

# Case Study on The Operational Optimization of The Financial Shared Services Center at Huahe Real Estate

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**Abstract.** During the period of reform and opening-up in China, the real estate industry has experienced rapid development. Since the housing system reform began in 1998, an increasing number of enterprises have entered the real estate sector. Most well-known large real estate companies emerged during this time. Until 2007, the real estate market was in its "golden era," where companies could enhance their profits solely through land appreciation. However, as more companies entered the market, available land for construction became scarcer, competition intensified, and the government's regulatory policies on the real estate industry increased, making it more challenging for real estate companies to earn profits as easily as before. In recent years, the government has introduced the concept of "housing is for living, not for speculation," strengthening its control over the real estate sector. Consequently, real estate companies have begun to transform their profit models in an effort to continue generating profits. This article analyzes the operations of the financial shared services center at Huahe Real Estate and identifies issues such as a high core business order cancellation rate, low internal operational efficiency, a high employee turnover rate at the shared center, and problems related to information technology. The third section analyzes the causes of these issues from both internal and external perspectives. Internally, the factors include strategic structure, business processes, personnel management, and information systems. Externally, the primary causes are related to national policies and technological changes. The fourth section proposes corresponding policy recommendations based on the identified issues and their causes. It is hoped that this analysis will provide insights for the ongoing operations of the financial shared services center at Huahe Real Estate, as well as offer case support for other real estate companies looking to establish financial shared services centers.

**Keywords:** Financial Shared Services Center; Operational Optimization; Process Reengineering.

## 1. Theoretical Foundation

### 1.1. Relevant Content of the Financial Shared Services Center

The financial shared services center is a new financial management approach primarily responsible for processing standardized and highly repetitive accounting tasks within the subsidiaries and institutions of an enterprise group. Through centralized processing, it aims to reduce costs and increase efficiency, enabling enterprises to allocate more resources and focus on core business activities and financial management. Additionally, establishing a financial shared services center requires companies to reconstruct and integrate business processes and financial workflows, directing resources toward the financial aspects of the business. This allows finance to better support business development and promote the realization of corporate strategies and value enhancement.

The information systems of the financial shared services center primarily include imaging transmission systems, ERP systems, SAP systems, and document management systems. The center is a product of the big data and information technology era, where a large volume of information and data processing requires high levels of technological support. The maturity of information technologies such as artificial intelligence, the internet, and cloud computing has further enhanced the functionality of the financial shared services platform. The financial shared services center integrates most of the accounting tasks, utilizing the shared financial platform to transform complex



financial data and processes into an integrated information platform. This centralized approach reduces costs, lessens the workload of finance personnel, accelerates the completion of financial tasks, and significantly improves the efficiency of financial management. Building a financial shared services platform and information system is the core value of the center. It provides centralized financial accounting work and consolidates financial information from all parent and subsidiary companies, allowing finance personnel to access comprehensive financial and non-financial information. This facilitates the classification, integration, retrieval, and analysis of financial data.

The financial shared services center is a product of modern information technology development. It relies on network information technology to centralize financial accounting, helping enterprises achieve efficient financial processing while saving human, financial, and material resources. Promoting Value Creation: By reengineering the financial and business processes, the center fosters integration between finance and business, strengthening collaboration between financial and business departments. This encourages a proactive transformation among finance and business personnel, allowing financial activities to fully support business operations, optimize resource allocation, and facilitate strategic realization, ultimately driving value creation for the enterprise.

## **1.2. Theoretical Foundations for Optimizing Enterprise Financial Management Based on the Financial Shared Services Center**

### **1.2.1. Process Reengineering Theory**

The goal of business process reengineering is to improve the effectiveness of enterprise management and enhance operational efficiency. It requires innovating existing operational processes and production techniques based on the enterprise's practices and management characteristics. By eliminating redundant and ineffective steps and integrating new value-adding elements, the objective of reducing costs, increasing efficiency, and enhancing value can be achieved.

