The Empirical Research on carrying out Financial Transformation of Telecommunication Companies

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Abstract—With the providing of internationalization strategy in 2000, the telecommunication companies in China took active actions to implement the internationalization strategy as large-scale centre enterprises. With the further reduction of profitability on telecommunication companies, stockholders don't reduce the requirement on ROI. The dual pressure of market competition and capital market force the communication companies to make financial transformation and focus on cash flow and value-added. Its aim is to win victory in the fierce competition by realizing the integration of growth management, cost management and risk management to sustain strategy transformation and business transformation. This paper makes the analysis on the status and problems of carrying out financial transformation on telecommunication companies based on practical research and providing the paths of financial transformation.

Keywords- Transformation, Financial Transformation, Value-based management system

I. INTRODUCTION

Driven by technology, competition and demand in three areas, transformation has been a necessity in the development of telecommunications companies. Due to the technology and business transformation, management transformation has put forward higher requirements on the financial management, especially in the capability of value-based management, service support and fine management. As the main and lead department of value-based management in the company, financial management have to in-depth study how the changes of industry and internal value chain impact on the company's value, to provide the strategic cost information and establish the corresponding valuation model. Through such activities, financial management can support the company to establish a rational industrial value allocation model and profit model, promote the expansion of industry value chain, achieve the ultimate goal of maximizing the company value finally. Meanwhile, because of the dual pressure of variety of user needs and fierce market competition, enterprises need fine management of operating income, and to control operating costs, to ensure the quality of revenue, to achieve the optimization of cost structure and efficiency, to establish the internal value chain management system in order to prevent the loss of value. Generally speaking, the success of business transformation needs the support and efficiently coordination of a variety of factors, in which financial transformation is essential. By strengthening the main management line that financial management support business transformation, the telecommunication companies can effectively reduce the risk of diversification strategy in the process of transformation. Financial transformation refers to the changes from the traditional accounting/management-based to the strategy-based finance. As a strategy-oriented financial management process, strategic finance emphasizes from accounting to resource integration, decision support and value-based management (Martin Fahy, 2005).

II. QUESTIONNAIRE, SAMPLE CHARACTERISTICS AND ANALYSIS METHOD

Being one of the important research methods in Finance, questionnaire survey has made a lot of research achievements. To better understand the status of financial transformation implemented by the telecommunication companies in China, we have carried out the questionnaire and interviews to part of enterprise managers, financial managers and officers in telecommunication companies since June 2007 to April 2008. As of March 2008, we have issued a total of 250 questionnaires, of which 150 valid questionnaires, involving China Mobile, China Telecom, China Unicom and China Netcom, the effective rate was 60%. Being objects surveyed, China Mobile accounted for 26% of the total number, China Telecom's 25%, China Unicom's 24% and China Netcom's 25%; enterprises managers accounted for 16%, the finance department managers and chief accountants' 60%, and corporate financial officers' 24% ; the senior managers accounted for 18%, middle managers' 67%, and grass-roots level managers' 15%; with a master's degree accounted for 69%, with the bachelor's 23%, with a doctorate's 8%.

Questionnaires, including single choice, multiple choices and ratings, were primarily issued by E-MAIL, posting, or being distributed after-training. Someone is in charge of the collation, recording and reviewing. In order to fully reflect the findings of the questionnaire, as well as to better understand and reveal the state that China's telecom operators implement the financial transformation, all of the questionnaires were analyzed through descriptive statistical analysis involving in 10 aspects. In view of the answers to rating questions is divided into five grades (1, 2, 3, 4, 5), in the descriptive
statistical analysis, we mainly make intuitive description on
the problem and result of choices based on percentage
analysis. On the other hand we reflect the average state of
sample by attaching the mean (maximum of 5) to rating
questions, and put all the survey results in accordance with the
descending order.

III. ANALYSIS ON THE PROBLEMS AND STATE THAT CHINA'S
TELECOM OPERATORS IMPLEMENT THE FINANCIAL
TRANSFORMATION

A. Financial management objectives

Financial management objective, is the desired results to
financial activities of an enterprise, is a basic standard for
evaluating the reasonableness of corporate financial activities
(Xin Jing, 2003). This survey shows that the
telecommunication companies' financial management
objectives are in a low position, so it is necessary to create the
financial culture starting from the concept transition, and this
financial culture should put value in the core position. Being
the lead position of overall objectives, maximizing the value
of companies is optimization of the telecommunication
companies' financial objectives. However, we should not
overlook auxiliary objectives which support major goal.
Telecommunications is part of public services in great social
environment. Therefore, the implementation of social
responsibility is also one of the company's overall objectives.
Although fulfilling the social responsibility would spend
certain amount of resources and improve operating costs, in
the long term, these costs will help telecommunications
enterprises to lay the foundation for sustainable development.

