

Analysis and Countermeasures of the “High Savings and High Loans” Anomaly: A Case Study of W Company

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Abstract: Frequent financial crises involving both bond and stock defaults have occurred in capital markets. A review of the affected listed companies reveals that many exhibit the phenomenon of “high savings and high loans” (HS-HL). What does “high savings and high loans” mean? “High savings” indicates that a company holds a substantial cash flow, while “high loans” refers to its significant short-term interest-bearing debt. In other words, the company maintains a high level of available capital while also bearing substantial interest costs. This study examines W Company, which was subject to an exchange inquiry regarding its HS-HL issue, analyzing the nature and causes of this anomaly. The findings indicate that the company sustains large-scale debt while simultaneously maintaining a high level of monetary funds, resulting in the HS-HL anomaly. The root causes of this issue include a dominant shareholder engaging in expropriation, deficiencies in internal corporate controls, and an aggressive expansion strategy. By analyzing W Company’s HS-HL issue, this paper provides valuable insights for similar enterprises in terms of management strategies and practical countermeasures.

Keywords: High Savings and High Loans, Monetary Funds, Interest-Bearing Debt, Countermeasure Study

1. Introduction

In recent years, several companies once regarded as “blue-chip stocks,” such as Kangdixin, Dongxu Optoelectronic, and Kedi Dairy, have successively encountered financial crises, bringing the HS-HL issue into the public spotlight. The HS-HL phenomenon arises from multiple factors. A case study of W Company’s HS-HL issue can help investors better identify the underlying risks associated with such companies, thereby improving risk prevention and control in publicly listed firms. Additionally, this paper delves into the root causes behind W Company’s HS-HL phenomenon and proposes feasible policy measures to address this issue.

2. Literature Review

The “high savings and high loans” (HS-HL) phenomenon is a distinctive economic condition in which a company holds both substantial savings and significant debt. Studies have shown that some firms exhibit this phenomenon when their short-term borrowings and cash holdings simultaneously exceed 20% of total assets for two consecutive years, a condition labeled as HS-HL [1]. However, the academic community has not reached a consensus on the exact criteria for defining HS-HL. Some

researchers argue that a company qualifies as HS-HL if its cash and interest-bearing debt each account for no less than 20% of total assets and exceed the upper one-third quantile of its industry peers [2]. Another perspective suggests that a publicly listed company should be classified as HS-HL if, at the end of three consecutive fiscal years, its cash assets consistently exceed 20% of total assets while its short-term borrowings also surpass 20% [3]. Additionally, some scholars propose using the 70th percentile within the industry as the threshold for HS-HL classification [4]. Recent studies further indicate that the HS-HL phenomenon increases the risk of stock price crashes for companies [5]. By synthesizing existing literature and adopting a case study approach, this paper selects W Company as a case study to analyze the HS-HL anomaly and explore possible countermeasures.

3. Case Study: The HS-HL Anomaly in W Company

3.1. Overview of W Company

Founded in 1994, W Company is a pioneer in China's soybean milk industry and a nationally recognized key enterprise in agricultural industrialization. Over the years, it has been a focal point in the market. However, in 2018, a series of financial scandals related to its HS-HL status surfaced, drawing significant attention and concern from investors.

3.2. Analysis of W Company's HS-HL Issue

W Company's annual reports reveal that it simultaneously holds a large amount of cash while maintaining high levels of interest-bearing debt. Table 3.1 presents data on W Company's monetary funds and interest-bearing liabilities from 2018 to 2023. A detailed analysis of these figures indicates that between 2018 and 2020, the company's cash balance and interest-bearing debt both exceeded 20% of total assets. Based on the criteria established in this paper, W Company qualifies as an HS-HL firm.