Establishing a financial shared services center is a typical example of business process reengineering. It separates financial work from various departments within the enterprise, breaking down the original organizational structure, reducing repetitive tasks, lowering management costs, and avoiding the drawbacks of overlapping functions. Moreover, the financial shared services center shifts the focus from departmental or unit interests to the overall interests of the group. Although financial processes are not core business processes, reengineering them parallels the reengineering of core processes. Thus, reengineering financial processes can effectively enhance the quality of related financial information, significantly improving the reliability, timeliness, and relevance of financial data.

### **1.2.2. Resource Allocation Theory**

Resource allocation theory refers to the optimal application of resources based on the basic economic rules in a competitive market. Resources tend to flow towards departments and areas that yield higher returns due to supply and demand fluctuations influencing price changes. In the context of enterprise development, applying resource allocation theory encourages companies to direct limited resources towards areas with greater value creation potential, maximizing their impact and generating revenue.

In financial management, resource allocation theory emphasizes effectively deploying relevant human, material, and financial resources to enhance the effectiveness of financial management. The application of a financial shared services center significantly improves the efficiency of financial management by allowing finance personnel to devote less time to accounting and more to analysis and decision-making. Additionally, the shared services center promotes the sharing of financial information resources within the enterprise, facilitating optimal resource deployment. Thus, the financial shared services center plays a crucial role in positively influencing resource allocation in enterprise financial management.

## **2. Overview of Huahe Real Estate and Its Financial Shared Services Center**

### **2.1. Introduction to Huahe Real Estate**

Huahe Real Estate Co., Ltd. (abbreviated as Huahe Real Estate) is an urban comprehensive investment and development company, a subsidiary of Huahe Group, and a Fortune Global 500 state-owned enterprise. Established in 1994 and listed on the Hong Kong Stock Exchange in 1996, Huahe Real Estate ranks among the top ten in the industry.

The company's main business lines are property development and investment, supplemented by services such as property management, wellness, long-term rental apartments, education, and cinemas, which form Huahe Real Estate's unique business model. As of December 31, 2019, the development segment had entered 79 cities, covering eight product lines and 325 projects. The investment properties mainly consist of commercial centers, having entered 61 cities with 61 shopping centers operational and 55 under development. Given the complexity of Huahe Real Estate's operations, establishing a financial shared services center aims to enhance operational efficiency.

Since 2019, Huahe Real Estate has adhered to a strategic focus on stability and progress, promoting high-quality development in pursuit of growth in scale and revenue. The company has consistently ranked among the top ten in the real estate industry, maintaining excellent operational conditions. In 2019, it achieved a revenue of 147.74 billion yuan, with a core shareholder premium of 21.65 billion yuan after deducting the appreciation of investment properties, and a total shareholder premium of 28.67 billion yuan, resulting in earnings of 4.12 yuan per share. Additionally, Huahe Real Estate entered nine new cities, acquired 82 new projects, and added land reserves totaling 2.020 million square kilometers, with 1.784 million square meters for development and 236 square meters for holding. The overall performance remains in the top tier of the industry. Due to the high transaction volume and complexity, traditional accounting and management models can no longer keep pace with the company's development, making the financial shared services center an effective solution to these shortcomings.

### **2.2. Operational Management Analysis of Huahe Real Estate's Financial Shared Services Center**

The objectives for establishing a financial shared services center vary across enterprises, resulting in differences in operational goals. Generally, these objectives include business scale enhancement, centralized control, cost control, and financial upgrading. The current status of Huahe Real Estate's financial shared services center is explored from these perspectives.

#### **2.2.1. Operational Goals of Huahe Real Estate's Financial Shared Services Center**

Huahe Real Estate aims to address issues associated with traditional accounting models while leveraging the financial shared services center to achieve strategic goals.

Firstly, Huahe Real Estate seeks to utilize the financial shared services center to enhance business scale. The company's nationwide project scope and diverse operations have resulted in significant growth, leading to traditional accounting models being unable to keep pace. Given the high repetition in real estate business, finance personnel under traditional models spend excessive time on repetitive recording, leaving little time for analysis and strategic tasks.

