

# Improving Financial Management of State-owned Enterprises by Strengthening Cost Control

Yujing Zhao, Huazhou Zeng\*, Yi Man, Jingyi Zhang

Southwest Petroleum University, School of Economics and Management, Chengdu, 610500, Sichuan, China

z13981386984@outlook.com

\*Corresponding author

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**Abstract:** In recent years, the achievements of China's economic development cannot be achieved without the promotion of state-owned enterprises (SOE). Corresponding to the rapid economic development, there are problems in the management of state-owned enterprises, the most important of which is the continuous growth of costs within the enterprises. These problems are the major obstacles to the development of state-owned enterprises in China. State-owned enterprises must strengthen their internal cost control and improve the financial management of state-owned enterprises in order to get rid of the shackles and achieve development. This paper analyzes and studies the current situation of state-owned enterprises' operation, the problems of cost management and solutions.

## 1. Introduction

In recent years, under the fierce competition in the cruel economic market, all enterprises have exhausted all methods to improve their competitiveness, the most important one is to ensure the quality of the premise of reducing costs to obtain higher benefits. Managers should keep pace with the times, innovate the traditional management concepts, get rid of the drawbacks of traditional management concepts, and analyze and manage the cost of the enterprise by advanced and scientific methods. Efficient cost control methods can help enterprises to improve their economic strength and promote sustainable development of enterprises.

## 2. Status of capital management of state-owned enterprises

We analyzed the total revenues and expenses of our national SOEs from 2015 to 2021 (as shown in Figure 1-2). The total capital operating income of national SOEs in China in 2015 was RMB 256 billion, of which RMB 161.3 billion was from central SOEs and RMB 94.7 billion was from local SOEs. In 2021, the national income from state-owned capital operation was RMB 512.8 billion, increased by 8.5% year-on-year. From the central and local perspective, the central state-owned capital management budget income of RMB 226.808 billion yuan, up 12.4% year-on-year; local state-owned capital management income of RMB 286 billion yuan, up 6.1% year-on-year. The total capital operation expenditure of national SOEs in China in 2015 was RMB 207.9 billion, of which central SOEs' capital operation expenditure was RMB 123.5 billion and local SOEs' capital operation expenditure was RMB 84.4 billion. In 2021, the national state-owned capital management expenditure was RMB 355.302 billion, up 2.7% year-on-year. From the central and local perspective, the central state-owned capital management expenditure was RMB 172.345 billion, up 7.2% year-on-year; the local state-owned capital management budget expenditure was RMB 182.957 billion, up 0.3% year-on-year.

Table 1 Total national income from state-owned capital operations, 2015-2021 Unit: billion yuan (RMB)

Total income from state-owned capital operations			
Year	Central	Local	Total
2015	1613	947	2560
2016	1430	1172	2602
2017	1224	1335	2579
2018	1325	1575	2900
2019	1636	2324	3960
2020	1786	2992	4778
2021	2268.08	2860	5128.08

Table 2 Total national state-owned capital operating expense, 2015-2021 Unit: billion yuan (RMB)

Total state-owned capital operating expenses			
Year	Central	Local	Total
2015	1235	844	2079
2016	937	1234	2171
2017	766	1245	2011
2018	1025	1134	2159
2019	987	1300	2287
2020	874	1670	2544
2021	1723.45	1829.57	3553.02

(Source: Central and local budget execution)

### 3. Cost control problems of state-owned enterprises

#### 3.1. Inadequate cost control system

At present, there are not perfect cost control systems in state-owned enterprises in China, and there is a lack of corresponding systems to regulate them, which results in state-owned enterprises not being able to meet the expected standards in their specific business activities. Although some state-owned enterprises have formulated the general content of cost management and also regulated the operational behavior of cost control, they only analyzed and accounted for the costs within the enterprise in a simple way and have not established a complete control system.

#### 3.2. Lack of market concept in cost control

Many state-owned enterprises only focus on the control of costs in the production process, but in fact, the market can also promote the improvement of product output. If an enterprise is obsessed with pursuing short-term interests, lowering the cost of products in the production process and transferring the cost of the production process to the inventory, thus causing a backlog of inventory, it will seriously affect the future development of the enterprise. The reason for these problems is that companies did not pay attention to the analysis of market conditions when controlling costs, which led to problems in management information.

#### 3.3. Insufficient understanding of cost control

The understanding of cost control in state-owned enterprises determines the cost control capability of the enterprise. However, in the current situation of our state-owned enterprises, the management of the enterprises attach insufficient importance to cost control, and no active measures on cost control are seen in the business activities of state-owned enterprises. Therefore, these enterprises have not established a sound cost control system in their actual business activities, resulting in many deficiencies in the cost situation of the enterprise.

### **3.4. Lack of cost management foundation**

State-owned enterprises lack the foundation of cost management, and they do not make enough efforts to inventory the assets within the enterprise, with insufficient management system about budget and measurement. Many cost management only focus on the formalities of superficiality, but ignore the importance of management content. When there is a problem with the cost adjustment of the enterprise, it is not possible to reflect the real operating status of the enterprise through the relevant costs. Moreover, due to the lack of cost budgeting, SOEs do not focus on cost control in their business activities, which is detrimental to the development of the enterprise.

