

## Analysis and Impact of Chain Reaction on the Value Chain of Financial Enterprise Groups

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**Abstract:** Facing the changeable domestic and foreign markets, as well as the political, social, cultural and other factors, the enterprise group loses without careful. Small events can often have a chain reaction impact on the value chain of an enterprise group and its financial companies. Based centralized fund management, capital operation, capital appreciation, raising financing, internal credit financing and other financial services business of enterprise group financial management department or financial companies, according to the product sales, trade and investment, experimental research, in the field of brand, sales, storage, production and circulation, financial enterprise groups take different control measures on the area of storage, production and research, coping with the chain reaction, to ensure that the enterprise group could expand the market.

Faced with the changing domestic and foreign markets, as well as the influence of political, cultural and other factors, enterprise groups will suffer heavy losses if they are slightly careless. The duck knows first when the river becomes warm in spring. The financial companies of enterprise groups are the first to feel and the final ones to bear the results. Small events can often influence the value chain of enterprise groups and their financial companies in a chain reaction way. Based on this paper intends to explore the influence of the chain reaction of events on the value chain of financial enterprise groups.

### The Definition of Chain Reaction

Chain reaction refers to a certain event from the market, politics, economy, society, culture, law, environment and so on, which rapidly expands to the financial companies' capital chain of enterprise groups in the course of its occurrence and development, and in turn superimposes on the event and continues generation by generation, as well as the domino-like spillover until the event is settled. From this, the "event-capital chain" is mutually agitated, which affects the profit and loss of financial companies of enterprise groups. Chain reaction has two trends in the capital chain of financial enterprise groups. One is an increase in paper wealth, and the other is a decrease in paper wealth, and the ultimate impact is devaluation or preservation or appreciation. The chain reaction is direct to the financial companies of the enterprise groups through the capital chain, thus affecting the benefit of the enterprise groups.

Cash flow and capital chain are two sides of one coin. Cash flow, also known as the rate of cash flow, is a prerequisite for the survival of an enterprise group. Enterprise groups can have no profit or even losses in a certain period of time, but they cannot have no cash flow. Losing cash flow will inevitably result in the breakdown of the capital chain of enterprise groups and then collapse. Cash flow refers to the amount of cash that financial companies absorb from enterprise groups and their subordinate enterprises, such as deposits, financing, capitalizing, interest and income, various receivables, and payables and investments. The faster enterprise groups develop, the larger the scale, the greater the role of cash flow and the greater the impact. The decline in cash flow will definitely reduce the development speed of the production and operation of enterprise groups. As long as the cash flow is interrupted, enterprise groups will surely have a survival crisis. Only by maintaining a certain cash flow can the survival and development of enterprise groups be maintained.

## **The Path of Chain Reaction of Events**

The financial company of the first enterprise group in China is Dongfeng Motor Corporation, which was established on May 7, 1987 with the approval of the national banking regulatory authority [1]. After that, many enterprise groups have established their own financial companies with independent corporate legal persons. In the process of production and operation of enterprise groups, an event acts on the capital chain of the financial companies of enterprise groups. Once it loses control, it will lead to a chain reaction that restricts the survival and development of enterprise groups and its member units.

The financial companies of enterprise groups can restrict the influence of chain reaction on enterprise groups and their member units to some extent. A financial company is a financial corporate legal person, but it is not a financial institution of a banking nature. It cannot provide financial services to society like a bank. Instead, it serves its own enterprises and provides financial management services for the enterprise group and its member units. A financial company is generally initiated by an enterprise group that is qualified and can provide a minimum amount of registered capital. It can only be established after the examination and approval of the China Banking Regulatory Commission [2]. The finance company relies on the parent company to provide financial services for the production, operation and sales of the parent company. It carries out financial services such as centralized management of capital, capital utilization, capital appreciation, financing, integration of industry and finance, business settlement of member units of parent company, internal lending and financing, and so on [2].

An enterprise group without a financial company will inevitably be dragged down by its member units after the occurrence of chain reaction. For example, China National Aviation Oil Corporation (Singapore) began operating and profiting with 2 million barrels of trading oil options in 2003. In the follow-up transaction, starting from the first quarter of 2004, as the oil price continued to rise, the company turned losses into profit, and the trading volume continued to increase. In October of that year, China National Aviation Oil Corporation (Singapore) dragged its parent company, China National Aviation Fuel Group Ltd., until it applied for bankruptcy protection in court. At that time, China National Aviation Fuel Group Ltd. did not establish a financial company with independent corporate legal person, which led to losses in the chain reaction caused by its member units.

After the occurrence of the chain reaction event, it first acts on the production and operation of the member units of the enterprise group, feeds back to the financial company of the enterprise group, and affects the financial service capability of the financial company of the enterprise group, thereby affecting the enterprise group and other member units. The affected groups and their member units in turn act on the event, which is superimposed until a serious and uncontrollable situation occurs. The financial company takes the management of cash flow as the core, and serves the production, operation, investment, merger and financing expansion activities of the enterprise group and its member units, and obtains varied benefits. In the Chinese mobile phone market, the brand that dominated the market before 2010 was Nokia. Agents and distributors all over China paid first, then took the goods. In the fourth quarter of 2010, Nokia's production was insufficient, agents and distributors could not take the products despite payment, and the original delivery date was delayed by over two months. This event superimposed on each other in production, warehousing and distribution, and eventually led to agents and distributors "losing hundreds of thousands less, millions more, and few of them making money". Nokia's market in China began to decline year by year, and eventually lost its dominant position in the Chinese mobile phone market [3].

