

# *Research on Efficiency Management of Fund in Enterprise Groups*

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**Keywords:** Fund efficiency management; Centralized fund management, Financial products

**Abstract:** Fund is the lifeblood of an enterprise, and reliable cash flow is a critical factor for the survival and development of an enterprise. In practice, more and more enterprise groups are trying to reduce financial costs meanwhile obtain additional benefits by implementing fund efficiency management. This paper analyzes the necessity of implementing fund efficiency management in enterprise groups and then elaborates on the procedures, programs, and principles of fund efficiency management in an attempt to provide decision-making references for the fund efficiency management of the growing enterprise groups in our country.

## **1. Introduction**

The primary goal of fund management is to ensure the demand for working capital on the basis of controlling the principle of conservatism, on which basis, through an accurate control of financial policies and bold innovation of management strategies, it is possible to not only control financial risks and reduce operating costs, but also obtain additional fund benefits.

In China, enterprise groups have gained rapid developments for more than thirty years from registration in 1992. However, in the practice of fund management, a lot of enterprise groups have neglected the improvement of fund efficiency, although they have done a good job of fund risk prevention. This is partly due to the lack of awareness of fund efficiency management in the enterprise groups and the lack of understanding.

Based on this, this paper first introduces the work procedures related to the development of fund efficiency management in Enterprise groups, has a discussion about the possible applicable fund efficiency management programs, and then analyzes the principles that must be practiced for the implementation of fund efficiency management so as to help the enterprise groups scientifically and accurately select the program that meets their actual management needs.

## **2. Procedures of fund efficiency management**

From the perspective of enterprise operation and management, fund efficiency management isn't intended to solve a specific financial problem but is a comprehensive management procedure that runs through the overall operation of the enterprise. The main working procedures for fund efficiency management in enterprise groups are as follows:

## **2.1 Forecasting fund trends**

Forecasting is the process of transforming uncertainty into recognizable and measurable certainty, and the trend in the movement of fund refers to the movement of future surpluses or deficits.

The prediction of the trend of fund changes determines the decision-making direction of fund efficiency management, and once the decision-making direction is wrong, not only it will not be able to gain benefits, but it may also enlarge the loss.

## **2.2 Identifying fund surpluses or deficits**

It is the basis for developing fund efficiency management to identify fund surpluses or deficits scientifically and accurately.

The enterprise groups should reasonably anticipate future cash inflows and outflows based on contract signing, work progress, settlement terms and extrapolate future currency inventories in conjunction with opening currency holdings. On the premise of ensuring the liquidity requirements for day-to-day recurring activities, the amount of surpluses or deficits of fund should be clearly defined.

## **2.3 Evaluating fund management program**

On the basis of accurate statistics on the size of fund surpluses and deficits, the enterprise groups evaluates the various options for fund efficiency management in conjunction with the principle of "risk-cost-efficiency" and selects the management option that is highly secure and cost-effective.

## **2.4 Implementing fund management program**

The enterprise groups should set up a separate fund management department or assign fund management specialist to carry out fund efficiency management in a safe, sound and flexible manner on the basis of national financial laws and regulations, and comprehensively apply various strategies and methods to enhance fund efficiency.

## **3. Methods of fund efficiency management**

Currently, there are three main categories of effective fund efficiency management strategies for enterprise groups in our country. The first is the centralized fund management as the main method of internal control method, the second is the commercial method of coordinating the surplus and deficit of fund by paying suppliers in advance or delaying the collection of customer payments, and the third is the financial method of joining hands with banks and other financial institutions to make comprehensive use of savings deposits and financial products.

### **3.1 Management method—centralized fund management**

The basic nature of centralized fund management is to collect the fund of each unit of an enterprise group to the group headquarter, and the fund management center of the group headquarter carries out unified management, scheduling, application and supervising of the fund.