Secondly, the financial shared services center aims to achieve centralized control at the group level. As a subsidiary of Huahe Group, which has operations beyond real estate—including renovation, pharmaceuticals, beer, and bottled water—the collection and organization of financial information become more complex. At Huahe Real Estate, the geographical distribution of business and differing strategic objectives across regions can lead to inconsistencies in financial regulations, resulting in asymmetric financial information and increased costs for data collection and organization at headquarters.

Lastly, the center focuses on cost control. As a Fortune Global 500 state-owned enterprise, Huahe Real Estate employs finance personnel primarily from prestigious domestic and international universities, leading to high recruitment and labor costs. Coupled with the additional benefits and assurances provided to employees due to its state-owned nature, relying on traditional accounting methods means that significant investment in high-level talent is directed towards basic accounting tasks, which can be considered inefficient for cost management.

### **2.2.2. Current Status of Huahe Real Estate's Financial Shared Services Center**

Huahe Real Estate has adopted a nationwide shared center model, establishing its financial shared services center in Wuhan. Although it is a leading company in the industry, its business volume does not necessitate multiple sub-centers. Additionally, Huahe Real Estate's operations primarily cover the central, eastern, northern, and southern regions of the country, with minimal activity in the western regions. Therefore, a single financial shared services center is sufficient to manage its business volume.

The information system employs a multi-system integration approach, using Oracle for financial accounting, a combination of a reporting system and ERP for expense reporting, and EMS for payment systems, along with an online office automation (OA) system for daily employee tasks. Each system is responsible for its specific functions while maintaining connections with other systems. Based on strategic objectives and actual business circumstances, Huahe Real Estate has divided the financial shared services center into four main segments: financial operations, personnel management, organizational management, and daily operations.

## **3. Problems and Analysis of the Operation of Huahe Real Estate Financial Shared Service Center**

### **3.1. Problems Encountered**

Although Huahe Real Estate has improved efficiency since the launch of the Financial Shared Service Center, it still faces multiple challenges in the early stages of operation. The main issues analyzed are the high return rate of core business, low internal operational management efficiency, high employee turnover rate in the Financial Shared Service Center, and information system issues.

#### **3.1.1. High Return Rate of Core Business**

The core business of the Financial Shared Service Center mainly includes accounts receivable, accounts payable, and expense reimbursement. These processes underwent significant changes after the center's launch. Previously, these tasks were handled solely by finance personnel, but after the launch, business personnel began to submit applications, fill out reimbursement forms, and photocopy documents. This shift led to an increase in return issues, indicating that the expected efficiency gains were not realized. For instance, data from the Huabei region in the first half of 2020 showed a return rate of 1.65%, with the highest rates in the Jingbei and Jingnan divisions at 3.18% and 3.09%, respectively. This is 30 times higher than the standard return rate of 0.2% set by the headquarters.

#### **3.1.2. Low Internal Operational Management Efficiency**

The application and approval process requires three levels of review—project company, regional company, and business unit—entailing multiple departments and personnel at each stage. The entire process took 35 days, which is cumbersome and detrimental to the company's market responsiveness. Additionally, business personnel face many procedures for reimbursement, and the built-in reimbursement limits complicate matters, causing delays and increasing the potential for human error.

#### **3.1.3. High Employee Turnover Rate in the Financial Shared Service Center**

High turnover rates have long been a problem for shared centers. The Financial Shared Service Center has divided accounting tasks into standardized modules, leading to monotonous work for employees. Many newly hired graduates are faced with repetitive tasks, which can lead them to leave the company.

High turnover necessitates recruiting and training new personnel, increasing costs and undermining the center's goal of cost reduction.

#### **3.1.4. Information System Issues**

A robust information system is foundational for the operation of a Financial Shared Service Center. It can efficiently process company business, enhance risk management, and improve satisfaction levels among stakeholders. Currently, Huahe Real Estate has launched several systems, including financial accounting, expense reimbursement, electronic imaging, funds management, and bank-enterprise connection systems. However, inconsistent construction timelines for these systems hinder seamless integration and lead to discrepancies in data retrieval rules among different units.

