Research on the Development of Enterprise Group Finance Companies of Business Group: An overview

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Abstract. The finance company first appeared in the West. In 1987, China's first financial company was established. At the end of the third quarter of 2016, China has 234 financial companies, financial companies have become an important part of China's modern financial system. However, with the development of China's finance company of enterprise group, gradually exposed the financial company in the business scope, risk awareness, the lack of independence, etc. In order to prepare for further research, this paper summarizes some literature on the discussion of financial companies. This literature has studied and explored the orientation, development, efficiency and risk awareness of financial companies respectively.

1. Introduction

Financial companies as one of the supporting policies of China's "big business, large group" strategy, after nearly three decades of development, financial company has played an indispensable role in promoting for the development and expansion of China's enterprise group. Which also attracted a number of scholars studied on the various aspects of the financial company. Most of the enterprise groups take the parent-subsidiary structure, to achieve the purpose of enhancing the profitability of enterprise groups, it is very important to deal with the relationship between the parent company and its subsidiaries and the financial control (Zhao Ping, 2014). Financial control affects the mobilization and allocation of funds of enterprise groups, and also affects the internal transfer pricing, internal lending, investment and other decision-making behavior (Na Pengjie & Na Chaohong, 2012). Financial company as a way of financial control of the Group, the purpose is to improve the centralized management of enterprise group funds and the service efficiency of capital, and provide financial management services for member units of enterprise groups (Lu Chi, 2013). The centralized management of funds includes capital settlement centers, internal banks and finance companies. With the development of enterprise groups, internal banks and capital settlement center model is increasingly exposed shortcomings and disadvantages of their own management and efficiency. However, the financial company because of the management of more standardized, intensive, professional, more than the other two models to adapt to the Group's strategic development target (Zhang Guoming, 2014). Through the research and analysis of China's financial company's development status, efficiency, profitability and risk management and so on, found that the financial company has the following problems: inaccurate function orientation, business architecture design is not scientific, limited business scope, weak risk consciousness, independence is not strong, etc. In order to solve the above problem, it is necessary to carry out business innovation and expand the development space (Wang Hui & Zang Rihong, 2015); to build a financial company as the main "settlement center, pool center, bill pool center, investment and financing center" (Tang Zhongliang, 2013); based on enterprise groups, handle the relationship between service, profitability and independence (Wang Shanshan, 2013); improve the market environment, improve the financial system (Lu Chi, 2013).
The next section of the paper is organized as follows: The second part is a review of 9 articles, and
the third part is the conclusion.

2. Overview

The first paper is “Problems and Improvements in Financial Control of Parent Company and
Subsidiary of Enterprise Group” by Zhao Ping (Suzhou Agricultural Development Group Co., Ltd,
China). The paper first introduces the structure of the parent-subsidiary financial controls, including
the financial system control, financial target control, financial information control and financial
strategy control. And then analyzes the parent-subsidiary financial control and found a series of
problems: lack of financial regulation, the parent company and the subsidiary financial objectives are
inconsistent, and there are differences in accounting methods, parent company and subsidiary
resource allocation unreasonable and poor synergistic effect. In order to solve these problems, firstly,
it is necessary to improve the management ability of the parent group, establish a sound financial
control mechanism for decision-making, management and operation. The second is to actively create
a perfect internal control environment. Thirdly, establish a sound enterprise group information
system; the fourth is to establish an effective incentive and restraint mechanism.

The second paper is “Study on the Financial Control of Enterprise Group and Level of Cash
Holdings of Listed Companies” by Na Pengjie (MBA School of Education, Yunnan University of
Finance and Economics, Yunnan, China) and Na Chaohong (MBA School of Education, Yunnan
University of Finance and Economics, Yunnan, China). This paper studies the impact of corporate
financial control on the cash holdings of listed companies in 3958 A-share listed companies in
Shanghai and Shenzhen stock markets from 2006 to 2009. The results show that the financial control
of the Group, such as the financial company, the CFO and the ERP financial information system, have
a significant impact on the cash holding level of listed companies and alleviate the agency problem of
excess cash holdings of listed companies. Group holdings of listed companies have high cash
holdings and state-owned group holdings is higher. ERP financial information system of listed
companies can improve the company's cash management level, improve its cash holdings, and the
group selected CFO may be through the financial company and ERP configuration cash, reduce its
cash holdings of listed companies. And then put forward the following suggestions: first, the Group's
capital control efficiency needs to organize, personnel, information together to protect, it is necessary
to comply with the principle of legitimacy and efficiency; Second, increase the ERP financial
informatization construction, strengthen the information education, improve the efficiency of
financial information; Third, the group of financial companies, although have the legal right in
allocating funds , but the allocation of funds should not be lower than the bank loan interest rates,
even not less than the capital costs of listed companies, to avoid the group of legitimate but
unreasonable possession of listed companies funds.

