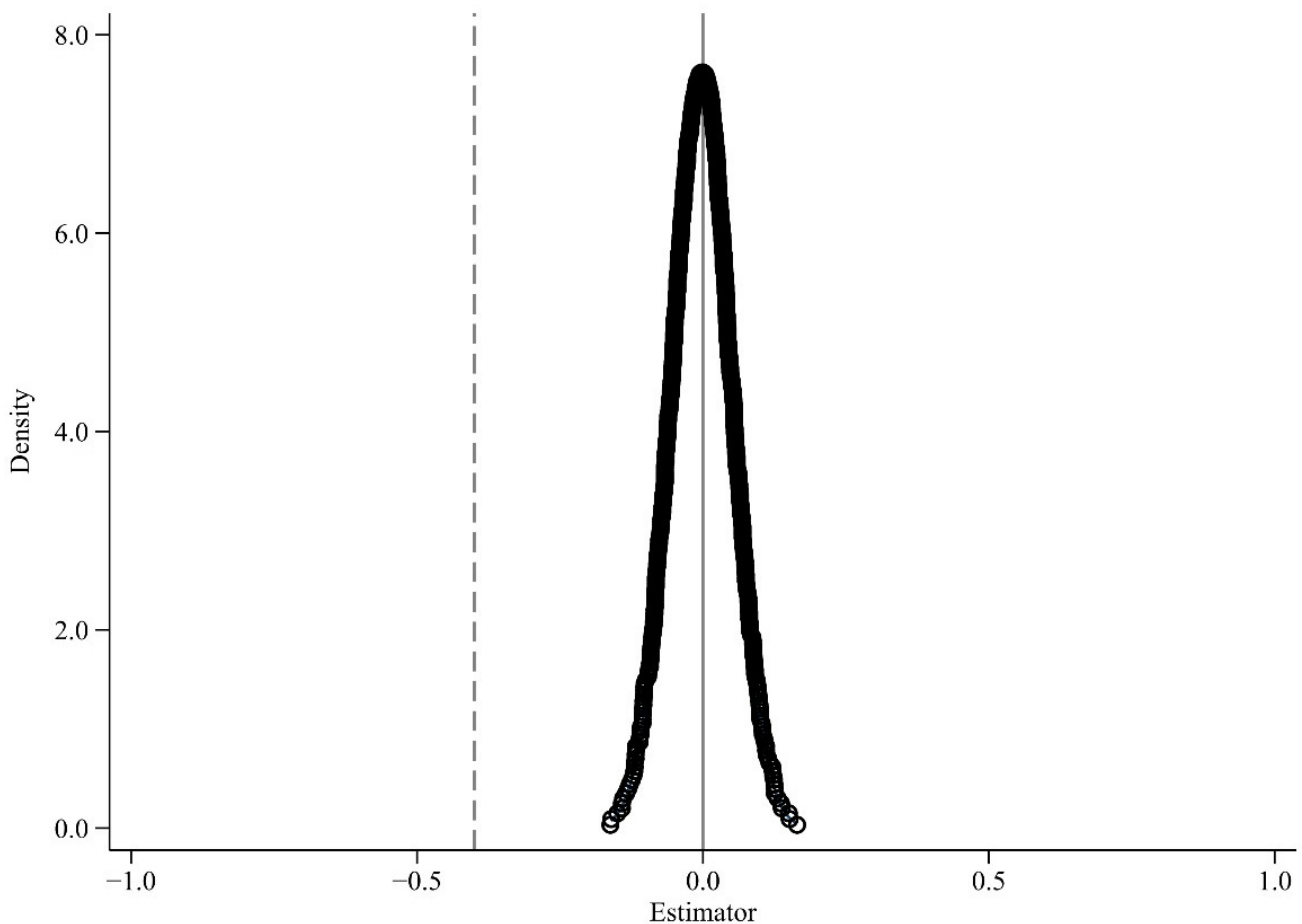


Fig. 1. Placebo test.

cal governments and, relative to non-SOEs, often shoulder quasi-governmental functions. In such circumstances, SOEs may receive larger subsidies; hence, we control for ownership structure to safeguard the conclusions. Specifically, we introduce an indicator denoting whether the ultimate controlling shareholder is state-owned ($SOE = 1$) as a control variable and re-estimate Model (1). As reported in Table 11, the findings remain consistent with prior results and are not driven by the omission of ownership-type variables.