B. Functional localization of financial management

At present, industry functional localization of financial
management includes strategy-basted, management-based,
integrated-basted and accounting-based. This survey shows that
29.33% of companies choose the function strategy-basted,
56.67% management-based, 13.33% integration-basted, and
only 0.67% choose accounting-basted. For large-scale central
enterprises such as telecom operators, the functions of
financial management should be converted to strategy-basted
gradually. A forward-looking financial strategy, oriented by
corporate and business strategy, can promote the company's
sustainable development. Strategic finance is mainly reflected
in improvement of basic financial processes, providing high
value-added business analysis, management of corporate risk
and opportunity, establishment and improvement of
performance management, value management, financial
evaluation and control, as well as the participation in and
promotion the strategy and business plan (Yong Hu, 2006). In
considering the future of corporate strategy, enterprises need
to allocate resources rationally, carry out medium and long-
term profit plan, understand and support the company's future
development. However for telecommunications central
enterprises restructured from state-owned enterprises, the
improvement of basic financial processes is exactly the
promise and the guarantee to successfully implement financial
transformation.

C. Comprehensive budget

Comprehensive budget should be in the position of
connecting. Starting from target profit, it is the basis and
continuation of forecast and decision-making, meanwhile, it is
also the pilot of control and the premise of performance
evaluation. Therefore, a comprehensive budget mainly refers
to target profit, cost control, performance evaluation, cash
flow and market forward-looking. This survey shows that
53.33% of respondents deem that the goal of comprehensive
budget is the target profits, 44.67% cost control, 40.67%
performance evaluation, 31.33% cash flow, and 24.67% to
market forward-looking. This shows that the main aim of
comprehensive budget in telecommunication companies is to
achieve target profit through cost control (same to the vast
majority of state-owned enterprises in China), while it pays
less attention to performance evaluation, cash flow and market
forward-looking. The methods of working out a
comprehensive budget mainly include fixed budget,
incremental budget, zero-based budget, flexible budget, rolling
budget and activity-based budget. This survey shows that
promotion and wide-spread use of advanced budgeting in the
telecommunication companies will progressively raise the
level of refinement in management.

D. Performance Evaluation

Performance includes two meanings generally: one refers to
the results of staffs' work; the other refers to the behavior,
performance and quality impacting on the results of staffs' work. Therefore, from the individual point of view, Borman and Motowildo (1993) divided the performance into task performance and relationship performance. Task performance mainly means if staffs can complete the tasks and achieve the performance targets set by organization; while the relationship performance mainly refers to the extent of cooperation with other people, teamwork and sense of belonging in the work. Performance evaluation must be carried out from multi-source and multi-levels. Performance evaluation is a "double-edged sword", a good performance evaluation system can active the whole organization; however, if inappropriately practiced, it may bring many negative consequences. From this survey results, 56.67% of enterprises use KPI in performance evaluation, 20.67%' Balanced Scorecard, 19.33%' 360-degree performance appraisal, 11.33% ' performance appraisal based on the economic value-added. In short, for telecommunication companies which base on knowledge-staffs and go public both in Hong Kong and United States, the Balanced Scorecard and EVA should receive great attention.

Figure 4. Methods of performance evaluation

E. Cost management

Cost is the total expenses for choosing the operating activities. Costs can be divided into expired cost and non-expired cost. (Yanfen Le, 2004). This survey shows that Telecom Operators pay quite different attention to different measures of cost management, in which most to optimizing the comprehensive budget and arrearage management, but less to improvement of closed-loop management system of investment projects, allocation of resources based on activity, exploration and experiment of activity-based costing. As fixed assets accounts for the proportion of corporate assets for more than 70%, so it should be the focus of cost management and control for telecommunications companies. Enterprises need to further standardize the management processes in fixed assets, establish a comprehensive fixed asset management system. There is a necessity to conduct an in-depth exploration of activity-based costing, in order to more accurately measure the profitability of each product and customer base, understand the cost information of activity process and give targeted control, make the design of internal supply chain more effectively, and ultimately achieve a comprehensive cost performance management.

