

# Research on Enterprise Financial Risk Management under the Financial Shared Services Model: A Case Study of H Group

**Tong Jiang**

*Hainan Vocational University of Science and Technology, Haikou, Hainan, China*

**Abstract:** Since the advancement of socialist modernization in China, the economy has developed rapidly, and many corporate groups have expanded by establishing multiple branch offices. However, they have also faced challenges such as ineffective management control and rising costs. Against this backdrop, the financial shared services model has emerged, leveraging the advantages of centralized management to effectively alleviate issues of functional redundancy and low efficiency. The rise of the financial shared services model can be likened to an industrial revolution in the field of finance, profoundly reshaping corporate financial management. In this context, exploring how to properly implement financial risk control under the new financial management model has become particularly urgent. This study takes H Group as the research subject. By analyzing its financial indicators and those of the industry from 2005 to 2022, the study identifies risks in the implementation of financial shared services, including cash management, accounts receivable management, and inventory management. Corresponding improvement suggestions are proposed, including optimizing cash management practices, adjusting accounts receivable collection rules, modifying capital structure, and refining production and sales processes. The aim is to assist H Group in enhancing financial risk management efficiency and further strengthening its capability to prevent and respond to financial risks.

**Keywords:** Financial Shared Services; Financial Risk; Risk Management

## 1. Introduction

With economic globalization and the expansion of enterprise scale, corporate groups face increasingly complex financial management, rising costs, and weakened control during rapid growth. The financial shared services model has thus emerged. Since Ford first implemented this model in the United States in the 1980s, it has been widely adopted worldwide.<sup>[1]</sup> In China, following the establishment of the first financial shared services center by ZTE in 2005, many enterprises have followed suit. As one of the early adopters of this model in the domestic home appliance sector, H Group has achieved information sharing and “collaborative business with centralized management,” while also encountering new financial risks. To effectively prevent these risks, enterprises need to promptly identify them and take corresponding measures to support long-term development goals and further advance and optimize financial shared services in China.

## 2. Overview of H Group

H Group was established on March 24, 1980, initially focusing on refrigerator manufacturing. It gradually expanded its business scope to include home appliances, communication equipment, information technology, and digital products, and has now become a global leader in providing solutions for a better life and digital transformation.<sup>[2]</sup>

## 3. Current Status of Financial Shared Services Implementation in H Group

### 3.1 Implementation Background

With the deepening of its globalization strategy, H Group has established branches in more than 30 countries. According to H Group’s revenue distribution in the first half of 2022 (Figure 1), over half of its revenue comes from overseas markets.<sup>[3]</sup> Each overseas branch maintains independent finance

departments and office facilities, resulting in low management efficiency and rising costs. This situation necessitates financial reforms to enhance centralized and efficient management.

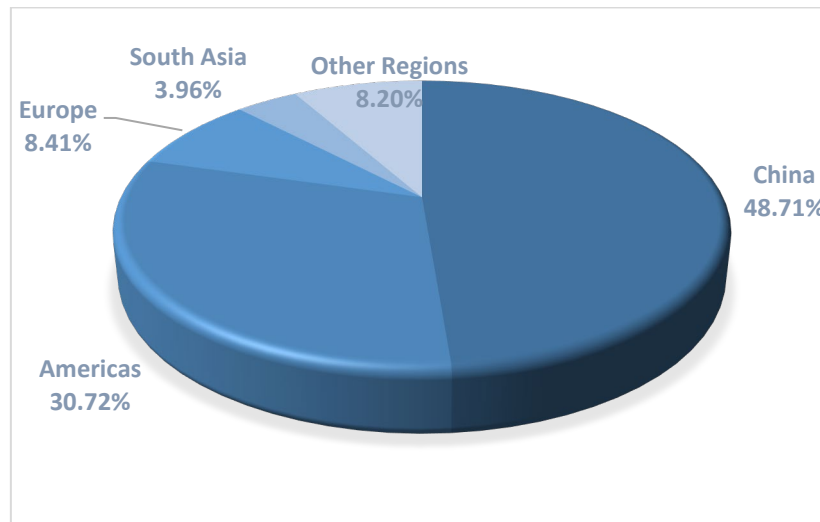


Figure 1 Revenue Proportion of H Group

### 3.2 Implementation Process

The construction of H Group's financial shared services center has gone through three stages:

- 2006–2008: Initial Stage – Completed the Qingdao pilot project and established the foundational setup.
- 2009–2011: Rapid Development Stage – Achieved process standardization to support global expansion.
- From 2012: Maturity Stage – Built a globally integrated financial shared services center leveraging “Big Data, AI, Mobile, Cloud, IoT, and Regional” technologies, with continuous optimization and upgrades.