7. Further Analysis

This study posits that the hypothesized negative correlation between Internal Controls and government subsidies rests on the premise that firms voluntarily assume quasi-governmental functions to secure such support. However, in government-favored new energy industries and other strategic domains where technological innovation is urgently required, subsidies do not constitute compensation obtained through political exchange, and this may, in turn, attenuate the association between Internal Controls and government subsidies.

7.1 New Energy Industries and Other Industries

The vigorous development of the new energy industry not only enables local governments to fulfill the central government's "dual-carbon" performance targets but also cultivates new growth poles and reinvigorates local economic dynamism. In this context, subsidies directed toward the new energy sector are granted chiefly to steer and incentivize industrial advancement rather than to compensate for political obligations; accordingly, the inhibitory effect of Internal Controls on government subsidies is weakened. This study, therefore, anticipates that, relative to other industries, the negative association between Internal Controls and government subsidies will be attenuated within the new energy sector.

Based on this, this study follows the National Bureau of Statistics' industry classification. It defines new energy firms as those in industry divisions D44 (power generation—thermal, hydro, wind, nuclear, solar, biomass, etc.) and G36 (new energy vehicle and electric-vehicle manufacturing). Table 12 shows that, for firms in these divisions, better Internal Controls does not reduce their dependence on government subsidies. This result suggests that for the new energy industry, which is already a beneficiary of policy dividends, it does not need to engage in

Table 11. Incorporating firm ownership type.

	(1)	(2)	(3)	(4)
	Subsidy	Subsidy	Subsidy	Subsidy
ICQ	-0.403*** (-5.61)		-0.387*** (-5.22)	
ICF		-0.131*** (-5.76)		-0.129*** (-5.38)
Size	0.060 (1.61)	0.056 (1.51)	0.035 (0.95)	0.031 (0.85)
Roa	-0.010*** (-4.50)	-0.010*** (-4.72)	-0.010*** (-4.43)	-0.010*** (-4.59)
Lev	-0.004*** (-2.95)	-0.004*** (-2.99)	-0.003*** (-2.65)	-0.004*** (-2.69)
Boardsize	0.011 (0.75)	0.011 (0.75)	0.011 (0.72)	0.011 (0.72)
IndDirectorRatio	0.003 (0.74)	0.003 (0.71)	0.002 (0.70)	0.002 (0.67)
Age	-0.156*** (-3.14)	-0.154*** (-3.11)	-0.147*** (-2.98)	-0.145*** (-2.96)
MaleRatio	-0.000 (-0.10)	-0.000 (-0.12)	0.000 (0.04)	0.000 (0.02)
LnRevenue	0.206** (2.18)	0.204** (2.16)	0.195** (2.20)	0.194** (2.18)
Background	-0.002 (-0.08)	-0.002 (-0.08)	-0.005 (-0.18)	-0.005 (-0.17)
EquCon	0.001 (0.53)	0.001 (0.55)	0.000 (0.33)	0.000 (0.35)
Pay	-0.062** (-1.99)	-0.063** (-2.02)	-0.060** (-2.01)	-0.061** (-2.03)
SOE	-0.035 (-0.47)	-0.035 (-0.47)	-0.047 (-0.62)	-0.046 (-0.61)
_cons	0.006 (0.00)	-2.354 (-1.24)	0.623 (0.33)	-1.653 (-0.91)
Year	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
Industry	No	No	Yes	Yes
N	35,927	35,927	35,927	35,927
Adj. R ²	0.541	0.541	0.546	0.546

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. *** and ** denote statistical significance at the 1% and 5% levels, respectively.

short-sighted behaviors to cater to government objectives, and the governance effect of Internal Controls is therefore weakened.

