Research on the Construction of Financial Shared Service Centers for Group Companies

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ABSTRACT

With the rapid development of economic globalization and information technology, the number of global enterprises is growing rapidly, and the scale of enterprises is also constantly expanding. More and more enterprises are expanding their business overseas. The increasing complexity of business management is caused by the increase in business. The models of traditional financial management can no longer meet the development needs of modern enterprises. In order to strengthen internal control and improve market competitiveness, enterprises have begun to apply the financial shared service center model to solve problems in the development process. This article introduces the meaning, role, goals, and differences of financial shared service centers, and explores how to build a financial shared service center model. Finally, a summary is provided.

KEYWORDS

Financial Shared Service Center; Financial management; Operating costs; Group Company

1. INTRODUCTION

In recent years, under the background of economic globalization and the rapid development of information technology, traditional financial models have been unable to meet the needs of modern enterprise development. Modern group companies have begun to explore new management models to meet the requirements of diversified and large-scale development. In order to strengthen enterprise competitiveness and achieve transformation and upgrading, relevant scholars have proposed the theory of financial sharing based on the characteristics of the information age and conducted in-depth discussions. Quinn, B.E. (2000), as the pioneer of shared services research, believes that shared services are a new business model that should provide targeted services based on customer needs[1]. Bergeron Bryan (2002) believes that shared services are built with the aim of saving costs, improving efficiency, and providing corresponding services to internal and external customers. This organization is an independent business unit with its own management structure and can also participate in market competition[2]. Wolfgang Becker et al. (2004) argue that providing centralized shared services to various departments within a company can reduce the operating costs of the enterprise group[3]. Andrew Kris (2005) proposed that risks and problems cannot be avoided in business operations, and managers need to pay special attention to the management and service work between enterprise personnel and customers, rather than spending all their energy on daily financial management issues[4]. Derven, M. (2011) believes from the perspective of risk control that in the construction and implementation of financial shared service centers, special attention should be paid to the construction of corporate culture, standardization of business processes, improvement of enterprise management level, and implementation of performance evaluation. Special attention
should be paid to aligning enterprise strategic goals with customer needs, further enhancing the sense of responsibility and mission of enterprise employees[5]. Liu Hanjin and Fang Yang (2012) believe that shared services are an innovative model with organizational management functions. When an enterprise has multiple business units, it will bring together dispersed human resource management, finance, IT, and professional skills activities and provide unified services[6]. Chen Hu and Dong Hao (2009) believe that the key to a financial shared service center is to first separate easily standardized financial businesses, carry out process reengineering, and finally have the financial shared service center handle them uniformly[7]. Zhang Ruijun, Wang Zhao, Huang Xu, and Wu Nianzhi (2016) believe that the Financial Shared Service Center is a deep transformation of financial organizations. It separates independent financial accounting organizations and then concentrates the financial organizations of branch offices in the Enterprise Financial Shared Service Center. The Financial Shared Service Center undertakes all internal financial transactions of the enterprise and achieves centralized and unified financial accounting and management[8]. Zhuang Ying (2011) proposed to start with the standardization of the group's financial system and reconstruct the business processes included in the scope of shared services[9]. The financial shared service center can integrate some internal functions of the enterprise and concentrate them in an independent financial shared service center. By promoting the economy of production scale, specialization of business processes, and the criticality of financial management, enterprises can save costs and improve efficiency. This article systematically analyzes the main content of financial shared service centers by reviewing the existing research results of scholars, and explores how to build an efficient financial shared service center model.

2. THE CONNOTATION OF FINANCIAL SHARED SERVICE CENTERS

Shared services are a new management concept. Its main idea is to integrate excellent talents and advantageous resources within the enterprise, optimize the combination, share technology and provide services, and concentrate competitive talents and resources into a strategic business unit, in order to fully utilize technology, human and material resources to reduce costs, enhance enterprise value and competitiveness. Shared services are innovative operational management models driven by information technology. At the financial level, shared services rely on standardized platforms, ERP systems, business operation processes, and unified accounting methods to achieve. Shared services can merge the original transaction behavior of enterprise organizations, allowing enterprises to maintain a balance between organizational personnel, organizational work, and technical level, and provide the services that customers expect most.

