

The Impact of Government Guidance Funds on Corporate Resource Allocation Efficiency

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Abstract

In 2025, the General Office of the State Council issued the Guidelines on Promoting the High-Quality Development of Government Investment Funds, emphasizing clearer strategic positioning, coordinated spatial layout, and synergistic linkages between national and local funds to better leverage fiscal resources in supporting the real economy. As a key fiscal policy instrument, government guidance funds play an important role in optimizing industrial structure and fostering innovation, especially during the “15th Five-Year Plan” period, when technological innovation and industrial upgrading are central to high-quality development. Using A-share listed firms in Shanghai and Shenzhen from 2008 to 2023, this paper empirically examines the impact of government guidance funds on corporate resource allocation efficiency. The results show that government guidance funds significantly enhance firms’ resource allocation efficiency. Mechanism analysis indicates that this effect operates mainly through easing financing constraints and increasing firms’ risk-taking capacity. Heterogeneity analysis reveals stronger effects for technology-intensive firms, firms with higher information disclosure quality, those operating in less marketized regions, and firms located in eastern and central China. These findings suggest that improving the policy environment, guiding capital allocation, strengthening risk management mechanisms, and optimizing market and legal institutions are essential to further amplify the effectiveness of government guidance funds.

Keywords

Government Guidance Fund; Resource Allocation Efficiency; Risk-Taking Level; Financing Constraint

1. Introduction

Recent policy documents emphasize the need to better leverage government investment funds and foster the development of patient capital as a key instrument for supporting technological innovation and industrial upgrading. As an important component of China’s fiscal policy framework, government guidance funds are

designed to combine policy objectives with market-oriented mechanisms. Through equity investment and co-investment with private capital, these funds guide financial resources toward strategic emerging industries and technology-oriented small and medium-sized enterprises, aiming to improve capital allocation while amplifying fiscal leverage. During the “15th Five-Year Plan” period, understanding whether and how government guidance funds contribute to high-quality economic development has become an increasingly important research question.

The existing literature on government guidance funds mainly focuses on their guiding effects, innovation incentives, and fault-tolerance mechanisms. Prior studies show mixed evidence on the guiding role of government participation in venture capital, with some documenting efficiency losses, while others highlight improved access to private investment and enhanced financing activity. A growing body of research finds that government guidance funds stimulate firms’ innovation by alleviating financing constraints and directing resources toward capital- and technology-intensive sectors. More recent studies emphasize the importance of risk-sharing and incentive-compatible institutional arrangements in improving policy effectiveness[1]. Despite these advances, little attention has been paid to how government guidance funds affect firms’ resource allocation efficiency, which represents a central channel linking financial policy to real economic performance.

Using a panel of A-share listed firms in Shanghai and Shenzhen from 2008 to 2023, this paper examines the impact of government guidance funds on corporate resource allocation efficiency. We find that government guidance funds significantly improve firms’ allocation efficiency. Mechanism analyses suggest that this effect operates primarily through easing financing constraints and increasing corporate risk-taking. Further heterogeneity analyses show that the effects are more pronounced among technology-intensive firms, firms with higher information disclosure quality, those operating in less marketized environments, and firms located in eastern and central regions of China[2]. Overall, our findings provide new evidence on the real effects of government guidance funds and shed light on their role in fostering new productive forces and high-quality economic development.

2. Theoretical Analysis and Research Hypotheses

As a policy-oriented equity investment instrument, government guidance funds primarily function through a “guiding effect” that mobilizes private capital participation and shapes firms’ resource allocation efficiency. This effect operates through capital guidance, behavioral guidance, and structural guidance, influencing firms’ innovation activities and risk-taking behavior and directing resources toward more productive uses.

At the capital guidance level, government guidance funds are typically established through fiscal investment and operate under market-oriented structures such as “fund-of-funds plus sub-funds” or minority shareholding with professional

