Optimization Study of Daily Operations of Financial Shared Service Centers

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Abstract. As the business scope of enterprise groups becomes more and more extensive, many of them are involved in cross-border operations, so in order to better accommodate the expansion of scale, the financial sharing model has been applied by many large group enterprises. Through this model, the common business of each molecular company can be summarized and distilled, and processed centrally through a single financial shared service center, thus helping the total group to reduce financial costs, improve financial efficiency, and strengthen internal group control and risk management. However, various problems can arise in the course of the operation of the financial shared service model, with some enterprises experiencing a decrease in management efficiency instead of a decrease in costs. This means that enterprises should continue to optimise and improve the construction of financial shared service centers according to their actual situation, and propose corresponding measures to achieve cost reduction and efficiency gains.

Based on the example of Baosteel's financial shared service center, this paper explains the general situation of Baosteel's financial shared service center from three levels: the organizational structure of Baosteel and the motivation, *practice and effect* of the financial shared service center. It also analyses the problems and causes of the financial shared service center from three aspects: performance incentives management, division of authority and responsibility and risk control.

Keywords: Financial cost; Financial process efficiency; Internal control

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1 Introduction

With the integration of the world economy, China's companies are expanding. At the same time, with the implementation of the *One Belt, One Road* strategy, Chinese companies will face many cross-border co-operation, therefore, from the traditional rough business model gradually to the high efficiency and easy to operate, so the financial sharing model came into being. According to ACCA's 2013 joint survey, only 21% of companies nationwide have adopted "shared financial service centers". The Code of Practice on Accounting Information Technology in Enterprises states in Article 34: "If an enterprise has a large number of subsidiaries, the construction of a financial shared service center is even more important. As some enterprises are deeply affected by the traditional model, they often encounter many problems in the construction of financial shared service centers. Based on this background, this paper describes the operation of Baoshan Iron and Steel Company Limited (hereinafter referred to as Baoshan Iron and Steel Company Limited) on its financial shared service center and gives some optimization suggestions.

2 Concept, Characteristics, and Literature Review of Financial Shared Service Centers

The Financial Shared Service Center is a new business model that enables unified registration and reporting of various economic activities of different entity companies in various countries and regions, achieving unified centralized management. It can not only ensure the standardization and uniformity of accounting statements, but also solve the efficiency problems of major enterprise groups. Therefore, it has been widely promoted and applied in various enterprise groups [1].

The characteristics of financial shared services mainly include five aspects: ①Specialization. The implementation and optimization of financial sharing centers require specialized talent support. ② At the technical level. Information technology is the foundation of financial shared services. ③ Scale. The cost of building this center for small-scale enterprises is enormous and cannot save costs. Therefore, financial shared service centers are more suitable for large-scale enterprises. ④ Standardization. The Financial Shared Service Center adopts standardized processing methods when dealing with some repetitive businesses, and has a complete business processing process. ⑤ Service oriented. The focus of the Financial Shared Service Center is on "service", which not only serves customers but also serves within the enterprise. Through this Financial Shared Service Center, the management level within the enterprise can be improved [2][3].

Kathy Jacks (2012) believes that although the current business has covered customer service, manufacturing, or various business outsourcing, in today's economic environment, with the advent of financial intelligence and big data, the use of accounting and financial service centers is becoming increasingly common. By standardizing and professionalizing various business processes, we aim to save costs and improve production efficiency. In addition, when creating a shared service center, consideration should also be given to the culture and operational procedures of the entire company, and potential costs should be reduced by adjusting the size and timing of each organization. Finally, this article also points out the advantages of financial shared services, which are the ability to more flexibly implement integrated systems and establish shared databases.

Donna (2013) believes that financial sharing services can reduce a company's financial expenses, increase its revenue, and thus achieve cost savings and enhance the economic value of the enterprise. However, in the implementation of financial shared service centers, there are often some non-standard phenomena, and financial shared services cannot simultaneously meet the different business needs of different subsidiaries. Therefore, when establishing financial shared services, enterprises should pay more attention to their strategic planning.

Ernst & Young (2015) argue that there are many issues with personnel management, communication mechanisms, and information systems when implementing financial shared services. For example, in terms of the number of employees, there are two layers of differentiation, employee turnover, and other issues.