The management practice of advanced enterprise groups all over the world have proved that fund centralized management mode can not only monitor the income and expenditure of each unit in real time and prevent risks of financial settlement, but also can implement macro-allocation of the fund surplus and deficit of each unit, and revitalization of sunk fund to ensure the operational needs. At the same time, it will implement the integrated planning, integrated collecting and integrated

allocating to utilize the advantages of overall scale to enhance the comprehensive efficiency of fund.

### 3.1.1 Operational background

With the fund decentralized management mode, each unit of the enterprise group independently accounts for income and expenditure, although conducive to the flexibility of financial management and stress, but inevitably the liquidity turnover of each unit is not balanced, but also increase the difficulty of management, coordination and monitoring at the group level, specific include

(1) The independent receipt and payment in each unit and the group cannot understand, audit and monitor the income, expense and stock of each unit in real time

(2) Accounts and fund are charged by each unit and the group cannot unified planning, unified scheduling, and unified settlement, which is difficult to play the overall scale benefits.

(3) The collection and payment settlement between various units requires extracorporeal circulation through the banking system, which increases the amount of fund occupied.

### 3.1.2 Regulatory evidence

Due to the obvious benefits of centralized fund management mode in optimizing funds allocation and preventing financial risks, the Ministry of Finance and other authorities pushed and promoted the implementation of centralized fund management by stipulating the relevant requirements in financial laws and regulations:

(1) Ministry of Finance [1997] No.346. *Provisions on Several Issues Concerning Strengthening Financial Supervision of State Owned Enterprises*, Clause 6: Enterprises shall establish necessary internal control system for funds allocation to ensure its safety. Capable enterprises shall establish a fund settlement center to generally collect, distribute, use, manage and supervise funding activities step by step.<sup>[1]</sup>

(2) Ministry of Finance [2006] No.41. *General Rules on Enterprise Finance*, Clause 23: Enterprise groups may manage internal funds in a centralized and unified way, but shall conform to the relevant provisions of financial laws and regulations, and may not damage the interests of member enterprises.<sup>[2]</sup>

### 3.1.3 Operation procedure

#### (1) System establishment

The first step for the fund centralized management is to establish the organizational system and set up operating platform in the Enterprise group.

① Two-tier settlement center: The Group Headquarter establishes a first-level settlement center, and each member unit serves as a second-level settlement center.

② Bank account system: The Group Headquarter selects a collaborative bank to open a settlement account, and each member unit opens a settlement account in the local collaborative bank.

③ Internal account system: Each member unit opens an internal account in the Headquarter settlement center and jointly constructs a cash pooling for cash receipts, disbursements and storage.

④ Fund settlement system: The complete centralized fund management information system mainly includes fund settlement module (budget, settlement, transfer, etc.), accounting module (income accounting, expenditure accounting, etc.), report analysis module (internal financing report, internal settlement report, fund flow and stock report, etc.), which together with the supply and marketing inventory system, general ledger system, statement system, etc., builds up the centralized

financial management software platform.

(2) Forecasting for cash-in and cash-out

① Each unit prepares annual, quarterly and monthly budgets on a rolling basis and submits them to the Headquarter settlement center in a timely manner.

② Headquarter settlement center measures the overall fund conditions of the group based on the budget plan of each unit.

③ The Headquarter settlement center implements unified management for different overall fund conditions, such as arranging fund management for surplus fund and external financing for fund shortages.

(3) Receipts upward transfer

① Each unit's bank sub-account receives payments from customers.

② The balance of each unit's sub-account at the end of the day is automatically transferred in full to the Headquarter settlement center general account.

③ The general account of the group fund settlement center performs the function of cash pooling and collects the receipts from each unit.

(4) Expenses downward transfer

① Each unit submits the same-day payment application to its company management.

② Each unit submits the same-day payment application approved by its local management to the Headquarter settlement center.

③ The Headquarter settlement center transfers the required fund from the Headquarter general account to each unit's bank sub-account based on the approval of the payment application.

(5) Internal debit and credit

① Internal borrowing: The borrowing unit measures the fund shortage according to the recent income and expenditure plan and completes the internal borrowing through the Headquarter settlement center.