7.2 Innovation vs. Non-Innovation Subsidies

Innovation subsidies are policy instruments deployed by local governments to catalyze firms' technological innovation (Wang et al., 2020). Unlike other forms of public assistance, they are highly targeted, directed toward enterprises with substantial growth potential and pronounced innovative capacity. Consequently, relative to other subsidy categories, the negative association between Internal Controls and innovation subsidies is expected to be attenuated.

Accordingly, this study manually extracted detailed subsidy disclosures from the footnotes of firms' financial statements and identified innovation subsidies using keywords such as "research and development (R&D)", "innovation", "emerging", "technology", "research", "science", "intelligence", "development", "patent", and "invention". The amounts were aggregated for each firm-year, and the variable was set to zero when no such subsidies were reported. The resulting innovation subsidy total was then scaled by operating revenue. As shown in Table 13, the inhibitory effect of Internal Controls on innovation subsidies is not significant. This indicates that the pre-screening mechanism of innovation subsidies, which 'selects the

Table 12. New energy industries and other industries.

	(1)	(2)	(3)	(4)
	Subsidy	Subsidy	Subsidy	Subsidy
	New Energy Industries		Other Industries	
ICQ	0.017 (0.06)		-0.430*** (-5.76)	
ICF		-0.107 (-1.25)		-0.133*** (-5.64)
Size	0.390* (1.73)	0.391* (1.73)	0.050 (1.30)	0.045 (1.19)
Roa	-0.024* (-1.72)	-0.021 (-1.55)	-0.009*** (-4.29)	-0.010*** (-4.57)
Lev	-0.004 (-0.60)	-0.004 (-0.54)	-0.004*** (-3.01)	-0.004*** (-3.05)
Boardsize	0.045 (0.41)	0.046 (0.42)	0.007 (0.57)	0.007 (0.55)
IndDirectorRatio	0.022 (1.01)	0.022 (1.03)	0.002 (0.50)	0.002 (0.45)
Age	-0.001 (-0.01)	-0.009 (-0.05)	-0.168*** (-3.25)	-0.167*** (-3.22)
MaleRatio	-0.011 (-1.29)	-0.011 (-1.30)	0.000 (0.05)	0.000 (0.03)
LnRevenue	0.406** (1.97)	0.407** (1.98)	0.181* (1.80)	0.179* (1.78)
Background	0.062 (0.68)	0.060 (0.65)	-0.007 (-0.22)	-0.007 (-0.21)
EquCon	0.007 (1.09)	0.007 (1.11)	0.000 (0.12)	0.000 (0.14)
Pay	0.096 (1.00)	0.093 (0.97)	-0.069** (-2.16)	-0.070** (-2.19)
_cons	-17.465** (-2.34)	-17.303** (-2.56)	1.094 (0.53)	-1.413 (-0.71)
Year	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
N	2098	2098	33,829	33,829
Adj. R ²	0.419	0.420	0.547	0.547

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

strong', has compressed the space for the exchange of interests between firms and the government; thus, the effect of Internal Controls on such subsidies is weak.

8. Conclusions and Implications

8.1 Conclusions

Amid a protracted global economic downturn and increasingly constrained fiscal space, examining the influence of Internal Controls on government subsidies carries both theoretical and practical significance. Drawing on data for China's A-share listed firms from 2009 to 2023, this study yields the following insights:

First, Internal Controls helps firms realize their strategic objectives. China's Internal Controls framework is comprehensive, with strategic goals as the enterprise's

paramount aim; its scope and objectives therefore diverge from the U.S. framework, which is primarily oriented toward Internal Controls over financial reporting and the enhancement of accounting information quality.

