Study on the Current Situation and Countermeasures of Capital Precipitation in State-Owned Enterprises

Bing Yu
Shandong Women's University
yubing1212@163.com

Keywords: Capital precipitation, State-owned enterprises, Cash pooling.

Abstract. Capital is the foundation for the survival and development of enterprises and the soul of enterprises. However, the problem of capital precipitation is more and more seriously restricting the survival and development of enterprises. Enterprises are on the one hand a large amount of capital precipitation, on the other hand a large number of bank loans. Not only being the formation of enterprises to the bank for a long time "work", and easy to cause the risk of bank loans. This is the problem which the current enterprise generally faces, must cause the enterprise and the social from all walks of life highly to take seriously.

1. Introduction

In view of the actual situation of the new mine, this paper discusses the objectives and countermeasures of strengthening the management of the internal working capital of the enterprise, and explores a new fund management mechanism, citing the successful international practice -- cash pooling.

Finally, from the perspective of invigorating the precipitation funds and preventing the formation of new precipitation funds, this paper discusses the methods to fundamentally solve the precipitation funds, and puts forward zero inventory management, addressing both the symptoms and root causes, so as to achieve the ideal state of fund management and make the enterprise funds enter into a virtuous circle.

Precipitation capital refers to the idle funds placed in society or enterprises, which are not accumulated and used. The existence of the problem of precipitation funds reduces the cash flow of enterprises, resulting in insufficient utilization of funds, which is an important issue affecting the economic development of enterprises. The problem of capital precipitation in state-owned enterprises has attracted more and more attention, and effective capital management has become the key to the development and success of enterprises.

China has formed the concept of "enterprise management centered on financial management, financial management - fund management as the center", and transformed from the traditional production management-centered management method to the direction of fund management as the center." Clearing center -- a good helper of group capital management" has been a popular concept. In the long-term research and exploration, China has put forward five modes of monetary fund control of the group company, namely, disbursement of reserve fund, unified collection and expenditure, establishment of settlement center, establishment of internal bank and financial company.

Experts generally believe that in the development process of enterprise groups, enterprise groups should choose different financial management systems according to different stages of development and scale of operation. According to different member enterprises adopt the financial management mode of centralization and decentralization. According to different organizational structures within the enterprise group, different financial management systems, such as integrated system, centralized system and decentralized system, are adopted for business units, production organizational units and marketing organizational units.
Although all parties are concerned about solving this problem, effective fund management is a worldwide problem, which requires efforts and support from all walks of life, more effective measures and persistent attention.

2. The State of Capital Precipitation of State-Owned Enterprises and its Influence

Capital is the foundation and soul of enterprise survival and development. At present, most enterprises in China are short of funds. It is manifested as slow operation of capital, shortage of capital needed for reproduction, shortage of monetary capital, precipitation of working capital, overstock of inventory and so on. Now take Xinwen Mining Group as an example to talk about the status quo of capital precipitation:

Xinwen Mining Group Co., Ltd. is a large state-owned enterprise group with state-owned assets as the main body, multiple ownership coexisting, and coal-based and diversified industries developing together. It is one of 520 key enterprises in China and 136 key enterprise groups in Shandong province. The group's coal production capacity was about 40 million tons, and its sales revenue was about 50 billion yuan by 2010. It has more than 30 subsidiaries and branches across many provinces, municipalities and autonomous regions. Because many members of the enterprise group company region are widely distributed, and brought a certain difficulty to management, although the internal bank in the money management, financial settlement center, centralized fund management mode, such as income and expenses group monetary amount increased year by year, but the shortage of liquidity in recent years also seriously restricts the survival and development of the enterprise. Since 2006, the group has been bankrupt in three mines. The group found the following problems in the investigation of some units:

2.1. The Phenomenon of Capital Precipitation is Serious, and the Current Capital Flow Remains Unchanged

For example, while some units within the group lend money to the bank, some units deposit up to tens of millions of yuan in the bank, and the funds cannot be properly adjusted and used, thus forming a large amount of capital precipitation. It is understood that the audit department found in the use of funds of a large state-owned group audit, from 2006 to 2008, the loss of hidden interests of enterprises reached 238.58 million yuan; While the group has a large number of external loans, the precipitation funds of commercial Banks total 3.807 billion yuan. If the above precipitation funds are used reasonably, the corresponding financial expenses can be reduced by 145.28 million yuan; the group's centralized funds failed to be adjusted as a whole and reasonably used, increasing the financial cost by 93.3 million yuan.