② Internal repayment: When the credit expires, the borrowing unit completes the internal repayment through the Headquarter settlement center.

③ Interest settlement: In accordance with the principle of paid occupancy of fund, the deposits and borrowings of each unit shall be calculated as the occupancy fee, and the rate shall be formulated with reference to the bank's lending rate for the same period.

### 3.1.4 Efficiency analysis

As a comprehensive fund management tool, centralized fund management is of practical significance for enterprise groups to optimize resource allocation, prevent capital risks, and reduce financing costs.<sup>[3]</sup>

Compared with the fund decentralized management mode, the main functions of the centralized fund management mode include:

(1) The Headquarter settlement center monitors the revenues and expenditures of member units at any time, keeps abreast of changes in cash flow and fund balances, and ensures the safety of fund.

(2) The Headquarter settlement center manages the fund of member units in a coordinated manner, realizing unified planning, centralized allocation, real-time transfer, and playing the role of resource integration.

(3) Receipt and payment settlements between member units are completed through internal transactions, reducing the amount of fund occupied and avoiding cross-bank settlement costs.

## 3.2 Business method-early payment to suppliers

### 3.2.1 Operational background

With the fully understanding of its own fund condition, when the long-term cooperative suppliers have financial difficulties, the enterprise group helps the suppliers through early payments and meanwhile obtains extra benefits of cash discounts legally and reasonably.

### 3.2.2 Regulatory evidence

Cash discounts for earlier payments are kind of financing behavior in nature. According to *Accounting Standards for Enterprises No. 14 - Income (2017)*, the cash discounts should be treated as "financing income" of buyers, meanwhile "financial expenses" of the seller.

### 3.2.3 Efficiency analysis

Since cash discount is an autonomous commercial behavior between the buyer and the seller, there is no specific provision on the cash discount rate in the finance and taxation regulations, and it is sufficient to comply with the business operation routine of the enterprise.

Considering that the benchmark interest rate of RMB less-six-month-loan announced by People's Bank of China's is 4.35%<sup>[4]</sup>, as well as the fact that commercial banks generally set its lending interest by raising 2 percentage on the basis of People's Bank of China's benchmark interest rate, presumes that the actual lending interest rate of RMB less-six-month-loan of commercial banks basically remain at 5.22%. Taking the existing bank deposit of RMB100 million as an example, the cash discount gain on payment of goods to suppliers 90 days in advance is RMB1.3 million, which is RMB1.21 million higher than the interest income from bank demand deposits and RMB1.03 million higher than the interest income from 3-month time deposits (see Figure 1):

	account payable	early days	base rate	actual rate	discount income	discount-interest
option 1: early payment to supplier	100,000,000	90	4.35%	5.22%	1,305,000	
	deposit amount	deposit days	base rate	actual rate	interest income	
option 2: demand deposit	100,000,000	90	0.35%	0.35%	87,500	1,217,500
option 3: time deposit	100,000,000	90	1.10%	1.10%	275,000	1,030,000

Figure 1: Income Statement of early payment

## 3.3 Business method-deferred receipt from customer

### 3.3.1 Operational background

With the fully consideration of its own fund requirements, when the long-term cooperative customers have financial difficulties, the enterprise group helps the customer through deferred collection, and meanwhile legally and reasonably obtains the interest income from the deferred receipts.

### 3.3.2 Regulatory evidence

According to Article 12 of the *Rules for the Implementation of the Provisional Regulations on Value-added Tax*, the interest on deferred payment is an out-of-price of the sale of goods. The State Administration of Taxation stipulated, interest income relating to the deferred payment should be treated as sales income and be invoiced by the seller.

### 3.3.3 Efficiency analysis

As the deferred payment discount is an autonomous commercial behavior between the seller and the buyer, there is no specific provision on the discount rate in the finance and taxation regulations, which is in line with the business operation routine of the enterprise.