### 3.3 Implementation Outcomes

As shown in Table 1, since the adoption of financial shared services in 2011, H Group has steadily expanded its asset scale while effectively controlling the number of management and financial personnel as well as administrative expenses. In most years, the growth rate of total assets significantly exceeds the growth rates of management costs and personnel, demonstrating a clear improvement in operational efficiency.

Table 1 Changes in Growth Rates of Key Indicators

Year	Total Asset Growth Rate	Management Expense Growth Rate	Management Personnel Growth Rate	Financial Personnel Growth Rate
2011	35.73%	18.63%	10.99%	1.14%
2012	25.09%	28.02%	-15.13%	0.00%
2013	22.80%	4.90%	-6.15%	20.15%
2014	22.93%	10.13%	-7.92%	-2.04%
2015	1.27%	9.25%	42.58%	39.84%
2016	72.79%	27.99%	50.47%	14.19%
2017	15.40%	32.82%	4.43%	3.01%
2018	10.06%	-25.23%	79.93%	29.09%
2019	12.45%	21.49%	-20.13%	13.72%
2020	8.54%	-0.60%	12.44%	9.15%
2021	6.88%	3.90%	-1.02%	4.98%
2022	8.45%	3.76%	-1.16%	0.69%

(Data source: Eastmoney)

#### 4. Financial Risk Analysis of H Group under the Financial Shared Services Model

##### 4.1 Cash Management Risk

The gross profit margin is the percentage of gross profit relative to net sales. As shown in Figure 2, H Group's gross profit margin exhibits an overall upward trend. [4] Compared with the industry average, H Group's gross profit margin has consistently remained above the home appliance industry average since 2007, confirming its relatively strong profitability in its core business. In recent years, it has maintained a gross profit margin level of around 30%, showing improvement compared with the early stage of implementing financial shared services.

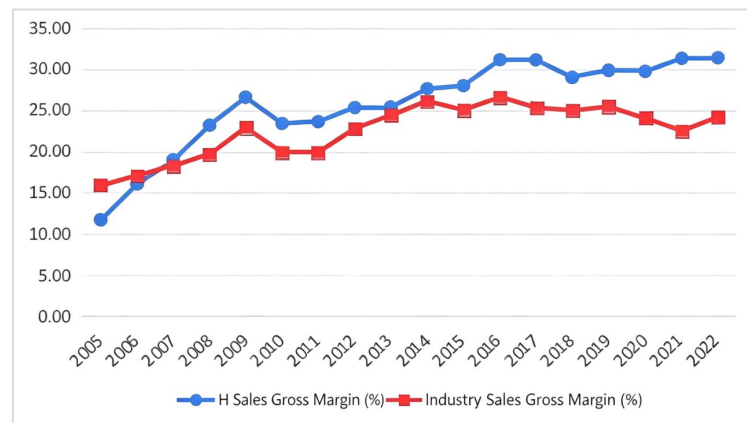


Figure 2 Trend of Gross Profit Margin on Sales of H and Home Appliance Industry from 2005 to 2022

Return on Total Assets (ROTA) is the ratio of a company's net profit to its total assets. According to the trend shown in Figure 3, H Group's ROTA showed an upward trend before 2010, but began to decline thereafter. [5] In particular, since 2016, this ratio has fallen below the industry average. This change indicates a significant issue in H Group's asset utilization efficiency, which has negatively impacted its profitability.

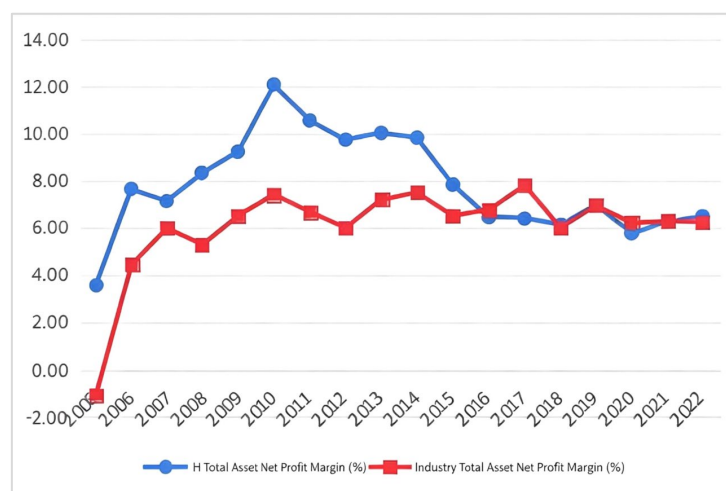


Figure 3 Trend of Return on Total Assets of H and Home Appliance Industry from 2005 to 2022