2.2. Inventory Backlog, Enterprise Liquidity Precipitation Serious

Some units under the group have long-term overstock of goods and materials, while some units re-purchase goods and materials when they need them. Even 60% of the finished products in the inventory of some units have no production capacity and are stored in the warehouse for a long time, which not only occupies the limited space of the warehouse, but also forms a large amount of precipitation funds.

At present, enterprises are on the one hand a large amount of capital precipitation, on the other hand a large number of loans to the bank, not only formed a long-term enterprise to the bank "work", and easy to cause the risk of bank loans. At the same time, At the same time, on the one hand, enterprises need enough working capital to maintain normal production and operation; on the other hand, capital occupation is constantly increasing. Loans from Banks do not form new effective supply, but are converted into new product backlog or capital precipitation, or they cannot form output at all. The result is that the effective demand exceeds the effective supply, and the demand pull will cause the price to rise, leading to a new round or higher inflation. At present, China is experiencing another round of severe test of inflation, which has to cause high concern from all sectors of society.
3. Main Causes of Capital Precipitation of State-Owned Enterprises

The reasons for the precipitation of funds are various, involving the microeconomic field and the macroeconomic field. For example, the economic reform is not in place, the country invests less capital, the industrial structure is not reasonable, the capital management system is not perfect, the material purchase more is better, the product is not marketable, the capital turnover is slow, the market competition is fierce, inflation, price rise causes the demand for working capital to increase and so on, it can be seen from the analysis of the current situation of fund precipitation in Xinwen Mining Group that improper management and use of working capital and serious backlog of finished products are the main causes of fund precipitation.

3.1. Fund Management within the Group Lacks Scientific, Systematic and Effective Control Measures

In the operation and management, the fund management system is not perfect, the internal control of monetary funds is not in place, the time value and risk value of money are lacking, the efficiency of monetary funds is low, and the capital turnover is slow.

3.2. Loose Fund Management within the Group Company

Due to the large number of members and the wide geographical distribution of the group, the companies within the group fight among themselves, and there is no unified fund management among the departments within the enterprise. There is no overall coordinated management or unscientific coordinated management of funds within the group, and the fund efficiency and scale efficiency cannot be given full play." Some bosses don't even know how many accounts they have or how much money they have saved. The subsidiaries of a large group company often have dozens or even hundreds of bank accounts, which cannot be monitored by the group, nor by the banking and financial departments."

3.3. Insufficient Prediction of the Utilization of Funds

In operating activities, financing activities, investment activities cash flow is the actual operational cash flow of the enterprise, it is the key to enterprise raise funds and spend, but companies rarely forecast cash inflows and outflows, some enterprises lack enough understanding to the market, lack scientific research on the feasibility of projects, blind investment in projects, is often a large number of engineering and projects newly built or put into production, will shut down due to lack of project is not feasible or liquidity, cause a lot of money to precipitate, result in unable to maintain normal production and business operation activities of the company in trouble. For example, after more than half a year of investigation and preparation, a logistics company was established in a certain unit of the group company. A large amount of manpower, material resources and financial resources were invested. However, the operation lasted less than a month. However, due to the poor feasibility of the project, it was unable to maintain the operation, and the company had to be announced to break up, and the invested capital was wasted. For another example, a metallurgical project in central China invested more than one billion yuan in capital construction. However, due to lack of sufficient working capital after completion, the project could not carry out normal production, so the assets of more than one billion yuan had to be deposited in the backlog.