management[3]. By sharing risks and lowering entry barriers, these arrangements ease financing constraints faced by high-growth firms at early stages. Existing studies document a significant leverage effect, whereby a limited amount of fiscal capital attracts substantially larger volumes of private investment, helping to correct market failures and underinvestment in strategic emerging industries. Through this mechanism, government guidance funds enhance the overall efficiency of capital allocation. At the behavioral guidance level, government guidance funds embed explicit policy orientations in investment selection, favoring firms aligned with national development strategies and possessing strong innovation potential. Through an investment-based signaling mechanism, these funds encourage private capital to participate in early-stage and high-risk projects, mitigating excessive risk aversion under uncertainty[4]. In this sense, policy-oriented investment guidance serves as an institutional complement to the market by correcting capital misallocation and improving the strategic alignment and forward-looking nature of resource allocation, particularly in technology-intensive and high value-added sectors. At the structural guidance level, government guidance funds establish investment standards and governance requirements that incentivize fund managers to strengthen due diligence, post-investment supervision, and performance evaluation. These mechanisms guide firms to optimize capital structure, R&D investment, and project selection, thereby improving resource utilization efficiency[5]. In addition, information-sharing platforms and policy coordination channels associated with guidance funds help alleviate information asymmetry and uncertainty, expanding firms' access to heterogeneous resources and reinforcing disciplined capital allocation.

H1: Government-guided funds can significantly promote the improvement of enterprises' resource allocation efficiency.

3. Research Design

3.1. Model Setting and Variable Definition

This study constructs the following two-way fixed effects model to test the research hypotheses:

$$markup_{i,t} = \alpha_0 + \alpha_1 GGF_{i,t} + \Sigma control_{i,t} + \Sigma Year + \Sigma Firm + \varepsilon_{i,t}$$

Here, i represents the firm and t represents the year; the dependent variable $markup$ denotes the firm's resource allocation efficiency; the explanatory variable GGF indicates the government-guided fund's investment in the firm; the control variables $Controls$ include firm financial, equity, and governance characteristics; $Year$ and $Firm$ represent year fixed effects and firm fixed effects, respectively; $\varepsilon_{i,t}$ is the error term, and α_0 is the constant term.

The specific measurement standards of each variable are shown in Table 1.

Table 1. Variable Definition Table

Variable Type	Variable Name	Variable Symbol	Variable Definition
Dependent Variable	Resource Allocation Efficiency	markupm_crt	Firm markup rate (calculated using cash paid for goods and services as intermediate input)
Independent Variable	Government Guidance Fund	GGF	Takes value 1 if the government guidance fund invests in the firm, 0 otherwise
Control Variable	Firm Age	lnage	$\ln(\text{Year} - \text{Listing Year})$
	Profitability	roa	Net profit of the firm / total assets at year-end
	Tobin's Q	tobin	Market value of the firm / replacement cost of assets
	Total Asset Growth Rate	tagr	$(\text{Short-term debt} + \text{Long-term debt}) / \text{Total liabilities}$
	Cash Flow Ratio	cash	Net cash flow from operating activities / total assets
	Bank Borrowing	bankd	Number of independent directors / total number of directors
	Long-term Debt Ratio	ll	Total long-term debt / total assets
	Total Debt Ratio	tl	Total liabilities / total assets
	Asset Structure	tang	$(\text{Net fixed assets} + \text{net inventory}) / \text{total assets}$
	Financial Leverage Ratio	Finlev	Total financial liabilities / total assets
	Top Shareholder Holding	top1	Number of shares held by the largest shareholder / total shares

3.2. Data Source and Sample Selection

Since government guidance funds began to emerge on a large scale in 2015[6], the sample period is set from 2008 to 2023. The data primarily come from the PE data (Zero2IPO) Private Equity Database and the CSMAR (China Stock Market & Accounting Research) Database. Specifically, data on government guidance funds are obtained from the government guidance fund section of the PE data database, including information on investors, investee enterprises, stock exchanges, industries, regions, investment types, investment timing, and investment amounts.

The data processing is conducted as follows: From the PE data database, enterprises receiving investment from government guidance funds are identified based on complete disclosure of investee firm, region, investment date, and investment amount. These are defined as enterprises supported by government guidance funds. enterprises are then matched by firm and year with other financial and governance data from CSMAR.

4. Empirical Results and Analysis

4.1. Descriptive Statistical Analysis

Table 2 reports the descriptive statistics of the main variables. The results show that the mean of resource allocation efficiency (markupm_crt) is 1.167, with a standard deviation of 0.331, a maximum of 3.230, and a minimum of 0.480, indicating

significant differences in resource allocation efficiency across firms. The mean of government-guided fund investment (GGF) is 0.049, with a standard deviation of 0.217 and a maximum of 1, suggesting that only a portion of the sample firms received support from government-guided funds, reflecting the relative scarcity of this type of investment.