Considering that the benchmark interest rate of RMB less-six-month-loan announced by People's Bank of China's is 4.35%, as well as the fact that commercial banks generally set its lending interest by raising 2 percentage on the basis of People's Bank of China's benchmark interest rate, presumes that the actual lending interest rate of RMB less-six-month-loan of commercial banks basically remain at 5.22%. Taking the deferred collection of RMB 100 million as an example, the discounted interest income from collecting payment from the purchaser after a 90-day deferral is RMB 1.3 million, which is RMB 1.21 million higher than the interest income from on-time collection followed by demand deposits through banks and RMB 1.03 million higher than that from 3-month time deposits (see Figure 2):

	account receivable	deffered days	base rate	actual rate	discount income	discount-interest
option 1: deffered receipt from customer	100,000,000	90	4.35%	5.22%	1,305,000	
	deposit amount	deposit days	base rate	actual rate	interest income	
option 2: demand deposit	100,000,000	90	0.35%	0.35%	87,500	1,217,500
option 3: time deposit	100,000,000	90	1.10%	1.10%	275,000	1,030,000

Figure 2: Income Statement of deferred receipt

## 3.4 Financial method-bank deposits

### 3.4.1 Types of interest rate

#### (1)Primary interest rate

The currently applicable benchmark interest rates for RMB deposits were announced by the People's Bank of China on October 24, 2015. The benchmark interest rate for demand deposit is 0.35%, and the benchmark interest rates for three-month-deposit, six-month-deposit, one-year-deposit are 1.1%, 1.3%, 1.5% respectively.<sup>[5]</sup>

#### (2>Listed interest rate

Each commercial bank gets its listed interest rate by upwardly adjusting a certain amount on the basis of the People's Bank of China's benchmark interest rate. On September 15,2022, the five major state-owned banks, namely, ICBC, ICNA, CJCC, and CITIC, simultaneously announced to reduce their listed interest rate for time deposits, subsequently other state-owned banks and joint-stock banks followed up with the adjustments. The interest rates for three-month-deposit, six-month-deposit and one-year-deposit basically remain at 1.25%, 1.45% and 1.65%.

#### (3)Actual interest rate

Each commercial bank enforces an actual interest rate by reducing a certain margin from the listed interest rate, considering the importance of the customer and the size of its deposit. Therefore, for the same bank, the level of interest rate varies depending on the level of the customer.

### 3.4.2 Current situation of bank deposits

There are five categories of savings that are currently the most used by enterprise groups:

(1)Demand deposits: flexible withdrawal but low interest rate. The current benchmark annual interest rate is 0.35%.

→The enterprise groups must adopt and appropriate retain to meet the daily operational needs.

(2)Time deposits: low starting points, higher interests, but the term is fixed, and early withdrawal shall be treated as demand deposits. The benchmark interest rates for the three-month, six-month

and one-year periods are 1.1%, 1.3% and 1.5% respectively.

→The enterprise groups generally choose three-month, six-month and one-year terms, disregarding two-month, three-month and five-year terms.

(3)Time-demand deposits: between the demand deposits and time deposits, the period is not fixed, the actual deposit for how long counts how long, the interest rate for the same period of fixed-term interest rates 60% discount. Such as three months of the benchmark annual interest rate of 0.7%.

→Compared to the fixed term is more flexible, compared to the demand interest is higher, so it can be used as a substitute for demand deposits.

(4)Notice deposits: The term is not fixed, can be withdrawn several times, and notify the bank one day or seven days in advance when it is taken out. The base annual interest rates for one-day notice and seven-day notice are 0.8% and 1.35% respectively (higher than the three-month interest rate of 1.3% for fixed deposits).

→Good flexibility and high interest rate, suitable for large deposits with frequent access.