Hu Aiping, Zhang Chunyan, and Zhou Sha (2021) believe that with the development of the new generation of information technology, more and more companies are adopting financial sharing to reduce operating costs and expand economic scale. This article takes Huawei as a case study to deeply analyze the impact of financial sharing at different stages on the company's financial performance, and uses it as a typical case[4][5]. Li Xiaoyi (2022) believes that in order to improve operational efficiency and reduce costs, various companies have begun to build financial sharing centers. Based on the basic principles of financial sharing and internal control, combined with the case of Haier Company, a detailed explanation of the company's internal control was provided, and the problems were pointed out, and improvements were made to the plan.

Sakshi Jain (2021) believes that under the influence of COVID-19, the situation of industrial financial integration under the financial sharing mode has changed. Therefore, countries use machine learning technology to predict the daily number of infections, deaths and recoveries in the world, so as to establish models for analysis and prediction.

After 1990, as China rapidly developed, multinational corporations also continued to increase, and financial shared service centers were also introduced. Therefore, some domestic scholars have also made corresponding research [6].

3 Baosteel's Financial Shared Service Center Situation Seminar

(1) Company Profile

Baosteel is a large-scale iron and steel enterprise adhering to the business philosophy of "creating the world's most competitive and most valuable listed company", dedicating to providing customers with high-quality products and services, and bringing the greatest value to shareholders and the community. In February 2000, Shanghai Baosteel Group established Baosteel; in February 2017, Baosteel implemented the merger and acquisition of Wuhan Iron and Steel Group Company (hereinafter referred to as Wuhan Iron and Steel). Baosteel implemented a merger and acquisition of Wuhan Iron and Steel Group Company (hereinafter referred to as WISCO), and has set up branches in Shanghai, Wuhan, Zhanjiang and Nanjing.

(2) Specific practices of financial shared service centers

Baosteel has divided the Financial Shared Service Center into eight parts: ①Purchase-to-payment room: responsible for the company's procurement and settlement. ② Sales to Payment Room: responsible for the company's business income and payment. ③ Expense Room: Responsible for reimbursement, auditing and accounting of expenses. ④ Tax Documentation Room: responsible for entering tax documents, certifying invoices and scanning invoices. ⑤ Special Services Room: Responsible for quality inspection and verification. ⑥ General Ledger and Statement Room: Monthly closing of accounts, collation and summary of various statements. ⑦ System Support Room: Responsible for the daily maintenance of the system, regular backup and upgrade. ⑧ Operation Room: responsible for process innovation, performance evaluation, organizational management, and information technology.

(3) Effectiveness of Financial Shared Service Center

①Optimizing the organizational structure and the critical links

Baosteel Group strictly manages the finance department and divides the Finance Shared Service Center into eight blocks, which cover all the sections required by the finance department and all the processes required by the finance staff. The Group has refined the large task processes into 242 sub-processes, each corresponding to 242 job types, which can largely be controlled level by level, reducing errors and improving the accuracy of decision-making. In the construction process of the financial sharing center, the specialized service room and the operation room are the most critical links. The special service room ensures the authenticity of data, while the operation room ensures the smooth connection between the financial shared service center.

② Reduce operating costs

Baosteel Group in the establishment of financial shared service center, is strictly in accordance with the existing information support to set up, the process standardisation is high. The standardised process can greatly reduce the group's operating costs. As a large steel enterprise in China, Baosteel Group has a large scale and a large number of personnel. In the establishment of financial shared service center before each molecular company need to set up a separate financial department, and after the establishment of the original need for hundreds of finance to complete the work now only need dozens of financial, greatly reducing the cost of human resources. In addition, Baosteel Group has also implemented information integration initiatives, financial shared service center not only has a wealth of information resources, there will be good technical support, thus reducing corporate costs and improve efficiency.