The Financial Shared Service Center is a new management model aimed at improving the work efficiency of enterprise employees and reducing costs. Enterprises achieve financial sharing by centralizing a large number of repetitive businesses, standardizing and organizing processes, and then integrating them into a unified service module. Through this service module, namely the Financial Shared Service Center, they calculate the financial work of each module organization and provide services for each module organization. The Financial Shared Service Center focuses on the financial operation process of enterprises, The Financial Shared Service Center is for the financial operation process of an enterprise and through information technology support, it mainly handles two types of business: professional services and decision support. With the goal of reducing costs, improving efficiency, improving quality and satisfaction, we provide professional financial services for customers within the group company and external customers of the group company. Multinational corporations are also suitable for establishing a financial shared service center model, as they have feasible conditions for building a financial shared service center model. Firstly, the development and growth of multinational corporations in fierce market competition is due to high level of the management and rich management experience, as well as their effective execution ability to establish financial shared service centers. Secondly, multinational corporations have teams with high-level IT construction capabilities and ERP management systems, laying the foundation for establishing
financial shared service centers. Multinational corporations operate across regions, giving them flexibility and diversity. Finally, the enormous scale and economic strength of multinational corporations provide strong support for the construction of financial shared service centers.

3. OBJECTIVES OF THE FINANCIAL SHARED SERVICE CENTER

3.1. Provide support for the development strategy of enterprises

In the context of economic globalization and rapid development of information technology, enterprise globalization and group expansion are gradually strengthening. Traditional organizations of financial management have decentralization, which affects the effectiveness of enterprise financial management on the one hand and increases the management cost of investment on the other hand, bringing inconvenience to the implementation of enterprise development strategies. The financial shared service center model can quickly extract dispersed enterprise financial information and integrate it into the financial shared service center, transforming the work of financial management previously implemented by various subsidiaries into a financial shared service center for implementation, and improving the accounting level of financial personnel in the group company.

3.2. Improving Financial Management Efficiency

As the scale of the group company gradually expands, the financial organization of subsidiary companies has independence, and the processing and accounting methods vary. Each subsidiary company is unable to report its financial and operational situation to the enterprise headquarters in a timely manner, which makes it difficult for the management personnel of the enterprise headquarters to achieve comprehensive supervision of the financial situation and operational effectiveness of each subsidiary company. By standardizing financial processes and accounting standards through the financial shared service center model, a capable and efficient team of shared personnel is formed to classify and centralize the scattered business of different enterprises, further reducing the number of office spaces. Through a series of batch processing and standardization of workflow, the efficiency of employees is improved and enterprise management costs are reduced. Fully utilize network technology to achieve financial supervision and management, thereby improving the efficiency of enterprise supervision.

3.3. Improving service quality and operational efficiency

As the scale of the group company gradually expands, it is necessary to vigorously increase its branch offices. Assuming that each branch office has the costs of financial operating of the enterprise will gradually increase. By establishing a financial shared service center, not only can it effectively reduce the investment of corresponding costs in various enterprise branches, but it can also overall reduce the costs of financial operating of the enterprise. Implementing the financial shared service center model to remove redundant business steps, implementing unified business processes, and utilizing shared platforms and management systems to achieve the goal of integrating low-cost and efficient cross departmental and cross regional data. By summarizing knowledge and accumulating experience, complex work can be simplified and standardized, which helps to improve service quality and operational efficiency.

3.4. Provide support for enterprise operations

For a long time, the finance department of the group company has been in a low value-added work situation, without more time and energy to implement the optimal integration of the operation of the global value chain. Establishing a financial shared service center not only frees financial personnel from complex tasks, but also allows them to devote more time and energy to reviewing and analyzing
financial statements, providing decision-makers or managers with more comprehensive and high-quality decision-making reference services.