Table 1: Money funds and interest-bearing liabilities of Company W

Accounting Period	2018	2019	2020	2021	2022	2023
Monetary Funds (\$ billion)	20.28	26.53	22.27	6.8	5.7	6.61
Interest-Bearing Liabilities (\$ billion)	40.71	42.64	26.84	11.75	8.99	3.93
Total Assets	83.53	86.53	67.19	51.59	49.9	44.66
Interest-Bearing Liabilities/Total Assets	48.74%	49.28%	39.95%	22.78%	18.02%	8.80%
Monetary Funds/Total Assets	24.28%	30.66%	33.14%	13.18%	11.42%	14.80%

3.3. Causes of W Company's "High Savings and High Loans" Phenomenon

3.3.1. Dominant Shareholder Leading to Expropriation of Corporate Interests

The root cause of W Company's HS-HL phenomenon—holding large amounts of both deposits and loans—stems from the issue of a dominant shareholder, which has led to the expropriation of corporate interests. The controlling shareholder leverages their majority ownership to divert company funds for personal or affiliated business projects rather than prioritizing the company's long-term development and operations. While this behavior superficially increases the company's cash reserves, in reality, the funds are being redirected for personal or related-party interests instead of supporting corporate growth and expansion. At the same time, since the company still requires external financing to sustain operations and development, this capital gap forces it to take on additional debt, further exacerbating the HS-HL phenomenon. In W Company's case, the issue of a dominant shareholder is particularly evident. Xinsheng Group, as the largest shareholder, holds absolute control over the company, while other shareholders have relatively dispersed ownership, making it difficult to form an effective counterbalance. This unbalanced ownership structure enables the controlling shareholder to exploit the HS-HL situation for personal gain, severely damaging the company's overall interests and long-term financial health.

3.3.2. Deficiencies in Internal Control

Another significant cause of W Company's HS-HL issue is the weakness of its internal control mechanisms. First, inadequate internal controls have directly led to inefficiencies in capital management. Despite holding a substantial cash balance, the company has failed to plan and utilize these funds effectively. As a result, even when facing high short-term debt obligations, it continues to rely on external financing rather than optimizing internal resources. This inefficient financial management has trapped the company in a vicious cycle of "saving with one hand while borrowing with the other," thereby increasing financial costs. Second, the company's poor internal controls are also reflected in its ineffective cash flow management. W Company lacks a sound budgeting and monitoring system for its funds, making it unable to mobilize existing cash reserves promptly when short-term liquidity needs arise. Consequently, it is often forced to take on new short-term debt instead. Additionally, weak internal controls contribute to a lack of transparency in financial decision-making. The management has failed to conduct thorough risk assessments and disclose adequate information in major financial decisions, raising concerns among external investors and creditors regarding the company's fund utilization. This lack of transparency results in the company unnecessarily maintaining high cash reserves while simultaneously shouldering costly short-term debt, further worsening the HS-HL issue. Finally, the deficiencies in internal control extend to the company's risk prevention mechanisms and internal monitoring processes. Without effective early-warning systems and response strategies, W Company struggles to adjust its financial strategy in response to market fluctuations or internal financial needs, leaving it vulnerable to financial instability. In summary, the weaknesses in W Company's internal control system play a crucial role in the emergence of its HS-HL phenomenon. Addressing these issues requires optimizing the internal control framework and improving financial management processes to enhance operational efficiency.

3.3.3. Reckless Diversification and Expansion

W Company's aggressive expansion strategy without thorough market assessment has also significantly contributed to its HS-HL problem. During its rapid expansion, the company failed to fully evaluate market demand and align its investments with available resources. As a result, it made large-scale investments in sectors unrelated to its core business, such as food and beverage, real estate,

and financial investments. While these ventures temporarily broadened the company's business scope, they did not generate the expected economic returns in the short term, forcing the company to continuously inject large amounts of capital to sustain operations. This persistent capital demand exacerbated financial pressure, making cash flow management increasingly challenging. To support its capital-intensive diversification, W Company had to frequently resort to short-term borrowing to fill liquidity gaps. However, since these new ventures failed to yield sufficient returns in the short term, the company opted to maintain high cash reserves as a buffer against potential liquidity risks. This approach superficially safeguarded liquidity but resulted in the HS-HL situation—holding large cash reserves while simultaneously carrying a heavy burden of short-term debt. This not only led to inefficient fund utilization but also significantly increased the company's financial costs and risks. Moreover, the reckless diversification strategy complicated W Company's internal management, particularly in financial oversight and resource allocation. By investing in multiple unrelated sectors, the company significantly increased its management complexity while reducing overall resource efficiency. The lack of sufficient industry expertise and management experience in these new business areas led to poor decision-making, resource misallocation, and capital stagnation. This, in turn, further worsened the HS-HL problem and weakened the company's financial flexibility. In conclusion, W Company's HS-HL phenomenon is largely attributable to three key factors: a dominant shareholder engaging in expropriation, weaknesses in internal control, and an overly aggressive diversification strategy. Addressing these issues requires fundamental changes in corporate governance, financial management, and strategic planning to ensure long-term financial stability and sustainable development.