Table 1. Administrative expenses, operating costs and compensation payable to employees of Baosteel, 2010-2020 (billion RMB)

Year	Administrative expenses	Operating costs Employee	compensation payable
2010	77.3	1,754	16.4
2011	85.8	2,030	15.5
2012	74.4	1,769	15.8
2013	68.8	1,717	17.1
2014	77.3	1,689	17.4
2015	72.9	1,493	16.7

2016	91.6	2,182	18.8
2017	54.3	2,484	23.7
2018	60.0	2,594	27.0
2019	56.1	2,600	25.5
2020	44.0	2,520	15.0

Source: Baosteel annual report 2010-2020

First of all, from the data in Table 1, since 2010-2013, Baosteel's management expenses decreased from 7.73 billion RMB to 6.88 billion RMB, and Baosteel started to build the Financial Shared Service Center precisely from 2010, so it can be seen that the implementation of the Center has played a certain role in saving Baosteel's management costs, and to a certain extent, it has improved the management efficiency of the enterprise. In 2011, the financial shared service center began to provide business for its branches, so the decline in management costs at this stage also shows that Baosteel's financial shared services have achieved quite obvious results. Secondly, Baosteel's 2016-2017 management costs showed a relatively large decline, eventually falling to 4.4 billion RMB in 2020. However, Baosteel's operating costs showed an upward trend from 2015-2016, and payable employee compensation also showed an overall upward trend from 2015-2019, which indicates that Baosteel's financial management model may have certain problems and needs to be continuously improved.

4 Problems faced by Baosteel's Financial Shared Service Center

(1) Insufficient performance incentives

Performance incentives is an important measure to ensure the stability of the talent team. The existing financial shared service centers have *one size fits all* phenomenon in evaluating employee performance, which leads to unreasonable allocation of employee salaries and leads to talent loss. The opinions of some grassroots employees have been ignored, leading to a decrease in their work enthusiasm and inability to accurately evaluate work performance. As most of the work of the financial shared service center is repetitive and mechanical, this reduces the motivation of financial personnel to a certain extent. In addition, Baosteel Group incentives for talent is not enough, especially in the application of financial shared service center in the process of financial staff training is relatively single, only on the financial professional skills and knowledge training, which leads to a generally low salary. So the staff does not have a sense of achievement and sense of belonging to the post.

(2) Unclear boundaries of authority and responsibility

Firstly, because of the cumbersome business aspects of receivables and payables of Baosteel, as well as the need for various communications and exchanges with purchasing, business, warehousing and other departments, it is easy to create the problem of unclear division of authority and responsibility between various departments when dealing with accounts receivable and payable. Secondly, the various budget management work of the enterprise group and its subsidiaries has to be coordinated by the budget supervisor as well as the participation of the financial shared service center, which results in unclear responsibilities of the budget management and the financial shared service center.

Table 2. Baosteel Corporation Operating Margin, Return on Net Assets 2018-2021

Year	Operating profit margin (%)	Return on net assets (%)
2018	9.03	12.71
2019	5.33	7.05
2020	5.70	7.03
2021	8.41	12.36

Source: Baosteel Annual Report 2018-2021

From Table 2, it can be learnt that the return on net assets of Baosteel shares fell from 12.71% in 2018 to 7.03% for two years, at the same time, the operating profit margin of Baosteel shares fell from 9.03% in 2018 to 5.70% for two years. These fully illustrate the poor operating results of Baosteel shares, the profitability level is not high, the operating situation is unstable, and there is a large fluctuation situation, which is likely to be due to the unclear delineation of the boundaries of the rights and responsibilities of the enterprise group, resulting in the financial shared service center in the operation of the process did not give full play to its effectiveness, so ultimately leading to the phenomenon of the enterprise group's unstable operating situation.

(3) Difficulty in risk control

The financial shared service center of Baosteel has been unified in accordance with the requirements of the head office, and the financial power has been transferred, which makes it a very difficult task to meet the needs of the departments under each group. In addition, there are certain defects in the financial shared service center, when it is implemented, it is easy to have financial problems, for example, due to the irrationality of the accounting system, the degree of constraints between the various companies is not the same, which leads to the increase of financial risks, after the establishment of a financial shared service center, the risks that originally belonged to the subsidiaries have been transferred to the headquarter, which leads to an increase in the headquarter's financial risks, which leads to the increase of financial risks of the various molecular companies more difficult to control.