(5)Agreement deposits: Negotiate with the bank on the level of interest rate according to the size of the deposit and sign the Agreement on Deposit accordingly. Specific operation: agree with the bank on the basic deposit amount and the agreement deposit interest rate, when the deposit is lower than the fixed amount, interests will be charged at the call rate; when the deposit is higher than the fixed amount, the excess will be charged at the agreement interest rate. The account deposit amount is generally agreed to be 300,000-500,000 yuan, and the agreement deposit interest rate is set by each bank, and the current agreement base interest rate listed and announced by the central bank is 1.15%.

→Deposit amount is higher, the bargaining power is stronger and the agreement interest rate is higher, so the program has become a must-have option for large depositors.

### 3.4.3 Efficiency analysis

Taking the existing bank deposit of RMB100 million as an example, without considering the actual interest rate preferences of the bank, the benefit of each savings variety deposit for 90 days based on the People's Bank of China's benchmark interest rate is measured as Figure 3:

	deposit amount	deposit days	base rate	actual rate	interest income
option 1: demand deposit	100,000,000	90	0.35%	0.35%	87,500
option 2: time-demand deposit	100,000,000	90	0.77%	0.77%	192,500
option 3: time deposit	100,000,000	90	1.10%	1.10%	275,000
option 4: agreement deposit	100,000,000	90	1.15%	1.15%	287,500
option 5: notice deposit	100,000,000	90	1.35%	1.35%	337,500

Figure 3: Income Statement of bank deposits

Generally speaking, with strong capital and excellent credit, the enterprise groups are high-quality customers that banks strive for long-term cooperation. Based on its fund collection and payment plans and balance changes, enterprise groups can actively negotiate with banks for preferential deposit rates to ensure maximum value preservation and appreciation of fund, and realize mutual benefits and win-win cooperation between banks and enterprises.

## 3.5 Financial method-financial products

### 3.5.1 Types of financial products

There are numerous ways to categorize bank financial products, among which the more critical

ones for the rational selection of financial products for corporate groups are:

(1) Based on expected benefits

① Capital-protected fixed-income type: guarantee payment of principals, agreed fixed rate of return, generally 3%-5%.

② Benefits guaranteed floating income type: guarantee payment of principals, agreed minimum rate of return, according to the actual investment to determine the rest of the return; or not agree on the minimum rate of return, according to the actual investment to determine the full return.

③ Non-principal-protected floating-income type: payment of principal is not guaranteed, and the entire return is determined according to the actual investment situation.

(2) Based on level of risks

① Basically risk-free financial products: such as deposits and treasury bonds, which have the lowest risk level because they are guaranteed by bank credit and national credit.

② Lower-risk financial products: such as money market fund or bond-biased fund, which are invested in the low-risk interbank lending market and bond market, and the specialized and diversified investments of fund companies further reduce their risks.

③ Medium-risk financial products: such as trust-type financial products, foreign exchange structured deposits and structured financial products.

(3) Based on investing fields

① Bonds type: mainly invested in the money market, the investment products are generally central bank bills and corporate short-term financing bills.

② Trust type: mainly invest in trust products guaranteed or repurchased by commercial banks or other financial institutions with higher credit ratings.

③ Capital type: financial products that mainly invest in stocks, bonds and funds.

④ Linked type: financial products whose final return is linked to exchange rate, interest rate, stock index, international gold price and international crude oil price.

(4) Based on investing period

① Short-term financial products: generally less than three months, the lowest annualized rate of benefit.

② Medium and long-term financial products: from three months to one year, with higher annualized rate of benefit.

③ Long-term financial products: more than one year, with the highest annualized rate of benefit.

### 3.5.2 Current situation of financial products

Financial products of commercial banks and financial institutions are broadly categorized into two main types:

(1) Deposits type: demand deposits, time deposits, notice deposits and structured deposits.

Among them, demand deposits, time deposits and notice deposits have been covered in the previous section, structured deposits are currently only for large foreign exchange deposits.

(2) Assets type: bank financial products, securities company financial products, investment company financial products, trust and fund.

