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Application of Financial Sharing Centre in Enterprises - HUAWEI as an Example

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ABSTRACT With the development of the world Internet technology and the world economy, information technology is widely used in financial and accounting management work, and a new financial management model has emerged in its field, namely the financial sharing model. Unlike the traditional financial management model, the advantages of financial shared service centre are that they are conducive to cost reduction, improved financial management and work efficiency of enterprises under the scale effect, etc. Taking HUAWEI as an example, the article analyses the application of financial shared services in Chinese enterprises and its beneficial impact on the cost of capital, draws out the problems that may be encountered in the development process, and proposes suggestions and strategies to promote financial shared service centre, providing reference and guidance for other enterprises. It is hoped that this will help Chinese enterprises to further optimise the application of financial shared services, develop intelligent finance, promote digital reform of enterprises and integrate the finance and business.

KEYWORDS Financial Shared Service Centre; HUAWEI; financial business integration

1 Introduction

As the world of Internet information technology has made new financial management models popular and developed, Financial Shared Service Centre (FSSC for short) have emerged, appearing and spreading among multinational companies and large domestic Chinese enterprises. FSSC integrate the original financial model of an enterprise with the penetration of big data and cloud computing, and are a centralised management model for enterprises. The group sends basic entity accounting business data to the FSSC, which is no longer handled by subsidiaries, greatly reducing financial costs, improving the quality and efficiency of financial processing, and facilitating the development of the group's core business. The path of financial shared services in Chinese enterprise groups has overturned the traditional way of working of financial accounting, bringing not only a transformation of the role of financial personnel, but also a qualitative change to financial processes and processing efficiency [1]. From the current practice of implementing financial process reengineering in Chinese enterprise groups, there is already an urgent need to send financial shared services into the cloud and implement financial cloud services in the context of mobile Internet and cloud computing, and active exploration is being conducted[2].

Although the financial sharing model is gradually being used by domestic and foreign companies, and companies have realised the importance of financial business integration, it is still in a state of uneven development across Chinese companies. This paper analyses HUAWEI's financial sharing model and makes suggestions for its future development in terms of its problems, in order to provide a reference for the implementation of financial shared service centre in China.

2 The process and application of financial shared service centre in HUAWEI enterprises in China

Financial shared service centres originated in the United States, with Ford establishing the first financial shared service centre in Detroit in 1981. Moller pioneered the concept of shared service centres in 1997 and pointed out that the basis for implementing financial shared services in an enterprise is that the enterprise must first form a corporate operating platform of its own, allowing it to provide the necessary financial services to all sub- and sub-holding companies, which is exactly what a corporate financial shared service centre is[3]. Over the next 10 years, financial shared services have gradually developed, thanks to leaps and bounds in technological advances and China's reform and opening up, allowing financial shared services to gradually penetrate all sectors in China.

HUAWEI TECHNOLOGIES CO., LTD. ("HUAWEI") is a leading global provider of information and communications technology (ICT) solutions with a wide range of businesses, including IT, microelectronics, telecommunications and radio, which were launched in 1987 and are headquartered in Longgang District, Shenzhen, China. Its finance organisation aims to serve the company's global expansion in a more efficient manner. Before the implementation of the financial sharing model, all HUAWEI's expense claims were passed on paper documents, with mountains of documents on the accountant's desktop; at the same time, as internet technology was not yet perfect in China, the quality of data varied, and accountants needed to review data and make manual adjustments; auditors needed to make a lot of data adjustments with the first draft of financial reports provided by accountants - a series of tasks that cost a lot of labour and time, making the process complex and inefficient. In addition, as the separate financial sections of each subsidiary are accounted for separately, geographical factors tend to cause delays in data transfer. Therefore, in order to improve traditional financial management, HUAWEI learnt the hard way that setting up a shared service centre for finance was a strategy that could not be delayed.

At the beginning of the 21st century, thanks to IBM, HUAWEI set up seven regional financial shared service centres in Shenzhen, Chengdu, Beijing, Romania, Malaysia, Argentina and Mauritius, with Shenzhen as the headquarters. The Financial Shared Service Centre separates activities such as finance and human resource management, which were previously scattered across different business units, and provides a unified service by a specially established independent entity. Like a solid river dam, it transmits similar financial operations to a centralised location and handles them efficiently, providing supervision and control while saving costs and providing better services[4]. In addition, the shared centre is directly managed by the authority and presents relatively real data independently.

In terms of financial process management, the financial business process is largely simplified by the establishment of the financial sharing centre, which uses a fixed financial step-by-step approach to allow business to be handled along a fixed route, establishing a financial operation system and promoting the standardisation of financial and business models. Ringa Raudla and Kaide Tammel argued that the main options for a shared service centre for finance are to re-engineer departments, staff, management processes and to reorganise the company's previously relatively disorganised business work to bring the financial business work with scale operational attributes to the service centre[5]. This not only prevents financial staff from missing and complicating financial steps, but also enables accounting staff to understand the business logic between data and finance, saving them time and costs and improving the quality and efficiency of the finance department's work. In addition, HUAWEI's Shared Finance Centre has improved the different financial sharing centres according to the geographical situation and development status of each subsidiary, making the process easier and faster.