### **3.2. Causes of Problems in Operation**

#### **3.2.1. External Causes**

##### **(1) Changes in National Policy**

The tightening of national policies in the real estate sector has led to various measures aimed at controlling adverse developments. For example, the "housing is for living, not for speculation" concept introduced at the end of 2016 has emphasized the need for financial processes to adapt to new policies, such as electronic invoicing and changes in invoice management.

##### **(2) Rapid Technological Development**

The rapid advancement of technology has driven innovation in business models, increasing competition among enterprises. Many companies have established digital departments to leverage technology for business innovation. However, Huahe Real Estate has been slow in adopting new technologies, impeding its ability to optimize processes and enhance employee efficiency.

#### **3.2.2. Internal Causes**

##### **(1) Strategic Structural Level**

Huahe Real Estate's Financial Shared Service Center is subordinate to the headquarters' finance department, which facilitates the execution of financial policies. However, as the center matures, it may benefit from transitioning to an independent legal entity to enhance service value and management requirements. Moreover, the lack of a plan for transitioning from a cost center to a profit center limits future development potential.

##### **(2) Business Process Level**

The construction of the Financial Shared Service Center has focused primarily on financial aspects rather than a comprehensive redesign of processes. The process design has failed to consider the experiences of business personnel, resulting in increased complexity rather than optimization.

##### **(3) Personnel Management Level**

There is a misalignment between the goals of finance and business personnel, which complicates the integration of financial and operational tasks. While the Financial Shared Service Center alleviates the workload of finance personnel, it complicates processes for business personnel, leading to inefficiencies.

## **4. Optimization Suggestions and Safeguards for the Operation of Huahe Real Estate Financial Shared Service Center**

### **4.1. Strategic Structure Optimization**

#### **4.1.1. Optimize Strategic Goals**

Huahe Real Estate needs to establish strategic goals for its Financial Shared Service Center, which can be divided into three main aspects:

First, the Financial Shared Service Center should enhance operational efficiency. The initial purpose of establishing the center is to reduce the workload of finance personnel and improve their efficiency. However, for a large company like Huahe Real Estate, merely improving financial work efficiency is insufficient. It requires process reengineering to introduce information management, thereby increasing overall corporate efficiency. The time and labor savings achieved should then be reintegrated and redistributed to facilitate the transformation of finance personnel.

Second, the Financial Shared Service Center should reduce costs. This includes labor costs, operational costs, and product costs. The center marks the beginning of the digital transformation for finance personnel, enabling them to move away from traditional bookkeeping and engage in financial data analysis to support management decision-making, ultimately increasing revenue and reducing costs.

Third, the Financial Shared Service Center should promote integration between finance and operations. While the center unifies the interfaces between business and finance personnel, during the initial construction phase, business personnel may not be familiar with the system or understand the finance workflow. Therefore, establishing the Financial Shared Service Center can help business personnel understand financial processes, thus supporting the work of finance personnel. Conversely, it allows finance personnel to adopt a business perspective, offering more valuable insights from a financial standpoint.

#### **4.1.2. Clarify Digital Strategy**

Digitalization is the direction of future development, and the establishment of the Financial Shared Service Center must align with this trend. A mature digital strategy and execution level can lead to better performance.

In this context, if Huahe Real Estate wants to create a digital development strategy, it must formulate a clear and context-appropriate strategy, design a specific implementation roadmap, and either establish its own digital technology department or hire professional technical companies to achieve technology upgrades. Furthermore, it should conduct in-depth and continuous training for subsidiaries to ensure that all employees have a profound understanding of digital transformation and can actively participate. This internal push for sustainable transformation is essential. As the starting point for digital transformation, especially in finance, the Financial Shared Service Center must closely align its operation with the company's overall digital strategy, laying the groundwork for future development and transformation through digital means.

### **4.2. Business Process Optimization**

First, optimizing accounts receivable is crucial. The key to accounts receivable lies in reducing the turnover days and minimizing bad debts. Huahe Real Estate has established strict payment terms, resulting in a relatively stable situation concerning turnover and bad debts. However, these regulations make the collection process inflexible, potentially leading to a subpar customer experience. Therefore, optimizing accounts receivable can focus on flexible collections to enhance customer satisfaction. To address this, Huahe Real Estate could involve the legal department in the accounts receivable process to jointly assess customer creditworthiness with the finance department. Additionally, establishing a credit rating system for previously partnered clients could allow for more

flexible and adaptable collections, while also pre-assessing transaction risks to enhance trading stability.