TABLE I. IMPROVEMENT INITIATIVES OF COST MANAGEMENT

<table>
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<tr>
<th>Mean</th>
<th>Little attention → Great attention (%)</th>
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<td></td>
<td>describes order)</td>
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<tr>
<td>1</td>
<td>2</td>
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<td>3</td>
<td>4</td>
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<td>5</td>
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F. Internal control and risk management

Internal control and risk management are two different forms of expression of risk control (Zhihua Xie, 2007). Internal control refers to a risk control mechanism established by organization to reduce the agency problem between the various levels. The aim of internal control is to ensure the process that organization achieves its objectives by ensuring implementation of agent's fiduciary responsibility in principal-agent relations in all levels of the organization. (Yougang Ding, 2007). This survey shows telecommunications companies attach great importance to improving internal control and risk management, in which they pay more attention to issues as inaccurate understanding of internal control, weak implementation of monitoring and incentive, but little to issues as weak risk assessment, less risk response measures. This shows that the establishment of a long-term mechanism of internal control and risk management in telecommunication companies is still in initial stage, and need to be for further strengthened to provide an important institutional guarantee for the implementation of financial transformation.

TABLE II. COUNTERMEASURES TO IMPROVE INTERNAL CONTROL AND RISK MANAGEMENT

<table>
<thead>
<tr>
<th>Mean (Descending order)</th>
<th>Little attention → Great attention (%)</th>
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<tr>
<td>1</td>
<td>2</td>
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| The connection of information systems and business | 4.68 | 0 | 0 | 8.00 | 16.00 | 76.00 |
| Inaccurate understanding of internal control | 4.52 | 0.67 | 0.67 | 4.67 | 34.00 | 60.00 |
| Risk monitoring and evaluation | 4.13 | 1.33 | 1.33 | 14.00 | 49.33 | 34.00 |
| Weak implementation of monitoring and incentive | 4.11 | 0 | 1.33 | 15.33 | 54.67 | 28.67 |
| No formation of risk management environment | 4.03 | 1.33 | 0.67 | 16.00 | 57.33 | 24.67 |
| Unreasonable institutions, unclear powers and responsibilities | 3.96 | 0 | 1.33 | 22.67 | 54.67 | 21.33 |
### TABLE III. FINANCIAL PROCESS REENGINEERING

<table>
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<tr>
<th>Financial Process</th>
<th>Mean (Descending order)</th>
<th>Little attention →Great attention (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Shared Services</td>
<td>4.42</td>
<td>0</td>
</tr>
<tr>
<td>Standardization</td>
<td>4.37</td>
<td>0.67</td>
</tr>
<tr>
<td>Simplification</td>
<td>3.99</td>
<td>1.33</td>
</tr>
<tr>
<td>Outsourcing</td>
<td>2.87</td>
<td>13.33</td>
</tr>
<tr>
<td>Outsourcing of financial functions</td>
<td>2.21</td>
<td>32.67</td>
</tr>
</tbody>
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This survey shows that: 1. The results of survey is a reflection of status that China's telecommunication companies implement the financial transformation. 2. To some extent, the survey will verify, supplement and amend the results of literature and interviews. 3. By depth and correlation analysis of the results of survey, we can find the problems and give feasible directions or ideas to improve financial transformation practice for telecommunication companies.

### IV. CONCLUSIONS

For telecommunication companies, the direction of financial transformation should be the implementation of strategic finance, which means establishing a forward-looking financial strategy oriented by corporate strategy and business strategy to promote the company's sustainable development. Strategic finance (Martin Fahy, 2005) is mainly reflected in value-added business analysis, resource allocation in medium and long-term, optimized budgeting and performance management systems, business opportunities and risk management, the participation and promotion of strategy and business plan and so on.

First of all, starting from concept transformation, we should create an financial and cultural atmosphere as the core of value, publicize and penetrate the concept of capital market in the era of market value management, transform form the revenue and profit-oriented to a cash flow, enterprise value-oriented, re-understand the functions and roles of financial management. Secondly, we should establish a value management system based on EVA, promote the implementation of the closed-loop of SBP system, form a budget management model based on strategic three-dimensions (management growth, the pursuit of profit, risk control), establish a closed-loop feedback healthy circulatory system based on strategy and multi-budget combination to facilitate the implementation of international strategy. Third, through continuously improving the external and internal financial reporting systems, we should make good use of functions of information services and decision-making support. Finally, we must give sufficient concern to financial team-building and construction of training system, build an international-oriented, multi-level and complex personnel system. Only in this way just we can support the successful implementation of financial transformation. In short, the financial transformation of telecommunication companies based on strategic perspective need to establish a financial management and control model gradually, which is oriented by enterprise development strategy, is made as the core of the optimization of financial resource allocation, is aimed for the continuous creation of enterprise value.

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