3.4. Strategies to Address W Company's "High Savings and High Loans" Phenomenon

3.4.1. Optimizing Corporate Governance Structure

Enhancing corporate governance and optimizing equity distribution are critical steps in addressing W Company's HS-HL issue. First, the company should introduce more independent directors to ensure the independence and diversity of the board of directors. This would help balance the influence of the controlling shareholder and prevent excessive interference in major corporate decisions. Second, W Company should establish a robust internal oversight mechanism to strengthen internal audit functions. This would allow for strict scrutiny and supervision of the controlling shareholder's financial activities and decision-making, ensuring that their actions align with the company's overall interests. Additionally, the company could consider introducing strategic investors or implementing an equity incentive plan to diversify ownership and mitigate the risks associated with a dominant shareholder. These measures would not only enhance decision-making objectivity and transparency but also boost the company's credibility in the market, helping to alleviate the HS-HL problem. Furthermore, improving the company's information disclosure system is crucial. By ensuring transparent financial information and decision-making processes, all shareholders and stakeholders can stay informed about the company's operations. This, in turn, increases confidence in the company and fosters continuous improvements in corporate governance.

3.4.2. Strengthening Internal Control Systems

To improve its internal control system, W Company should leverage advanced technology and external expertise to enhance efficiency and effectiveness. First, the company can utilize digital tools such as Enterprise Resource Planning (ERP) systems and cash management platforms to enable real-time monitoring and data analysis of financial transactions. This ensures transparency and traceability in fund utilization. Moreover, integrating blockchain technology could further enhance the reliability and security of financial transactions while reducing human error and fraud risks. Second, W

Company should collaborate with external professional institutions by hiring third-party audit firms or risk management consultants. These external entities can conduct independent evaluations and provide recommendations for optimizing internal control measures, ensuring compliance with industry best practices and regulatory requirements. Additionally, fostering a strong internal control culture is essential. The company should integrate risk awareness into its corporate culture by establishing internal control incentive mechanisms, encouraging employees to proactively identify and report potential risks. Creating an enterprise-wide risk prevention mindset ensures that all employees contribute to strengthening internal controls. Moreover, senior management should lead by example, strictly adhering to internal control policies and setting a strong precedent for the entire organization. Finally, W Company should implement a dynamic adjustment mechanism to regularly update internal control policies and processes in response to external environmental changes and corporate strategy shifts. Ensuring the flexibility and adaptability of the internal control system would enable the company to manage financial risks more effectively. By implementing these measures, W Company can not only mitigate its HS-HL issue but also lay a solid foundation for long-term, stable growth.

3.4.3. Optimizing Investment Strategies and Resource Allocation

In refining its investment strategy and resource allocation, W Company should focus on dynamic adjustments and maintaining flexibility in response to market changes. First, the company should establish a regular assessment mechanism to continuously monitor and adjust its investment portfolio. This ensures alignment with corporate strategic goals. Underperforming projects or those deviating from core business operations should be swiftly restructured or divested to prevent long-term financial drag. Second, W Company should strengthen its data-driven decision-making capabilities. By leveraging big data analytics and artificial intelligence, the company can improve market forecasting and risk assessment accuracy, thereby making more forward-looking investment decisions. Additionally, optimizing resource allocation requires balancing long-term benefits with short-term returns. The company should adopt lean management principles to minimize unnecessary expenditures and enhance operational efficiency. Furthermore, W Company should explore innovative financing methods, such as equity financing and green bonds, to reduce its reliance on traditional debt financing and optimize its capital structure. Lastly, improving internal coordination by eliminating departmental silos would ensure efficient resource flow and sharing across business units. Maximizing resource utilization would enhance the company's overall competitiveness. By implementing these strategies, W Company can navigate complex and volatile market conditions while maintaining steady development and achieving sustainable growth.