## **Measures to Restrict Chain Reaction of Events**

The economic activities of Chinese enterprise groups like product sales, trade and investment, and experimental research and development have successively moved to overseas markets and become transnational enterprises. As the global economy gradually shifts to trade protectionism, enterprise groups bear more and more pressure. Even a small event can have an immeasurable

impact on the entire production, sales, research and development. For example, on December 1, 2018, at the request of US, Canada arrested Meng Wanzhou, Vice Chairman and Chief Financial Officer of Huawei Technologies Co., Ltd., who is responsible for financial operations and management, without warning. The event of Meng Wanzhou not only had a great impact within Huawei, but also extended to the Chinese diplomatic level. Huawei Technologies Co., Ltd. calmly responded to the event, which not only won the respect of the Chinese people, but also transformed the crisis into the recognition of Huawei mobile phone brand. What is terrible is not the chain reaction of events, but the indifference to it. The chain reaction of events is an objective existence. It is necessary to grasp the law of the chain reaction of events, give play to subjective initiative, and take a series of measures to restrict the chain reaction of events in order to eliminate risks and turn them into safety.

In events involving brand, it usually takes "constant control" measures. Social events involving the field of enterprise brand, generally adopt crisis treatment. This kind of crisis management is only a timely response, answer, punishment, etc., and there is no solution mechanism from the perspective of chain reaction. For example, on January 10, 2019, Lei Jun, chairman and CEO of Beijing Xiaomi Technologies Co., Ltd. quickly became a hot topic when he said at the launch of Redmi Note7, of "indifferent to life and death, do it if you are unconvinced". In the context of Chinese traditional culture, the expression of "indifferent to life and death, do it if you are unconvinced" has a strong implication of Jianghu. In the folk discourse system, this sentence is often used by shirtless street youth, so this sentence has caused some troubles to Xiaomi's mobile phone brand. After the occurrence of the event, by using the development path of chain reaction, the enterprise group quickly responded to the chain reaction of the event from the aspect of financial value chain, eliminated the adverse influences and adopted "constant control" measures. The "constant control" measure is an all-round time control measure, which is led by the financial management department or company of the enterprise group to start the emergency capital and set off early warning from crisis public relations, public opinion guidance, market survey, production, circulation, sales, design and so on.

In events involving sales, it usually takes "daily control" measure. The field of sales mainly involves the payment and collection cycle of resource procurement and product sales. The production of products requires the purchase of equipment and various raw materials, which involves payment issues, while the sale of products is facing consumers and involves the issue of money collection. Regardless of the payment and collection, it is particularly important for enterprise groups to ensure a reasonable cash flow within a certain period of time. For example, Shenzhen Gionee Communications Equipment Co., Ltd., which has four research and development Institutes of Shenzhen, Beijing, Overseas and OS, has more than 2000 national patents. Gionee mobile phone was once deeply rooted in people's hearts, was once the national mobile phone sales champion, and once ranked the first brand of domestic mobile phone[4]. The event that caused the dilemma of Shenzhen Gionee Communication Equipment Co., Ltd. was that the marketing and investment costs from 2016 to 2017 were nearly 10 billion yuan. In order to cope with the event of a supplier's 300 million yuan, it suffered a difficulty of capital chain [5]. In December 2018, Shenzhen Gionee Communications Equipment Co., Ltd. went into bankruptcy and reorganization, which was regretful. In the field of sales, enterprise groups take the "daily control" measure from the perspective of financial management to avoid cash flow breakdown. The "daily control" measure is a measure to control the cash pool of the enterprise group on the same day and monitor the overnight capital chain. The financial management department or company of the enterprise group compares the same day with overnight, the current week, the current month and the current year, and monitors the three indicators of collection days, inventory turnover and payment days. Then, it is compared with the production and operation of enterprise groups to form the trend of capital flow, and then to give early warning, and comprehensively arrange payment and collection of enterprise groups.

Other events in the fields of circulation, production, and research and development generally take appropriate control measures. For example, Motorola used to be the synonym of mobile phones

in the Chinese mobile phone market from the late 20th century to the early 21st century, ranking first in the Chinese mobile phone market. With the advent of smart-phone 3G, Motorola had too few new products, and even had the dilemma of no new products [6]. Motorola's dilemma is essentially the result of a chain reaction in events in the research and development. The financial management department or company of an enterprise group shall take "quarterly control" measures for events in the field of research and development. The measure of "quarterly control" is to conduct dynamic comparison of capital input and patent output of research and development with the production and sales of enterprise groups on a quarterly basis, so as to respond to events in this field. "Monthly control" measures are mainly for events in production, and "weekly control" measures are mainly for events in circulation. No matter what measures are taken, the financial management department or company of the enterprise group will take targeted control of the chain reaction from the aspects of financial capital chain, product value chain and sales brand chain, so as to ensure the leapfrog development of the enterprise group in terms of structure, power and mode.

## Summary

To avoid short-term liquidity risk and solvency risk, the financial management department or company of an enterprise group must guard against problems, like excessive investment, improper leverage and asset misallocation [7]. The financial company of an enterprise group should take precautions against the influence of chain reaction mode on parent company considering minor events. After more than 20 years of development, the financial companies of Chinese enterprise groups have become increasingly important and influential non-bank financial institutions. They have even become the pacesetters and escorts of the reform and opening up, market expansion, expansion and merger of Chinese enterprise groups, which are going abroad and marketing overseas.

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