

Digital Transformation Fuels the Integration of Business, Business and Finance

-- Take Midea Group as an Example

Bufan Tao*

School of Accounting, Anhui University of Finance and Economics, Bengbu Anhui 233000,
China

*1102667553@qq.com

Abstract

The driving force of digital transformation is to enhance the core competitiveness of enterprises. The key to the integration of business and finance is to create value for the enterprise. Promoting the integration of business and finance with the help of digital transformation can drive enterprises to maximize value. Therefore, the integration of business and finance is an inevitable choice for enterprises in the era of rapid development of digital construction. As a typical enterprise that promotes the integration of industry and finance through digital transformation, Midea Group has research value. Based on this, this article through the case study of Midea Group, analyze the impact of business-finance integration on enterprises in practice, problems currently in operation, and put forward countermeasures and suggestions on how to promote the integration of industry and finance, Provide reference and reference for other transformation enterprises.

Keywords

Business-Finance Integration; Digital Transformation; Midea Group.

1. Introduction

The outline of the "14th Five-Year Plan" proposes the development of the digital economy, and digital transformation is an inevitable choice for the survival and development of enterprises in the era of the digital economy. Emerging technologies such as big data, artificial intelligence, and cloud computing have an increasingly significant impact on enterprises, and the digitalization process has gradually increased the requirements for the authenticity and effectiveness of enterprise information. The traditional financial model can no longer meet the needs of the current corporate strategic development, and financial management transformation is imperative. The integration of business and finance is one of the emerging scientific financial management modes of modern enterprises in the current competitive environment, It can promote the rapid development of the enterprise, make the enterprise resources be reasonably allocated, and reduce the complicated process of internal communication within the enterprise. The effective integration of finance and business not only supports the business activities of the enterprise, but also helps to enhance the core competitiveness and operational efficiency of the enterprise.

The concept of "Integration of Business and Finance" is an innovative management accounting idea created by domestic scholars in recent years. Some scholars believe that the integration of business and finance should break the accounting and business, The boundary between accounting and external stakeholders (Zhang Qinglong, 2017), using digital platforms to realize timely sharing of business flow, capital flow, information flow, etc., Use digital platforms to

realize timely sharing of business flow, capital flow, information flow, etc., and promote the comprehensive integration of business chain and value chain (Guo Yongqing, 2017). Some scholars have also proposed that the integration of business and finance is an inevitable requirement for organizational development (Wang Bin, 2018). The integration of business and finance emphasizes the supply of strategic decision-making, business model and business operation information, and provides information support for internal decision-making and evaluation of enterprises (Tang Guliang et al., 2018). The above viewpoints are summarized by scholars into three theories, one is the value fusion theory, the second is the organizational fusion theory, and the third is the information fusion theory; In general, the essence of business-finance integration is the integration of business and value, and business must create and realize value (Xie Zhihua, 2020). Financial personnel must break down barriers, actively participate in various business activities, and truly realize the creation of enterprise value through financial analysis (Ye Kangtao, 2021). Although the theoretical research on the integration of industry and finance is relatively complete, there is a lack of case studies on business-financial integration of transformed enterprises. There is a lack of research literature on how enterprises should realize the integration of business and finance under the transformation of digital transformation and the impact of digital transformation on the integration of business and finance. Therefore, based on the existing research, this paper further explores the impact of business-finance integration under digital transformation on enterprises and how enterprises should use digital transformation to promote business-financial integration.

The success of an enterprise must break through from a certain point. Midea Group started its digital transformation in 2012 and has a relatively mature development. Midea is not a traditional manufacturing enterprise, but a digital and intelligent-driven technology group. At this stage, Midea is using data to drive business operations and realize the integration of business and finance. It is a typical enterprise that integrates business and finance under digital transformation. Therefore, this paper takes Midea Group's promotion of industry-finance integration as an example, analyzes the problems of imperfect organizational mechanism, insufficient information construction, and lack of compound talents in the implementation of industry-finance integration in transition enterprises, and proposes to improve the organizational mechanism of industry-finance integration, establish A sound and effective information system and suggestions for cultivating a talent team integrating industry and finance can solve the above problems. This paper provides a reference and reference for the transformation enterprises to realize the integration of industry and finance; the analysis of the impact of the integration of industry and finance on enterprises can stimulate the determination of other enterprises to promote the integration of industry and finance.