3.4.4. Improving the Information Disclosure System for Listed Companies

Whether viewed from the typical characteristics of listed companies with high cash holdings and high debt (hereinafter referred to as "dual-high companies")—such as inefficient asset utilization—or from the perspective of their poor operational performance, regulatory authorities should strengthen their focus on this issue to maintain the stable operation of the capital market and protect the interests of minority shareholders and investors. Although the China Securities Regulatory Commission (CSRC) has explicitly addressed the "dual-high" issue in relevant documents, and the number of inquiries regarding this issue in regulatory letters to listed companies has increased over the past two years, the effectiveness of these measures remains limited. Many listed companies are able to provide reasonable explanations for their dual-high status, effectively concealing the issue. As a result, some enterprises engage in financial fraud by misappropriating funds or inflating monetary assets, relying on the hope that they will evade scrutiny. To address this, corporate managers should enhance the

information disclosure system of listed companies, improving both content and quality, and reducing accounting fraud caused by information asymmetry at the institutional level.

3.4.5. Strengthening the Penalties for Audit Failures by Accounting Firms

In addition to increasing penalties for audit failures by accounting firms, regulatory authorities should establish a multi-tiered and comprehensive regulatory system to enhance transparency and credibility within the auditing industry. First, a retrospective accountability mechanism should be implemented, subjecting accounting firms and responsible individuals involved in major financial fraud or gross negligence to severe consequences, including but not limited to substantial fines, suspension of practice qualifications, or even revocation of licenses, to create a strong deterrent effect. Second, regulators can introduce third-party evaluation agencies to conduct independent assessments of audit quality at accounting firms and publicly disclose the results, thereby enhancing market and social oversight. Additionally, regulators should promote technological upgrades in the auditing industry by encouraging the adoption of advanced technologies such as big data analytics and artificial intelligence to improve audit efficiency and accuracy while reducing human error and fraud risks. Furthermore, continuous professional ethics education and skills training for auditors should be reinforced through regular industry exchanges and learning sessions to enhance their ability to detect financial fraud and navigate complex auditing environments. Finally, the regulatory framework should include a robust whistleblowing mechanism, encouraging internal employees and external stakeholders to report audit-related misconduct while ensuring adequate protection for whistleblowers. By implementing these measures, audit quality can be significantly improved, investor confidence can be strengthened, and the long-term health of the capital market can be maintained.

4. Conclusion

In recent years, financial scandals resulting from the "dual-high" phenomenon have frequently occurred in China. Some companies not only maintain high levels of cash flow but also carry substantial interest-bearing debt, posing potential risks to their development. This study conducts an in-depth analysis of the dual-high phenomenon in Company W, exploring its underlying causes and proposing corresponding countermeasures. The research findings indicate that the dual-high phenomenon at Company W is primarily driven by controlling shareholders' expropriation, weak internal control mechanisms, and an overly aggressive diversification strategy. To address these issues, this paper suggests optimizing corporate governance structures, improving internal control systems, and refining investment strategies and resource allocation. These measures can effectively help companies mitigate dual-high risks, enhance operational efficiency, and improve their sustainability. However, resolving the dual-high issue is not an overnight process; it requires continuous efforts, adjustments, and improvements by enterprises over the long term. In future development, Company W should closely monitor market dynamics and adapt its business strategies flexibly to achieve sustainable growth. Additionally, companies should strengthen collaborations with various stakeholders, share resources, and reduce operational risks to lay a solid foundation for maximizing corporate value. It is hoped that this research will provide valuable insights for Company W and other enterprises facing similar challenges, ultimately contributing to the prosperity and development of China's food and beverage industry.

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