In terms of organisational structure, HUAWEI has set up two separate branch finance departments, the Finance Management Department and the Finance Shared Services Department, with the two departments dividing up their work and coordinating with each other. The company assigns basic financial data such as financial statements and account accounting to the Finance Shared Services Department, while further operations such as data analysis, financial budgeting, risk management and strategic management are handled by the Finance Management Department. The two complement each other, while HUAWEI is gradually focusing on the Finance Shared Services department and transferring its core business to it, which is conducive to promoting the financial sharing model and improving corporate management and financial management.

In terms of global unified accounting, HUAWEI has achieved the goal of computing each financial data in as many aspects as possible and generating corresponding reports in real time according to the demand. For example, in the face of the tax bureau's demand for tax returns, the shared financial service centre immediately generates legal entity reports. This centralised financial management model allows for more targeted financial statements and more rational use of financial information. In addition, HUAWEI uses a 24-hour roving bookkeeping system to take advantage of global time differences to achieve sequential financial operations within the same data platform and closing rules, enhancing the efficiency of financial work and significantly shortening the closing cycle.

3 The beneficial impact of financial sharing on HUAWEI

3.1 Effective reduction of finance costs

High finance costs are an important cost for an enterprise. High finance costs can directly reduce the net profit of an enterprise and lower its profitability. In China, finance costs are high. Before HUAWEI adopted the financial sharing model, the company's finance costs had been at a high level due to low capital utilisation as a result of capital fragmentation. Investors in HUAWEI are concerned about the future growth of the company because of the impact of high finance costs on its profitability and financial position, leading to a fall in the share price. This high level of finance costs also ties up the company's capital, and the higher the finance costs the company has to pay, the more difficult it is to make new investments and expansions. Therefore, HUAWEI's policy to reduce its finance costs is urgent in order to improve the profitability and financial position of the company to maintain a good share price and growth prospects. Based on the case companies, Aiping Hu and others have studied the impact of financial sharing on the financial performance of enterprises, demonstrating the positive effects of financial sharing implementation and providing useful lessons for enterprises[6]. By improving the financial sharing model and allowing its scale advantages to be fully utilised in HUAWEI's business, funds are deployed rationally and the cost of capital for the business is significantly reduced. Removing the impact of foreign exchange losses, HUAWEI's other financial expenses from 2008 to 2022 show an overall downward trend (as shown in Figure 1), even starting in 2014 with a negative financial expense ratio and a net financial gain generated. This reflects the very clear economies of scale brought about by the finance sharing model.

3.2 Gradual sales revenue growth

In addition, HUAWEI's annual sales revenue grew from RMB 45.3 billion in 2005 to RMB 642.3 billion in 2022, making it one of the top three on the list of "Top 500 Private Enterprises in China's

Figure 1. HUAWEI's financial expense ratio 2008-2022

Year	Main business income/ million yuan	Financial expense/million yuan(exclude exchange losses)	Financial expense ratio/%
2008	125,217	1,328	1.06
2009	149,059	387	0.26
2010	182,548	751	0.41
2011	203,929	1,021	0.5
2012	220,198	954	0.43
2013	239,025	256	0.11
2014	288,197	-680	-0.24
2015	395,009	-647	-0.16
2016	521,574	-1,670	-0.32
2017	603,621	-507	-0.08
2018	721,202	-2,284	-0.32
2019	858,833	-1,518	-0.18
2020	891,368	-1,271	-0.14
2021	636,807	-851	-0.13
2022	642,338	-1,295	-0.2

Manufacturing Sector in 2022". The business growth is supported by scientific financial management, and the efficient bookkeeping provided by the advanced financial sharing model plays a fundamental role.

4 Problems with HUAWEI's financial shared service centre application and suggestions for future development

4.1 Staff requirements

In terms of staff requirements, the Finance Shared Service Centre requires high quality personnel and an increased ability to require finance staff to diversify and no longer do simple and boring finance. At the early stage of the establishment of the financial shared service center, employees do not have a comprehensive understanding of the financial shared center and are prone to irregularities in their work behavior[7]. As a result, in today's technological era of financial industry integration, HUAWEI has seen an increase in turnover due to the establishment of the Finance Shared Service Centre resulting in excessive layoffs. This requires finance staff to transform, integrate into the business and become complex talents. HUAWEI therefore needs to train its finance staff accordingly, encourage motivation and build awareness of financial business integration.

4.2 Network security and risk issues

In terms of network security, financial shared service centres inevitably face various network security and risk issues in the course of operation. HUAWEI should establish the necessary risk control to monitor the optimal operation of the financial shared service project and strengthen risk prevention and control during the operation process.

5 Conclusion and outlook

In the era of "Internet Plus", intelligent financial management has become a major trend. HUAWEI's successful financial transformation through the implementation of financial sharing services has played an important role in the financial management of enterprises. Although the size, level of informationization and management of each enterprise varies, HUAWEI, as a typical successful case of financial shared service centre in China, provides a theoretical basis and a reference value for the construction and implementation of financial shared service centres for Chinese conglomerates, due to China's unique national conditions and market environment.

As multinational enterprises and large-scale production, trade and service companies take up an increasingly large share of China's business system, improving corporate financial management and financial performance is becoming increasingly important to the development of Chinese enterprises. Financial shared service centres are widely used in China, helping to solve the problems of low efficiency and high capital costs, but there is still room for further improvement in all areas. Yongli He raised the need to focus on the role played by big data in financial sharing. With the support of big data technology, the efficiency and effectiveness of financial sharing services has been further enhanced[8]. Enterprises should seize the opportunities and challenges of the big data era, get rid of the original traditional financial management model, make a perfect transition to the financial sharing model and realize the integration of business and finance.

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