Second, Internal Controls is significantly and negatively associated with government subsidies. Departing from the prevailing view that better Internal Controls quality improves accounting information and thereby facilitates access to greater resources, this analysis—situated within China's institutional regime—finds that higher Internal Controls quality correlates with fewer subsidies, illuminating how Internal Controls shapes firms' strategic choices in the Chinese context.

Finally, the observed "support for the weak" tendency in subsidy allocation is not merely the product of uni-

Table 13. Innovation vs. non-innovation subsidies.

	(1)	(2)	(3)	(4)
	Innovation Subsidies		Non-innovation Subsidies	
ICQ	-0.021 (-1.13)		-0.354*** (-5.54)	
ICF		-0.010 (-1.58)		-0.115*** (-5.58)
Size	-0.011 (-1.29)	-0.011 (-1.32)	0.067** (2.03)	0.064* (1.93)
Roa	-0.002*** (-4.24)	-0.002*** (-4.28)	-0.007*** (-3.73)	-0.008*** (-3.93)
Lev	-0.001*** (-3.99)	-0.001*** (-4.00)	-0.003** (-2.27)	-0.003** (-2.30)
Boardsize	0.002 (0.73)	0.002 (0.73)	0.008 (0.66)	0.008 (0.66)
IndDirectorRatio	0.001 (1.59)	0.001 (1.58)	0.001 (0.16)	0.000 (0.14)
Age	-0.075*** (-5.55)	-0.075*** (-5.56)	-0.070 (-1.58)	-0.069 (-1.55)
MaleRatio	0.000 (0.31)	0.000 (0.31)	0.000 (0.04)	0.000 (0.01)
LnRevenue	0.050** (2.25)	0.049** (2.25)	0.163* (1.85)	0.162* (1.84)
Background	0.006 (0.81)	0.006 (0.81)	-0.002 (-0.09)	-0.002 (-0.09)
EquCon	-0.001* (-1.83)	-0.000* (-1.82)	0.001 (1.01)	0.001 (1.03)
Pay	-0.014* (-1.90)	-0.014* (-1.90)	-0.041 (-1.51)	-0.042 (-1.54)
_cons	0.022 (0.05)	-0.099 (-0.23)	-0.428 (-0.24)	-2.502 (-1.42)
Year	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
N	35,927	35,927	35,927	35,927
Adj. R ²	0.379	0.379	0.518	0.518

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

lateral disbursement by local governments; it arises from firms' strategic choices. Highly competitive firms voluntarily withdraw from the demand for subsidies, whereas less competitive firms assume political tasks to secure these resources. In contrast to much of the literature that treats firms as passive recipients, this study offers a micro-governance perspective that explains subsidy outcomes through agency and strategic behavior: firms with stronger Internal Controls opt out of subsidy reliance, while those with weaker Internal Controls, overlooking agency frictions, shoulder political burdens to obtain greater support. This firm-level strategic lens provides a novel explanation for, and enriches our understanding of, the formation of the "supporting-the-weak" pattern in government subsidies.

8.2 Implications

First, managers must prioritize the cultivation of high-quality Internal Controls and a lucid strategic orientation. As the architects of corporate decision-making, they should consistently strengthen Internal Controls and, through micro-level governance mechanisms, ensure the attainment of strategic objectives. Although local governments command considerable discretion in resource allocation, it is better to teach people to fish than to give them fish: the development of endogenous, self-sustaining capabilities remains the decisive condition for strategic success.

Second, local governments should expend every yuan where it cuts deepest. Reliance on fiscal "transfusions" cannot forge enterprises of formidable competitiveness; firms must cultivate their own regenerative capacity. Rather than

Table 14. Mediation effect test 2.