4. COMPARATIVE ANALYSIS OF FINANCIAL SHARED SERVICE CENTER MODELS

The models of traditional financial management are divided into decentralized financial management models and centralized financial management models. The decentralized financial management model refers to the independent decision-making power of each subsidiary or business unit of the group, with functional departments responsible for their respective institutions, setting up independent accounting books and personnel which are independent (generally including cashiers, financial supervisors, and financial managers), and conducting independent accounting. This model can match well with the business environment and can quickly respond and properly solve specific events and problems. In this decentralized management model, the superior department has a business guidance relationship with the subordinate department, and the subordinate units have a greater degree of delegation of power, which is closely related to specific business. Therefore, it can respond to changes in the market environment in a timely and effective manner. The centralized financial management model refers to the concentration of financial personnel, either physically or virtually, in various locations through the commercialization and informatization of financial data for the purpose of strengthening group control. Centralize the functions of functional departments at the group headquarters, and each subsidiary will no longer establish separate functional departments of the same type. Whether adopting a decentralized or centralized financial management model, there are inevitable shortcomings, requiring a large amount of manpower and material resources on basic and cumbersome financial accounting. Taking expense reimbursement as an example, the traditional processing method is for financial personnel of each subsidiary to independently handle related business, going through procedures such as bill review, bank enterprise reconciliation, payment and receipt, voucher preparation, and accounting. Accountants and cashiers need to sign and confirm whether the amount and corresponding level of leadership comply with the company's internal control regulations. They also need to judge the authenticity of transaction matters and related bills. This set of procedures is time-consuming and labor-intensive, and requires high professional standards from financial personnel, which inevitably increases the cost pressure on the enterprise and is prone to human negligence and operational errors. However, in the sharing mode, each business of each subsidiary is grouped according to content and characteristics and assigned to corresponding professional business groups. Each business group is a production line, and the personnel of the financial sharing center are like different types of workers on the assembly line, handling the business belonging to this group. This not only reduces the requirements for the professional competence of financial personnel, but also reduces labor costs and improves the efficiency of work.

As the scale of a group company continues to expand, it often falls into a situation of stable income, increased costs, decreased control effectiveness, and decreased operational efficiency. Although diversified operations can diversify operational risks, if the dispersion is too large, group control cannot be achieved, and the enterprise is like scattered sands, lacking cohesion and coordination. If concentration is excessive, it limits enthusiasm, reduces the market adaptability of enterprises, and even leads to abuse of power in the absence of effective internal control. For enterprises, properly handling centralized and decentralized management is a major challenge. The financial shared service center is improved on a decentralized and centralized basis. Through the analysis and comparison of decentralized and centralized traditional management models as well as financial shared service centers, the connection and difference among the advantages and disadvantages of shared service centers and traditional management models can be summarized, as shown in Table 1.

Table 1. Comparison of Financial Shared Service Center Models
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<tr>
<th>Type</th>
<th>Advantages</th>
<th>Shortcoming</th>
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<tr>
<td>Decentralized financial management model</td>
<td>Timely response to environmental changes; flexibility</td>
<td>Low organizational efficiency and high management costs</td>
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<tr>
<td>Centralized financial management model</td>
<td>Group control; Unified business standards</td>
<td>Weak market adaptability and poor flexibility and maneuverability; Not conducive to the dissemination of subsidiary information</td>
</tr>
<tr>
<td>Financial Shared Service Center</td>
<td>Independent operation; Low cost; High efficiency in handling affairs; Flexibility; Standardization</td>
<td>Applicable scale restrictions</td>
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5. CONSTRUCTION OF FINANCIAL SHARED SERVICE CENTER MODEL

5.1. Standardization of financial systems

A standardized financial management system is the foundation for constructing the financial shared service center model. The goal of the Financial Shared Service Center is to build efficient and low-cost operational processes. Under standardized business processes, financial organizations work in a standardized manner, forming specialized division of labor. Under this division of labor model, the ultimate goal is to reduce the costs of financial management of the enterprise while providing assurance for the execution of a unified financial strategy. At the group level, the development of standardized business norms and systems requires the use of reviewed standard business norms as the basis for implementation, while also emphasizing the significance and promotion of standardization, which can reduce resistance for the subsequent promotion of the system. Through this centralized training method, various financial organizations can comprehensively master and officially implement new standards.