Table 2. Descriptive Statistics of Key Variables

Variable	N	Mean	Std. Dev.	Min	Median	Max
markupm_crt	20,007	1.167	0.331	0.480	1.108	3.230
GGF	20,007	0.0494	0.217	0	0	1
lnage	20,007	2.300	0.765	1	2.485	3.526
roa	20,007	0.0280	0.0616	-0.341	0.0294	0.267
tobin	20,007	1.884	1.148	0.814	1.516	7.419
tagr	20,007	0.138	0.237	-0.269	0.0843	1.288
cash	20,007	0.166	0.112	0.0005	0.140	0.980
bankd	20,007	0.331	0.200	0	0.331	1.000
ll	20,007	0.0972	0.104	0	0.0643	0.846
tl	20,007	0.484	0.189	0.008	0.487	0.998
tang	20,007	0.372	0.174	0	0.363	0.954
Finlev	20,007	0.489	0.227	0	0.512	1.019
top1	20,007	33.76	15.08	0.290	31.24	89.99

4.2. Benchmark Regression Result Analysis

Table 3 reports the baseline regression results. When running the regressions, year, individual, and relevant control variables are included to ensure the robustness of the conclusions. Column (1) includes the government-guided fund variable and the firm resource allocation efficiency variable, controlling for year and individual effects, to examine whether changes in resource allocation efficiency occur within the sample. The results show that the coefficient of government-guided fund (GGF) is -0.0269, which is significantly negative at the 1% level, indicating that government-guided funds significantly suppress firm markups, thereby promoting improvements in resource allocation efficiency.

Furthermore, column (2) adds relevant control variables on the basis of column (1). The coefficient of GGF remains significantly negative at the 1% level, supporting the research hypothesis that government-guided funds significantly enhance firms' resource allocation efficiency.

Table 3. Baseline Regression Results

Variable	(1)markupm_crt	(2)markupm_crt
GGF	-0.0269*** (-3.1750)	-0.0273*** (-3.2362)
lnage		-0.0377*** (-5.4137)
roa		-0.2063*** (-7.4724)
tobin		0.0107*** (9.6929)

tagr		0.0059***
		(2.5966)
cash		-0.0278
		(-1.4367)
bankd		-0.0672***
		(-4.4751)
ll		0.0494*
		(1.9156)
tl		-0.1280***
		(-7.8093)
tang		0.0606***
		(3.7648)
Finlev		0.0603***
		(3.6343)
top1		-0.0007***
		(-3.0362)
Company FE	YES	YES
Year FE	YES	YES
_cons	1.1103***	1.2208***
	(293.7789)	(62.1339)
N	20007	20007
adj. R2	0.759	0.762

4.3. Robustness Tests

4.3.1. Replacing the Dependent Variable

To address potential self-selection bias and endogeneity, this study conducts a robustness check by replacing the dependent variable. Total factor productivity (TFP), which reflects the efficiency of resource use, is adopted as an alternative measure of resource allocation efficiency and is estimated using the Olley–Pakes (OP) method. The regression results show that the coefficient of government guidance funds remains significantly positive at the 1% level, confirming the robustness of the baseline findings.

Table 4. Alternative Dependent Variable

Variable	(1)TFP_OP	(2)TFP_OP
GGF	0.1875***	0.1859***
	(10.3817)	(11.0650)
Controls	NO	YES
Company FE	YES	YES
Year FE	YES	YES
_cons	6.5534***	5.9475***
	(816.8306)	(143.8677)
N	19535	19535
adj. R2	0.862	0.882

4.3.2. Replacing the Explanatory Variable

To test robustness, this study replaces the core explanatory variable with alternative measures of government guidance fund investment. Specifically, investment duration (Investsum) and the logarithm of investment amount (lninvestm) are used instead of the baseline dummy variable. As shown in Table 5, both measures yield significantly positive coefficients at the 1% level, indicating that the positive effect of government guidance funds on firms' resource allocation

efficiency remains robust.