The third paper is “The Necessity of Setting up Financial Company in Enterprise Group” by
Zhang Guomin (Finance Department, Chongqing Energy Investment Group Co., Ltd., China). This
paper introduces and analyzes the three major capital management modes of capital settlement center,
internal bank and finance company, which shows that the internal banking model has gradually
withdrawn from the stage of history. And with the development and expansion of enterprise groups,
the mode of capital settlement center exposed a lot of problems in management and efficiency.
Financial companies for the standardization, intensive, professional management, more adapt to the
Group's strategic development goals. And then the paper analyzes the necessity of setting up financial
companies in enterprise groups. Compared with the capital settlement center mode, financial
company has the following advantages: strong independence; a wide range of business; high degree of
standardization, specialization and marketization; reduce the financial risk; improve capital gains;
enhance enterprise group’s capacity of financing and support enterprise development. Compared with
external financial institutions, finance companies have the closest relations with enterprise group and
its member units, the optimal allocation of resources, and the remarkable achievements of the operating results.

The fourth paper by Tang Zhongliang (School of Political Science and Public Administration, Wuhan University, China) is on “Research on the Mode of Centralized Management Finance Company of Enterprise Group”. China's financial companies have developed rapidly, but there is a big difference between operation and management level, so the actual utility of financial companies in the centralized management of funds is quite different, the fundamental reason is that there are differences in the functional positioning and scientific and rationality of the business structure of the financial companies. Based on the business module and function characteristics, this paper puts forward the positioning and business structure of the finance company: the finance company should be based on information technology, separate between revenue and expenditure and the zero balance management, and with the capital dispatch as the means, budget control and capital monitoring for the protection. Finally, it elaborates that the enterprise group should construct the "settlement center, capital center, bill center, investment and financing center" with financial company as the main body to promote the financial company to make greater contribution to the fund efficiency and efficiency of the group.

“International Comparison of Financial Functions of Financial Companies and Its Enlightenment”, the fifth paper, is by Wang Hui (Audit Department Financial Audit Division, Beijing, China) and Zang Rihong (China Agricultural University, China). China's financial company lack of understanding of their financial functions, pay more attention to their own profitability, the traditional credit business accounted for high, the diversity of services there is not enough. In view of the above problems, the article pointed out that the finance company should create an efficient financial service platform, through business innovation to expand the development of space to support the Group's industrial development.

The sixth paper by Lu Chi (Research Institute for Fiscal Science, Ministry of Finance, P. R. China) is entitled “Research on the development of our country’s finance companies of business group”. This article pointed out that China's financial companies has many problems, such as imperfect market environment, the regulatory environment is too strict, single variety and complex relationship between competition and cooperation, etc. The author suggests to improve the market environment, accelerate the development of multi-level capital market; improve China's credit rating system. Appropriate to relax the regulatory scale, strengthen financial innovation, encourages the development of new business.

“Research on Efficiency Evaluation of Finance Company Based on DEA Model” is the seventh paper, by Bai Wei (School of Economics and Management, Inner Mongolia University, China). The authors use the Data Envelopment Analysis (DEA) method to calculate the technical efficiency (TEC), pure technical efficiency (PTE) and scale efficiency (SEC) of financial firms. The results show that the growth rate and the quality of assets have a significant impact on the efficiency of the financial companies. The profitability and solvency, personnel quality, and the scale of assets have no significant effect on the efficiency of the financial companies.

“Group Management Control and Financial Company Risk Management: Multi-case Analysis Based on 10 Enterprise Groups” is the eighth paper, by Yuan Ling (Business School, Beijing Technology and Business University, China) and Zhang Weihua (Business School, Beijing Technology and Business University, China). The research found that the group's risk assessment of the finance company was not perfect, and some enterprises did not establish a risk management information platform covering the whole group. The group directly or indirectly affected the credit decision of the finance company. Therefore, the group must recognize the financial company's status as a financial center, strengthen the risk monitoring of financial company. Financial companies should establish independent and vertical risk management, the Group should support the financial company to carry out independent business operations.
The final paper, entitled “The Research for Some Issues on Finance Company of Enterprise Group”, by Wang Shanshan (Research Institute for Fiscal Science, Ministry of Finance, P. R. China). The author uses PEST to analyze the macroeconomic factors that affect the finance company - political factors, economic factors, social and cultural factors and technical factors. Through the SWOT analysis to find the advantages and disadvantages of the financial company. Research shows that the financial company has the advantages of customer source, high-quality staff, financial companies cope with change reaction quickly. Disadvantages include: financial company overall size is small, strict policy control, poor independence, limited scope of business, less professional than traditional financial institutions. The author puts forward suggestions on the development of enterprise group finance companies: Enterprise group finance companies should be gradually changed from a simple service subsidiary institutions into independent operation, self-financing and communication between the group and the financial market. According to the characteristics of the Group's industry, financial companies should develop a unique financial services.

3. Final thoughts

These papers have studied and discussed the advantages, development status, profitability and risk management of the financial companies in China, and put forward some effective suggestions and countermeasures for the shortcomings of China's finance companies, which have established a reliable foundation for further exploration of financial companies in the future.

References