##### 4.2 Accounts Receivable Management Risk

The accounts receivable turnover ratio is the ratio of sales revenue to the average accounts receivable balance. [6] According to the data shown in Figure 4, from 2005 to 2022, H Group's accounts receivable turnover has consistently been higher than the industry average, but it exhibits significant fluctuations. Since 2008, it has shown a noticeable year-on-year decline. This indicates that the proportion of operating funds occupied by accounts receivable is gradually increasing, and H Group has not established an efficient cash cycle system, reflecting certain deficiencies in its accounts receivable management.



Figure 4 Trend of Accounts Receivable Turnover of H and Home Appliance Industry from 2005 to 2022

#### 4.3 Inventory Management Risk

The inventory turnover ratio is the ratio of operating revenue to the average inventory balance. According to the comparison of H Group's inventory turnover with the industry average shown in Figure 5, overall, H's inventory turnover efficiency has exceeded the industry benchmark for a long period, but it has shown a declining trend year by year. The gap between H and the industry average has gradually narrowed, and since 2017, H's inventory turnover has fallen below the industry average. This indicates that the speed at which H Group converts inventory into cash is slowing, which may be related to changes in the overall market environment and indirectly reflects a decline in H's sales capacity in its business operations.

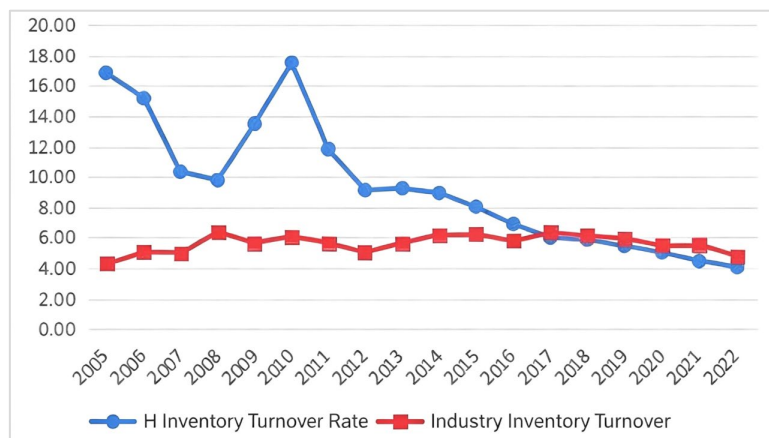


Figure 5 Trend of Inventory Turnover of H and Home Appliance Industry from 2005 to 2022

#### 4.4 Current Liability Risk

The asset-liability ratio is the ratio of a company's total liabilities to its total assets. According to the data shown in Figure 6, from 2005 to 2011, H Group's asset-liability ratio generally showed an upward trend. From 2011 to 2015, the ratio exhibited a slight and stable decline. However, since 2010, H's asset-liability ratio has remained above the industry average, indicating potential issues with the company's long-term debt capacity.

Based on the analysis of the financial indicators above, it is evident that H Group's financial risk profile has undergone significant changes, primarily reflected in the following risk points: H's sales capacity is showing a declining trend, the cash cycle system is not yet fully developed, and working capital management is inadequate, as evidenced by prolonged accounts receivable turnover days and low capital utilization efficiency; the speed of converting inventory into cash is gradually slowing, indirectly indicating a weakening of H's sales performance in its operations; and the debt scale has been increasing year by year, with an unreasonable asset-liability structure undermining H Group's long-term solvency.

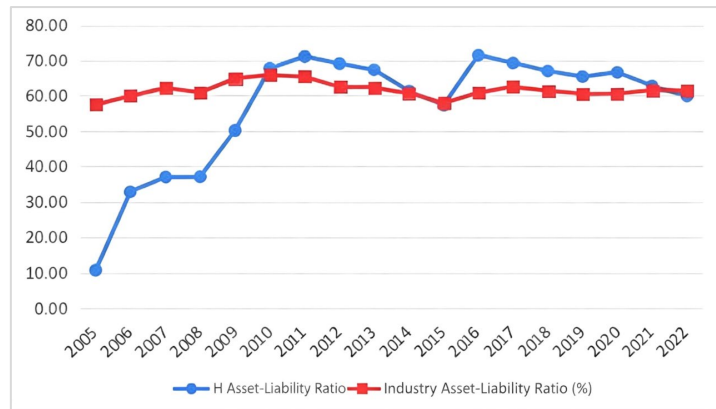


Figure 6 Trend of Asset-Liability Ratio of H and Home Appliance Industry from 2005 to 2022

## 5. Financial Risk Prevention Strategies under H Group's Financial Shared Services

### 5.1 Improving the Fund Management Model

H Group should enhance its fund management mechanism by establishing closer links between the fund operation center and various business activities, ensuring that the operational model aligns closely with business needs.<sup>[7]</sup> It is necessary to carefully assess whether fund management requirements change at different stages of development and continuously optimize fund handling processes. This will help improve H Group's overall fund management level and reduce financial risks arising from low capital utilization efficiency.

