Discussion on Centralized Fund Management of Corporate Groups under the Background of Cash Pooling Management

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Abstract: With the current development in the new era, companies have faced more intense competition under the new market-oriented economy environment. In order to continuously improve the competitiveness and level, companies need to actively optimize their fund management mode, such as cash pooling management, which can effectively reduce the capital operating cost of companies. Only by continuously reducing the capital operating cost, can the development of companies be actively promoted.

Keywords: Cash Pooling; Management Countermeasures; Centralized Management

Under the traditional fund management mode, it is difficult for corporate groups to effectively promote the efficiency of fund management. Regarding the current development trend of cash pooling management, corporate groups must always attach great importance to the significance and role of Chinese cash pooling management mode if they strive to optimize this management mode. While fully safeguarding the stability of cash pooling management, corporate groups should strengthen centralized management, which is the premise for cash pooling management to play an important role, so as to lay a favorable foundation for the sustainable development of corporate groups.

1. Concept of cash pooling

The essence of “cash pooling” management is composed of fund receipt and payment and relevant bookkeeping rules, requiring all subordinate companies of the group to have independent corporate capacity. The reason is that only branches with independent corporate capacity can set up independent actual accounts in commercial banks, and only involving the concept of corporate groups, can the management role of “cash pooling” be fully embodied. In the management of corporate groups, companies practically control the funds by forming cash pooling. While actively promoting and realizing resource sharing, corporate groups can achieve ideal results in controlling the financing cost and improving capital operation efficiency.

2. Present problems in the centralized fund management in China’s corporate groups

2.1 Corporate groups lacking awareness of centralized management

A large number of corporate groups lack the awareness of centralized fund management, especially in such an era with a strong demand for centralized management of funds. Only by actively strengthening centralized management of funds, can corporate groups be more in line with the current development trend of the times. Corporate groups’ lacking
the awareness of centralized fund management is mainly manifested in the following aspects: first, the decision-makers of corporate groups generally only focus on the management of bulk funds, while not paying enough attention to the fund management that corporations require and advocate. However, only by adopting scientific fund management can they effectively promote the timeliness and quality of centralized fund management. Secondly, the corporate groups don’t establish settlement centers and relevant guarantee institutions in time, and the lack of professional financial staff in some corporate groups also seriously affect the planning and practice of centralized fund management. Finally, many staff members are backward in acknowledgement of the centralized management of funds, and have no deep understanding of the cash pooling management mode. They cannot take initiative to innovate and improve their working ideas and means in practical work, and cannot apply advanced management concepts and operation modes to the fund management of corporate groups in time[1].

2.2 Corporate groups lacking a sound fund management system

To achieve high-quality centralized management of funds, corporate groups must perfect the management system to lay a guarantee for the steady progress of this work. However, most corporate groups lack a perfect and scientific enterprise management system at present. It can be reflected in the following problems. First, the fund management system itself lacks comprehensive and systematic guarantee. Because the management systems cannot truly guarantee the division of labor among various departments and the management of tasks, the management ability of the financial department is weakened and dispersed, resulting in the financial department unable to completely implement the main arrangement and decisions of superior leaders. Secondly, the established system cannot be reasonably improved and adjusted according to the changes of internal and external environment, which reduces the effect and efficiency of the system to a certain extent[2]. Thirdly, the financial staff of corporate group can’t clearly grasp the cash pooling management mode and centralized fund management, and can’t understand the actual connotation of the system, leading to the lack of executive ability in the implementation of management measures, and directly reducing the overall quality of fund management.

2.3 Low efficiency of funds management of corporate groups

Most subordinates of corporate groups are different in financial conditions. First, the financial work of some corporate groups presents a chaotic situation. For example, problems such as opening bank accounts at will and scattered funds are outstanding. Another example is that because some corporate groups are rich in funds, it easily forms a large amount of capital precipitation. The consequence of this problem is that idle funds cannot bring due benefits to companies. Second, some corporate groups may face difficulties in capital turnover because of their low benefits. These companies have to raise funds from multiple channels and by various means, resulting in the coexistence of loans and deposits. When analyzing the financial problems of the whole group, it can be found that companies need to pay high loan interest, but get low deposit interest from banks. This will virtually increase operating costs for companies and greatly reduce the capital usage efficiency. Third, there is a lack of long-term capital strategic management planning. It has been found that some corporate groups fail to provide enough guidance and planning for their subordinate companies or branches. This will lead to lack of coordination among subordinate companies, eventually forming an unreasonable overall capital structure of the corporate group. Many funds cannot bring due benefits to the company because of improper occupation, which will greatly slow down the capital flow efficiency of the company. For instance, the inflexible management of receivable will cause delay of receipt or wrong invoice issuing time[3].

3. Strategies for optimizing the centralized management mode of cash pooling of corporate groups

3.1 Get rid of the obstacles formed by the policy system as soon as possible

With the increasing development of market-oriented economy in China, the obstacles in the commercial develop-
ment of gradually connecting with the international market, which are formed by the difference of legal systems, have been exposed. In view of the international environment, the difference between China and western countries is that western countries treat companies as a whole, and western countries and society regard the capital management as the business behavior of companies and markets. In the new era of market-oriented economy, with the establishment of electronic finance and standardized financial market, corporate groups need to construct corresponding market order and management system through continuous exploration according to their own development state and management goals. Therefore, it is necessary for related management departments to break down laws and regulations that are not conducive to the centralized management of corporate cash pooling as soon as possible, thus building a favorable domestic and international environment for it\textsuperscript{[4]}.

3.3 Specific measures to optimize the management of corporate cash pooling

Corporate groups can set up a virtual master account in one bank, and it can actively open sub-accounts while ensuring no lending behavior between the master account and sub-accounts. In addition, virtual cash pooling of the corporate group should be established according to the opened accounts. Through constantly improving the settlement center, computer fund management technology and fund-involved decision support system of corporate groups, the deeper cooperation between companies and banks can be strengthened by enhancing the monitoring of financial funds. This is of great significance to reinforce the fund management and financial reserves of corporate groups. First, a fund-involved decision management system should be established, through which corporate groups can rapidly promote their ability to supervise and control capital risks. Only by improving the safety of capital operation, can they provide higher quality and more efficient centralized fund management. Moreover, a deep analysis of the stock, flow and application of corporate funds is required in order to finally achieve control over funds. In addition, the change of the balance of corporate funds can also provide a scientific and powerful basis for the follow-up operation of corporate groups and ensure their healthy development. Second, it is necessary to actively introduce computer management technology to improve the modernization level of centralized management of cash pooling. Along with the continuous development of computer technology, social economy has already entered the era of information. In order to guarantee the implementation and management of funds, companies should closely connect computer technology with the needs of cash pooling management, and actively apply advanced computer technology to provide technical support for the cash pooling management. For example, the monitoring platform for funds of corporate groups established through computer technology can highlight the management and supervision function\textsuperscript{[5]}.

4. Conclusion

To sum up, the centralized management of corporate groups’ cash pooling is of great significance. To achieve long-term development, corporate groups must constantly optimize the measures and means of centralized management of cash pooling. In this way, it will strengthen capital monitoring and at the same time provide a scientific basis for centralized management of funds for companies. Through animating the stock of capital to achieve unified deploying, more benefits can be created for enterprises.

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