### **3.5. Lack of advanced cost control tools**

At present, some state-owned enterprises in China still perform cost calculation by manual operation, such as bookkeeping, reporting and storing data, etc., which is not only easy to make mistakes, but also reduces the efficiency of the enterprise. Companies lack modern cost management tools and the means to implement interactive management functions in the form of cost control, data analysis and forecasting. With the development of information technology, enterprises also only perform the entry work of accounting vouchers, as well as registering books and preparing accounting reports through computers. Such accounting computerization mode is too single, which has no way to realize the comprehensive and accurate control of enterprise cost.

## **4. Strengthen cost control and improve the level of enterprise financial management**

### **4.1. Establish sound cost control system**

State-owned enterprises should pay attention to the importance of cost control, integrate cost control into the development strategic plan of the enterprise, and continuously improve the cost control system within the enterprise according to the characteristics and advantages of the state-owned enterprises themselves. For a company to continue to grow smoothly, it must strengthen the management of cost control from a holistic perspective. First of all, enterprises should be clear that cost control is not only reflected in the production process, the management should integrate cost control into the various business activities of the enterprise based on the overall environment of the economic market, such as purchasing materials, research and development of products, production of products and product sales. Secondly, state-owned enterprises should make a comprehensive analysis of their own advantages, industry environment and competitors, combine the domestic and international economic development environment, fully utilize the latest policies and regulations, seek new ways for themselves in the development process, and enhance their ability to resist risks. Only by clearly distinguishing their strengths and weaknesses and actively catering to the development of the market, enterprises can achieve improved economic benefits on the basis of cost control.

Therefore, state-owned enterprises should strengthen the implementation of cost control system and construct a scientific, systematic, comprehensive and highly feasible cost control system. The control of internal costs should not be limited to the production process and the economic market, but should also be integrated into all departments of the company's daily work. Efficient cost control requires the cooperation of all departments within the company. To this end, SOEs should establish a special cost control department, set reasonable target costs for their business activities, make dynamic assessments of relevant costs, and strictly control the expenses of internal business activities. Managers organize information data about costs within the enterprise, and the finance department is responsible for studying and analyzing them, so as to identify problems in cost control in the daily work of the enterprise. These problems are then summarized and reported upward to the management, who will make adjustment plans for the internal cost control of the enterprise, so as to improve the financial management of the enterprise.

### **4.2. State-owned enterprises should follow the laws of the market**

With the improvement of China's economic strength, the competitive environment of the

economic market is increasingly cruel. In order to improve their economic efficiency, state-owned enterprises reduce the cost of their products on the basis of ensuring product quality. This is demonstrated by their comprehensive analysis of the procurement of raw materials and sales of products, in an attempt to reduce the costs associated with the procurement of raw materials. It should be noted that a reduction in cost does not mean a reduction in quality, so companies should still take into account the actual situation of product production when choosing raw materials. In addition, state-owned enterprises should study the cost control methods of foreign enterprises or other enterprises, combine advanced technology to improve their own cost control methods, and also focus on the training of internal management personnel to improve the financial management capabilities of internal managers.

#### **4.3. Enhance the cost awareness of employees within the enterprise**

State-owned enterprises should strengthen the training of cost control for employees within the enterprise and improve the cost awareness of employees within the enterprise. The training content of cost control mainly includes theoretical knowledge of cost control, means of cost control and specific operation methods in order to help employees understand the importance of cost control, recognize the relationship between cost control and enterprise development, and improve the work motivation of employees within the enterprise.

State-owned enterprises should keep pace with the times, get rid of the limitations of the traditional cost control model, and improve the cost control capability within the enterprise through advanced methods. When formulating strategic plans for cost management, enterprises should comprehensively analyze the internal environment of the enterprise as well as the external economic development environment to seek a strategic plan suitable for the current development of state-owned enterprises. The traditional cost control of state-owned enterprises is mainly operated through the finance department, but the main work of the finance department is to carry out fund management and accounting, and there is no way to deeply analyze the cost within the enterprise. Moreover, finance personnel do not understand the specific reasons for cost incurrence, and are limited by their profession to carry out cost control work from a more comprehensive and professional perspective. It can be seen that SOEs can set up a special cost control department. The special cost control department needs to meet the following two requirements. First, the management should understand the reason why cost control is necessary, strengthen the supervision and control of cost within the enterprise, and also need to improve their comprehensive ability and professional quality through internal training on cost control. Secondly, the management should take the concept of cost control into their hearts and focus on cost saving in their daily work, so as to reduce unnecessary waste of resources within the enterprise and create a good working atmosphere of cost saving for all staff.

#### **4.4. Improve the financial management capability of enterprises from the foundation**

To improve the financial management capability of state-owned enterprises, it is necessary to integrate cost control into the basic work of the enterprise. First of all, the management should record, organize and summarize the relevant information. Second, the management should combine the characteristics of the enterprise's industry and its own advantages to improve the cost accounting methods to ensure that cost control can effectively reflect the true information of the enterprise. Finally, the management should work in strict accordance with the internal cost control system of the enterprise, clarify their responsibilities, standardize the operational behavior in the work process, and promote the improvement of the internal financial management ability of the enterprise by improving their own management ability.

### **5. Conclusion**

To sum up, state-owned enterprises want to reduce the cost of enterprises without affecting the quality of products, so as to bring more profits for the development of enterprises, which requires a set of perfect cost control system. State-owned enterprises should implement the measures of cost

control into the business activities of enterprises in order to promote the improvement of financial management ability of state-owned enterprises and the lasting development of state-owned enterprises.

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