4. Countermeasures and Suggestions to Solve the Precipitation Problem of Working Capital

Working capital consists of two basic forms of capital in monetary form and physical form. Monetary capital refers to the part of capital in the form of money in the process of enterprise production and operation, which can be divided into inventory cash, bank deposits and other monetary funds according to its form and purpose. Monetary capital is the most liquid and risky asset for enterprises, an important means of payment and circulation for enterprises, and also the key to prevent capital precipitation. Therefore, enterprises must strengthen the management and control of monetary funds, establish and improve the internal control system of monetary funds to ensure the normal turnover of funds.
4.1. Monetary Fund Integrity Control

The monetary fund integrity control scope includes each kind of income and the debt recovery. Through the inspection of sales, procurement or accounts receivable, accounts payable recovery and return situation. The control method generally adopts the management of printing, receiving, issuing and storing of invoices and receipts. Control bank statements; Control material balance control current account checking etc.

4.2. Control of the Legality of Monetary Funds

The legitimacy control of monetary funds is aimed at the income and payment of monetary funds. Generally, strict authorization examination and approval system and internal audit supervision are adopted for legitimacy control

4.3. Security Control of Monetary Funds

The scope of monetary fund security control includes cash, bank deposits and other monetary funds. The security control method of monetary funds can generally adopt the physical inventory control of accounts, that is, through regular or irregular inventory of monetary funds, to create an invisible, always existing pressure on the monetary funds related positions; physical isolation control can also be used, cash can only be kept by the cashier, the bank acceptance bill can only be managed by one person; also can use post separation control, incompatible posts are responsible for different people, in order to achieve mutual containment, mutual supervision and other methods.

4.4. Efficiency Control of Monetary Funds

The efficiency control of monetary funds is subject to the financial management goal of maximizing the wealth of enterprises. In the above three objectives, the integrity, legality and safety of monetary funds are the main laws and regulations and the custody of funds, and the effectiveness of monetary funds is the focus of this paper to solve the precipitation of working capital. Here, we introduce the time value and risk value of capital to manage the efficiency of monetary capital:

4.5. Cash

The so-called cash pooling management Pooling Management is to realize the centralized management of funds in the form of centralized account balance, which is mainly used for the situation that the interest needs to be hedged, but the account balance still must be separated. The main approach is for the group to set up a parent company account first, which is called a cash pool. Each unit under the account of the parent company to set up the account, and virtual subsidiaries have a unified the overdraft, in a certain point, daily banking system subsidiary company account automatically scanned, and the subsidiary account reset, overdraft, when the company is what is returned from the group cash pool transfer, as to the group's borrowing, and interest payments; If there is any balance, it is transferred to the group account and recorded as a loan to the group and charged interest to the group. In this way, through the internal valuation between subsidiaries, for each subsidiary, can avoid the trouble of dealing with Banks; For enterprise groups, it saves the interest spread burden of their subsidiaries' deposits and loans.

The cash pooling effectively realizes the transfer of funds within the group by means of entrusted loans, meets the capital demand and supply within the enterprise group, reduces the financial cost of the whole group, and improves the efficiency of capital management. In general, for group enterprises, cash pool realizes the effective sharing of capital resources within the group system. Group headquarters to subsidiary account set limit, of overdraft account can make money in the daytime, will reset all subsidiary account, namely when the company account in credit, as the parent company account, as loans and charge interest on the enterprise group subsidiary account overdraft, parent company account transfer to return, as the enterprise group and pay interest on a loan.
5. Summary

The market operating environment is ever-changing and full of risks. What an enterprise needs to do is to improve its operating efficiency and reduce the possibility of risk impact while reducing risks as much as possible, which is also the fundamental for its survival and development. The key to improve the efficiency of capital operation lies in the management of the working capital of enterprises. Capital scale effect is the eternal theme of group capital management, and the maximization of group income is the core of capital management. Cash pooling management is an effective tool for the centralized management of group funds, realizing the centralized operation of funds of all members of the group and the sharing of fund resources within the group, improving the overall efficiency of group funds and effectively revitalizing the precipitation funds. In natural precipitation funds at the same time, more to prevent new formation of precipitation, using effective investment risk and operational risk responsibility restraint mechanism, try zero inventory management, and severely, to fundamentally solve the problem of precipitation funds, making money is truly into virtuous cycle track, enhance the ability to resist risk, make the enterprise new vigor and vitality forever.

6. Reference