### 5.2 Adjusting Accounts Receivable Collection Rules

The study of H Group's accounts receivable turnover indicates a relatively long collection cycle. To address this issue, H can establish a customer credit rating system through its financial shared services center. For large credit sales, potential customers' financial status and business credibility should be evaluated using a rigorous standard procedure, and credit sales decisions should be based on the assessment results. After the transaction, to ensure timely collection, H can implement a series of collection strategies, such as early repayment incentives and penalties for overdue payments. These measures can help prevent bad debts to a certain extent.

### 5.3 Optimizing Production and Sales Processes

The annual decline in H Group's inventory turnover, when considered alongside the macroeconomic environment, is mainly due to declining sales efficiency leading to inventory accumulation. Therefore, H Group urgently needs to strengthen its sensitivity to market demand, gain a deep understanding of consumer needs, and ensure that the products it produces are closely aligned with market demand. At the same time, it should further optimize the existing sales channel structure and actively explore and establish a diversified sales channel network.

### 5.4 Adjusting Capital Structure

Compared with the industry average, H Group's debt level is relatively high. Although the financial shared services center can mobilize funds in a timely manner to repay short-term debts, H's long-term debt repayment capability remains somewhat inadequate, representing another disadvantage of a high debt scale. The financial shared services center should not only identify problems but also fully engage in strategic decision-making processes to plan reasonable financing strategies. Based on the time span of fund usage, a prudent approach should be adopted to arrange debt repayment plans. For example, short-term loans can meet immediate working capital needs, while long-term loans or equity financing can be used for fixed asset investments. This approach can effectively prevent idle funds and avoid situations where debts cannot be repaid upon maturity.

## 6. Conclusion

H Group is one of the early adopters of financial shared services among Chinese enterprises and has made considerable efforts in implementing this model. However, the external environment is constantly changing, and financial shared services continuously encounter new challenges as conditions evolve. Taking H Group as an example, this paper provides a detailed review of the establishment, operation, and improvement of its financial shared services, linking financial shared services organically with risk management. Several risk points under the financial shared services model are identified, with a comprehensive analysis of potential risks in cash management, accounts receivable management, and inventory management. Finally, the paper offers specific recommendations for the risk management of H Group's financial shared services center, which can serve as a reference for other corporate groups adopting similar financial shared services models.

## References

- [1] Li, Y. *Research on the Optimization of Financial Shared Services in YZ Company* [D]. Hebei University of Geosciences, 2023. DOI: 10.27752/d.cnki.gsjzj.2022.000440.
- [2] Wan, Y. *Thoughts on Optimizing Corporate Financial Shared Services Centers* [J]. *Cooperative Economy and Technology*, 2023, (15): 152-153. DOI: 10.13665/j.cnki.hzjyjkj.2023.15.014.
- [3] Wang, T. *Case Study on Financial Risk Management in M Dairy Company* [D]. *Chinese Academy of Fiscal Sciences*, 2022. DOI: 10.26975/d.cnki.gccks.2022.000064.
- [4] Wei, R. *Research on Enterprise Financial Risk Management under Financial Shared Services* [D]. Beijing Jiaotong University, 2021. DOI: 10.26944/d.cnki.gbffju.2020.000908.
- [5] Zhang, R. *Research on Financial Risk Management of Company A under the Financial Shared Services Model* [D]. Beijing University of Chemical Technology, 2022. DOI: 10.26939/d.cnki.gbhgu.2022.001333.
- [6] Chen, X., Li, Y. *Establishing Financial Shared Services in Corporate Groups in the Era of Big Data* [J]. *Accounting Monthly*, 2017, (04): 17-21. DOI: 10.19641/j.cnki.42-1290/f.2017.04.004.
- [7] Plamena, N. *Risk Assessment as a Stage of Risk Management in Enterprises in the Tourism Sector* [J]. *Financial Internet Quarterly*, 2023, 19(3).