5 Suggestions for the optimization of Baosteel's financial shared service center

(1) Improving integrated management and talent incentives

Firstly, Baosteel is developing rapidly and completed the merger and acquisition of WISCO in 2017, and the financial staff of the new company can not quickly adapt to the company's financial shared service model compared with the old staff who used to work for the company for many years, so it is necessary to conduct special training on a regular basis to provide comprehensive management for the staff. Secondly, a perfect incentive mechanism should be established. Through the rotation, transfer, promotion and other ways to enhance the enthusiasm of the staff, improve the overall cohesion of the company's financial shared service center, inject more vitality into the financial shared service center, play an incentive role for talent, and then improve the level of corporate performance management.

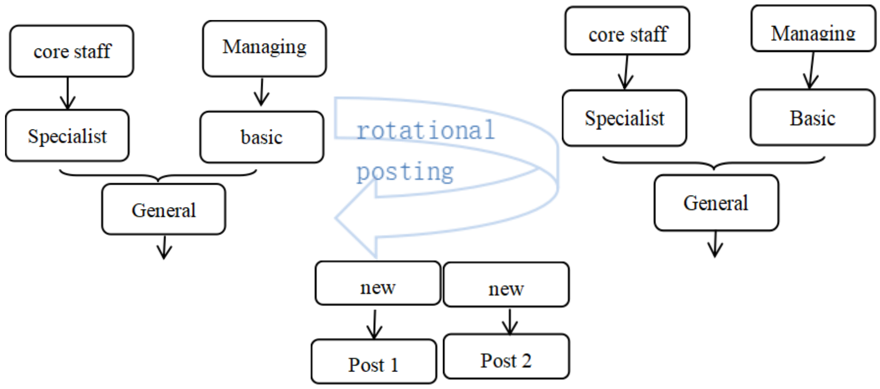

Fig. 1. Sketch of the promotion mechanism

Source: author's collation

(2) Clarify the boundaries of authority and responsibility of each module

Firstly, Baosteel Financial Shared Service Center can establish a unified budget process system, fill in the various operations of each molecular company in the system to automatically summarize and generate budgets, so as to avoid the subjective errors of the financial staff and carry out the corresponding review, enhance the sense of responsibility of the staff, and clarify the boundaries of authority and responsibility. Secondly, Baosteel can subdivide the responsibilities and implement them to the people. In addition, Baosteel can carry out some necessary vocational training for financial staff to improve their competence in dealing with the business, so as to clarify their own duties, thus avoiding the problem of unclear division of authority and responsibility. The sketch of the promotion mechanism is shown in Figure 1.

(3) Improving information transparency and risk management of shared centers

Baosteel does not have a comprehensive understanding of the situation of the molecular companies, after the establishment of the financial shared service center, although Baosteel is only responsible for part of the financial work, but if the information transparency of the molecular companies is not enough, it will still cause Baosteel to generate a huge financial risk, coupled with the financial shared service center to make the whole group of enterprises more closely linked, which further amplifies the risk of the head office. Therefore, Baosteel needs to strictly control each link, improve information transparency, and then strengthen the financial shared services.

6 Conclusion

Today, with the advent of the information technology and network era, financial shared service occupies a pivotal position in modern enterprise reform. Baosteel belongs to large-scale steel manufacturing enterprises. In order to improve the group's management efficiency and meet the needs of rapid growth and expansion, Baosteel has promoted a series of management reforms, one of which is the financial shared service center, which adopts a shared model to achieve unified management of the same type of business and reduce manpower costs, thus improving work efficiency. However, there are some problems in the implementation of this model in Baosteel, such as insufficient incentives for performance management, unclear delineation of the boundaries of authority and responsibility, difficulty in risk management and control. Therefore, this paper gives the corresponding optimization suggestions for these problems: firstly, by improving the comprehensive management and talent incentives, first of all, the relevant financial personnel regularly carry out specialised and auxiliary training, and secondly, establish a good promotion mechanism. Second, clarify the boundaries of authority and responsibility of each module, and establish appropriate accountability mechanisms for different subjects. Third, improve the transparency of information and strengthen the risk management and control of the sharing center.

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