Among them, bank financial products have rapidly grown to an important channel to low-preference risk customers since the introduction in 2004 due to their lower risks and steady returns. In recent years, affected by the epidemic and the financial market shock, bank financial products' new varieties, issuance scales, operation income have dropped significantly, but the enthusiasm of listed companies to buy financial products is even higher. According to Wind Database, a total of 1,411 listed companies purchased 20,139 financial products in 2022, with a



subscription amount of about 1.48 trillion yuan<sup>[6]</sup>. Of which, structured deposits still accounted for the highest proportion of more than 64%, and bank financial products ranked second, accounting for near to 12%<sup>[7]</sup>.

### 3.5.3 Efficiency analysis

When the enterprise groups have idle fund, it obtains a certain amount of investment income by moderately investing in bank financial products with expected benefits.

(1) Understanding of financial products: The enterprise groups fully understands the characteristics of various types of financial products, including investment requirements, investment period, investment scope, expected benefit and risk level through professional financial institutions such as bank wealth management companies.

(2) Selection of financial products: the enterprise groups prudently selects the financial products with the most matching expected return and risk level according to its own risk preference, amount of fund and usage period.

(3) Redemption of financial products: For subscribed financial products, the enterprise groups shall control the product investment and project progress through professional information channels, be alert to any potential unfavorable factors, and ensure the safe redemption of principal and interest on the maturity date. Taking the purchase of fund-protected fixed-income financial products as an example, not only can the principal be recovered on the maturity date, but also the investment income can be obtained at the same time (the agreed rate of return is generally 3%-5%).

According to Wind Database, most financial products have solid performance in year 2022: Among the 13,325 financial products with return data, 10,084 financial products have achieved positive returns, accounting for 75.68%; From the perspective of return distribution, 47.89% of the profitable financial products are in the range of annual return between 0-3% (including 3%), 24.8% of the profitable financial products are in the range of 3%-5% (including 5%), and 2.98% of financial products have an annual return greater than 5%<sup>[8]</sup>. In addition, according to the Annual Report on China's Banking Wealth Management Market (2022) released by the Banking Wealth Management Registration and Custody Center, financial products have achieved a total amount of 880 billion yuan for investors, with an average return rate of 2.09% in year 2022<sup>[9]</sup>.

## 4. Principles of fund efficiency management

Because the deferred payment discount is the Enterprise groups' fund efficiency management work throughout the whole process of operation, in addition to the need to meet the requirements of legal compliance, it should also follow the principles of safety and conservatism, from the practical point of view, and continuous improvement.

### 4.1 Safe conservatism principle

The fund efficiency management in the enterprise groups should obey the safe conservatism principles. Firstly, we should reasonably distinguish between necessary fund and idle fund, and always maintain an appropriate amount of liquidity to meet the needs of daily operations; secondly, we should scientifically manage idle fund, and carefully select fund efficiency management programs with high security and stable returns.

### 4.2 Actual needs principle

The goal of fund efficiency management is to preserve and increase the value of fund rather than speculative benefit. The enterprise groups should carry out fund efficiency management from the

actual business needs and avoid speculative strategies for profit-making (e.g. obtaining fund through borrowing to invest in financial products when its own fund are not in surplus).

### 4.3 Continuous improvement principle

The fund efficiency management strategies in the enterprise groups are not static, and should be continuously improved with the changes in procurement, production, sales, finance and other aspects. The enterprise groups should always examine the application of the management plan and continuously improve and optimize it to achieve the best effect of fund efficiency management.

## 5. Conclusions

Based on the fund efficiency management problems faced by the enterprise groups in our country, this paper clarifies the necessities and feasibilities of enterprises' comprehensive utilization of managerial, commercial and financial strategies, so as to effectively avoid financial risks and enhance fund efficiency. At the same time, the fund efficiency management of enterprises should be based on the premise of actual needs, with the purpose of value preservation and appreciation, and avoiding the speculative strategy for the purpose of benefit.

In conclusion, enterprise groups should proactively, scientifically and reasonably utilize fund management strategies to effectively control financial risks and enhance fund efficiency.

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