	(1)	(2)	(3)	(4)
	Burden	Compet	Compet	Subsidy
ICF	-0.072*** (-6.86)	0.002*** (6.11)	0.002*** (5.39)	-0.112*** (-4.92)
Burden			-0.003*** (-12.38)	0.165*** (7.31)
Compet				-4.310*** (-6.72)
Size	-0.209*** (-8.32)	-0.003*** (-7.97)	-0.004*** (-9.55)	0.077** (2.05)
Roa	-0.015*** (-11.91)	0.010*** (107.50)	0.009*** (107.25)	0.033*** (5.79)
Lev	-0.002*** (-2.82)	-0.000*** (-4.32)	-0.000*** (-4.79)	-0.004*** (-2.96)
Boardsize	0.010 (1.32)	-0.000 (-0.20)	0.000 (0.00)	0.009 (0.60)
IndDirectorRatio	0.002 (0.80)	0.000* (1.94)	0.000** (2.04)	0.003 (0.75)
Age	0.001 (0.04)	0.000 (0.52)	0.000 (0.53)	-0.156*** (-3.15)
MaleRatio	0.001 (1.51)	-0.000 (-1.26)	-0.000 (-1.01)	-0.001 (-0.35)
LnRevenue	0.004 (0.07)	-0.000 (-0.03)	-0.000 (-0.02)	0.202** (2.17)
Background	-0.011 (-0.65)	0.000 (0.41)	0.000 (0.32)	0.000 (0.01)
EquCon	0.062 (0.80)	-0.003** (-2.16)	-0.003** (-2.02)	0.054 (0.39)
Pay	-0.053*** (-2.79)	0.005*** (13.18)	0.005*** (12.93)	-0.032 (-1.05)
_cons	5.256*** (3.88)	0.013 (0.60)	0.030 (1.45)	-3.157* (-1.67)
Year	Yes	Yes	Yes	Yes
Firm	Yes	Yes	Yes	Yes
N	35,927	35,927	35,927	35,927
Adj. R ²	0.636	0.956	0.957	0.546

Note: The values in parentheses are t-statistics adjusted using clustered robust standard errors. ***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively. _cons, Constant.

Table 15. Bootstrap 2.

	(1)	(2)	(3)	
	Coefficient	Bootstrap SE	[95% conf. interval]	
ICF→Burden→Subsidy	-0.0119	0.0019	-0.0156	-0.0080
ICF→Compet→Subsidy	-0.0086	0.0015	-0.0104	-0.0047
ICF→Burden→Compet→Subsidy	-0.0010	0.0002	-0.0014	-0.0006
Total indirect effects	-0.0215	0.0027	-0.0257	-0.0150
Direct effect	-0.1120	0.0228	-0.1565	-0.0672

encouraging poorly competitive companies to shoulder political burdens, scarce public resources should be directed toward enterprises with promising prospects, so that every penny is used to maximum effect.

Finally, the media and the public should serve as vigilant watchdogs. They ought to identify and disclose subsidy-dependent “zombie” firms in a timely manner, thereby preventing the entrenchment of “too-big-to-fail” entities and curbing the misallocation of public resources.

Availability of Data and Materials

The data used in this study are available from the China Stock Market and Accounting Research (CSMAR) database. The processed data supporting the findings of this study are available from the corresponding author upon reasonable request, subject to database licensing restrictions.

Author Contributions

CG and WS designed the research study. ML contributed to data collection and literature review. YW performed the empirical analysis and interpreted the results. WS guided manuscript writing, coordinated revisions and responses, managed correspondence with the journal, and contributed to the interpretation of results and manuscript refinement. WS, YW, ML, and CG wrote and revised the manuscript. All authors read and approved the final manuscript. All authors contributed to editorial changes in the manuscript. All authors have participated sufficiently in the work and agreed to be accountable for all aspects of the work.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work the authors used ChatGPT-3.5 in order to check spell and grammar. After using this tool, the authors reviewed and edited the content as needed and take full responsibility for the content of the publication.

Appendix

See Tables 14,15.

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