5.2. Organization and Personnel

After establishing a financial shared service center, the financial positions or other departments established by the original business departments of the enterprise will be cancelled and integrated into the new shared center. The Financial Shared Service Center is a new department of the enterprise, which will inevitably lead to new changes in organizational structure. It is necessary to redesign a new organizational hierarchy that is compatible and adaptable to the financial shared service center model based on the company's goals. The financial shared service center model has different goals and work priorities in different stages of design, planning, construction, and implementation, and also has different requirements for personnel. At different stages, it is necessary to focus on the construction of personnel teams. Enterprises need to develop different personnel training directions for different types of personnel on the financial shared service center platform.

5.3. Business Process

Update financial business processes and integrate the business and data of the financial shared service center. When establishing and implementing a financial shared service center, the process reshaping should focus on the following six aspects: commercialization of financial data, data sharing, standardization of financial business processes, popularization of financial business processes, integration of the systems of financial information, and separation of basic financial business and financial analysis. Building a business process involves optimizing shared processes. Each company's
business sector needs to combine the characteristics of industry and management needs, unify industry accounting subjects and standard business processes to handle all kinds of business with higher quality and efficiency. The second is that shared business processes require comparative analysis before and after. Before and after the construction of the financial shared service center model, there will be significant changes in the business processes of enterprises in financial accounting, settlement of financial funds, relevant taxation, financial statements, and management of financial files compared to before.

5.4. Information Systems

On the basis of existing information platforms, optimize and integrate various kinds of existing information systems of the enterprise, achieve the effect of interconnection and interoperability between systems, share data further, and avoid duplicate personnel recording. Secondly, according to the nodes and sectors of the industrial chain, the ERP system is planned and unified into a limited number of systems, making the management between similar enterprises more standardized and standardized, and information more unified, reducing information system optimization, maintenance, employee training costs, and achieving real-time integration with other systems. Then, a reimbursement system and an electronic imaging system were established, and the scattered original vouchers were centralized in the financial shared service center for processing. Full electronic management of accounting records was carried out. When analyzing and processing business, enterprise managers and financial personnel can access and review attachments such as invoices and contracts for review, making communication smoother. Finally, establish a comprehensive budget management system. Integrate the financial budget system with the financial reimbursement system to implement the control of budget.

5.5. Operations Management

Build a cooperation and service system. The Financial Shared Service Center and the sharing enterprise sign a service agreement, and the service providers and recipients reach a good relationship of mutual responsibility, equality, mutual benefit, and mutual restraint. Establish a management system of internal performance under the Financial Shared Service Center. Strengthen the assessment of employees from a series of non-financial indicators which include customer satisfaction, quality and efficiency of handling business and some financial indicators which include the control of budget and cost, so that employees can clarify their position, job responsibilities and career goals further.

6. CONCLUSION

Group company develops constantly and gradually participates in global competition, so financial shared service centers have gradually become a method of financial management for multinational group companies to reduce costs and improve efficiency. The Financial Shared Service Center is about to become a focus of attention in domestic theoretical and practical fields. Through research and exploration, the article summarize the meaning, goals, and differences of financial shared services, and explore how to build a financial shared service center model, which is centered on shared services and based on financial system standardization, reasonably design an organizational structure and optimize personnel arrangement, update and optimize business processes, establish a comprehensive information system of budget management, strengthen operational management, and enhance the professionalism of financial management in the group company Intelligent and standardized level.
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