Table 5. Alternative Independent Variable

Variable	(1)markupm_crt	(2)markupm_crt	(3)markupm_crt	(4)markupm_crt
investsum	-0.0127**	-0.0134***		
	(-2.5176)	(-2.6642)		
lninvestm			-0.0280***	-0.0291***
			(-2.9504)	(-3.0626)
Controls	NO	YES	NO	YES
Company FE	YES	YES	YES	YES
Year FE	YES	YES	YES	YES
_cons	1.1103***	1.2174***	1.1103***	1.2175***
	(293.7518)	(61.0818)	(293.7671)	(61.0925)
N	20007	20007	20007	20007
adj. R2	0.759	0.761	0.759	0.761

5. Further Research

5.1. Heterogeneity Analysis

R&D investment in manufacturing firms can improve output efficiency, but its effectiveness critically depends on whether R&D outcomes are successfully commercialized[7], a process that varies substantially across industries. In particular, technology-intensive firms tend to exhibit higher marginal returns to R&D investment[8]. In this context, government-guided funds, as a form of patient capital, can provide long-term and stable financial support to technology-intensive firms, alleviating financing constraints during the early stages of technology development and commercialization. Moreover, through policy orientation and resource allocation, government-guided funds help improve the transformation efficiency and market adaptability of technological achievements, thereby facilitating the effective application of R&D outcomes[9]. Continuous support from government-guided funds further strengthens firms' technological accumulation and innovation capacity, generating a cumulative interaction between R&D investment and efficiency improvement that promotes higher-level optimization of resource allocation[10][11].

The results are reported in Table 6. For non-technology-intensive firms (Var= 0), the coefficient of government-guided funds is -0.015 and statistically insignificant, indicating no clear effect on resource allocation efficiency. In contrast, for technology-intensive firms (Var = 1), the coefficient is -0.0215 and significant at the 1% level, suggesting that government-guided funds exert a stronger positive effect on resource allocation efficiency in this group. This difference implies that technology-intensive firms benefit more from the patient capital and policy guidance embodied in government-guided funds, whereas non-technology-intensive firms may rely less on innovation-driven investment or possess more flexible capital allocation mechanisms. Overall, the heterogeneity analysis supports the hypothesis

that government-guided funds play a more pronounced role in improving resource allocation efficiency among technology-intensive firms.

Table 6. Heterogeneity Test by Technology-Intensive Firms

Variable	(1)markupm_crt=0	(2)markupm_crt=1
GGF	-0.0150	-0.0215**
	(-1.1696)	(-2.0836)
Controls	YES	YES
Company FE	YES	YES
Year FE	YES	YES
N	11231	8776
adj. R2	0.764	0.806

6. Conclusions and Implications

Against the backdrop of the gradual improvement of the government-guided fund system and the growing demand for optimized corporate resource allocation, an urgent question arises: how to effectively integrate the long-term functions of the capital market with firms' internal governance mechanisms to enhance resource allocation efficiency. To address this, this study selects Chinese A-share listed companies from 2008 to 2023 as the research sample and examines the effects of government-guided funds, focusing on their guiding and tolerance characteristics. From the perspectives of the "guiding effect" and the "risk-taking effect," the study systematically investigates their impact on corporate resource allocation efficiency. The empirical results show that government-guided funds have a significant positive effect on improving corporate resource allocation efficiency, a conclusion that is robust across a series of sensitivity tests. Mechanism analysis further indicates that guided funds primarily optimize resource allocation efficiency by alleviating financing constraints and enhancing firms' risk-taking capacity. Subgroup analyses reveal that this promoting effect is more pronounced in technology-intensive firms, firms with high-quality information disclosure, firms in regions with lower marketization, and firms located in eastern and central China. Economic consequence analysis shows that by improving resource allocation efficiency, government-guided funds contribute to the cultivation and development of firms' new-type productivity.

The study offers the following policy implications and recommendations: Financial institutions and policymakers should jointly enhance the development of patient capital and the effectiveness of government-guided funds. Financial institutions need to continuously innovate financial instruments, diversify long-term investment channels, and strengthen risk management to ensure the stable operation of government-guided funds across firms' life cycles. At the same time, policymakers should foster a favorable investment environment through policy incentives, tax relief, and improved regulatory frameworks, while enhancing corporate governance and information transparency to build investor confidence. In regions with lower

levels of marketization, government-guided funds should play a stronger counter-cyclical and capital-supplementing role by increasing early-stage investment in innovation-oriented SMEs and adopting a “government guidance plus market operation” model with professional fund management. Finally, regional coordination and differentiated fund allocation should be promoted by strengthening collaboration between national and local funds, facilitating cross-regional capital flows, and aligning investment strategies with regional industrial advantages, thereby supporting balanced regional development and industrial upgrading.

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