Second, optimizing accounts payable is essential. Due to its complex organizational structure, Huahe Real Estate's payment approvals undergo multiple reviews, leading to lengthy approval periods that hinder timely payments. This can damage the company's credibility with suppliers and may result in financial losses. To address the lengthy approval process, Huahe Real Estate could reduce the number of approval stages for similar reviews and consider adjusting the organizational structure to streamline processes. Strengthening budget management by clearly defining payment approval authorities for various business types and personnel is also crucial, allowing key nodes to handle approvals efficiently. Finally, establishing standardized process requirements for payment transactions can minimize errors and enhance approval efficiency.

Lastly, optimizing expense reimbursement processes is necessary. The main issue arises from unfamiliarity with reimbursement standards. To address this, the company should provide targeted training for projects with high return rates and individuals with frequent returns, improving staff understanding of the reimbursement system to reduce return volumes. Additionally, introducing a performance evaluation system for reimbursements, incorporating return rates as a metric, can motivate employees to take the reimbursement process seriously. A checklist for reimbursement verification can be introduced to ensure the accuracy and completeness of reimbursement information.

### **4.3. Personnel Management Optimization**

#### **(1) Improve Personnel Management System**

For employees at the Financial Shared Service Center, the economic feasibility is questionable, as these centers are typically established in low-cost areas. Furthermore, the work involves more detailed, repetitive tasks that offer limited personal development. Given that these centers usually have lower-level positions, career advancement can be challenging, contributing to high turnover rates.

To address this, companies should provide a distinct promotion path for employees in the shared center, integrating professional and managerial advancement opportunities within the center's framework. Moreover, it should be made clear that employees are not merely cogs in a machine but can start from basic operations to progress into management, analysis, and design roles within the shared center. This approach can help employees recognize the value of their work in the shared center and retain talent.

#### **(2) Strengthen Finance-Operations Integration**

With industry upgrades, the expectations for finance personnel have risen, requiring them to understand business logic and analyze decisions from a financial perspective. However, many companies lack mechanisms to guide business personnel in financial thinking. This results in grassroots employees at the Financial Shared Service Center not understanding the integration process, leading to resistance that hampers the center's implementation across the company. Therefore, promoting mutual learning and understanding among business personnel is crucial to achieving true finance-operations integration.

### **4.4. Technology Optimization**

#### **4.4.1. Strengthen Technological Foundation**

Technology is critical for a company's digital transformation, and more companies are leveraging technology upgrades to enhance overall efficiency. The Financial Shared Service Center aims to automate and intelligently streamline financial work through technological tools, providing greater value in cost reduction, efficiency enhancement, intelligent processing, and digital analysis. While technology is vital for the center, it does not imply that every shared center must utilize all new technologies. Companies should select appropriate technologies based on their specific circumstances and application scenarios.

For future technological solutions, companies can establish their own technology departments to pilot emerging technologies, gradually identifying those best suited for their development. Ultimately, technology upgrades should align with the company's strategic goals.

#### **4.4.2. Implementation Safeguards for Technology Optimization Measures**

Given the variety of technologies, not every solution is suitable for every company. Therefore, Huahe Real Estate needs to ensure that the following factors remain unaffected while updating technology. First, the stability of existing system frameworks must be preserved. As previously mentioned, Huahe Real Estate has multiple systems already in operation; thus, any updates or new system implementations should consider compatibility with existing modules, necessitating pre-launch testing. Second, it's essential that system updates lead to further enhancements. Currently, some systems are not well-integrated, and this issue needs to be addressed during optimization. Focusing on single system solutions without considering inter-system coordination will limit the benefits of the upgrades for the entire Financial Shared Service Center. Effective safeguards must be established to ensure the smooth implementation of operational management optimizations at the Huahe Real Estate Financial Shared Service Center.

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