2. Case Introduction

2.1. Case Background

How much does the digital transformation of traditional enterprises need to pay? The answer given by Midea is: 9 years, 12 billion. In 2022, Midea has entered the tenth year of digital transformation. Midea has entered the Fortune Global 500 for six consecutive years, and has been selected as one of the top ten industrial digital transformation enterprises in China in 2021 by Forbes China. What is rare is that despite the substantial increase in various costs such as bulk commodities, shipping logistics, and energy supply, Midea has maintained a basically stable profitability, demonstrating Midea's resilience. Under the grand background and pattern of intelligent manufacturing, energy saving and emission reduction and domestic substitution, Midea insists on long-term technical investment, thoroughly promotes IoT and digital transformation, accelerates intelligent product upgrades and overall smart home business

improvement, and at the same time stabilizes its strength. In addition, Midea is currently 100% digitized in business operations and 70% in decision-making behavior under the guidance of the strategy of “comprehensive digitization and comprehensive intelligence”. In the era of digital transformation, the implementation of smart finance has made the integration of business and finance a general trend. Enterprise transformation, financial first, more and more enterprises began to promote the integration of business and finance. For corporate financial personnel, no matter what the position is, if they want to gain a foothold in the digital economy era, they must change the way of thinking of accounting and cultivate the thinking of business operation.

2.2. Introduction to the Basic Situation of Midea Group's Business and Financial Integration

What management problems does business-finance integration aim to solve? The impact of business-financial integration on enterprises? What problems exist in the current implementation of business-finance integration in enterprises? How should the integration of business and finance be implemented and an effective information system be established? We walked into Midea Group with a series of questions to explore and research. At the end of 2016, Midea Group began to implement the financial sharing system for the entire group, but the financial sharing only realized the digitization, intensification and automation of financial work. Therefore, Midea is also constantly optimizing the financial sharing system, creating an integrated management of business and finance, and gradually Achieving business and financial integration goals. Within an enterprise, there are barriers to information exchange between the finance department and the business department, and digital transformation just creates opportunities, convenience, and platforms for the integration of business and finance. Midea Group currently refines the management of each department in the enterprise information system. Here we give an example. In the business management system, procurement management is based on purchase orders and return orders; sales management is based on sales orders and return orders, consignment sales, etc.; Inventory Manage according to inventory count, requisition and so on. In the financial management system, according to the accounting vouchers, account details, reimbursement forms, etc. Midea Group has achieved data interconnection and unified management, laying the foundation for the integration of business and finance.

3. Case Analysis

3.1. What Management Problems does the Integration of Business and Finance Aim to Solve?

First, the integration of industry and finance solves the problem of enterprise principal-agent. There are inevitably information asymmetry problems in enterprises. There are mainly two types of information asymmetry. One type of adverse selection problem belongs to information asymmetry in advance. Business information can be obtained in a more timely and accurate manner. Managers or financial personnel can estimate risks in advance, evaluate business projects, and estimate the value brought to Midea Group. The other type is moral hazard problem, which belongs to information asymmetry after the fact, such as manager performance information; then business-financial integration can provide performance information of value-creating units, from comprehensive information to classified information, to avoid covering up agency problems through comprehensive information. To a certain extent, the moral hazard problem is avoided. Second, the integration of business and wealth solves cognitive limitations. Individual irrational behavior will eventually lead to non-optimal decision-making of enterprises. The reasons for irrational behavior mainly include human

cognition being bounded rationality, incomplete information obtained, and misclassification of information in management. Midea Group uses the integration of industry and finance as a decision-making aid, and its system platform information is comprehensive, capable of intelligent and in-depth analysis, and the analysis accuracy and efficiency are high. Using the integration of industry and finance realizes the optimization of Midea Group's decision-making.

3.2. What is the Impact of Business-Financial Integration on Enterprises?

The integration of industry and finance has become a hot topic at present. Why have companies started to integrate industry and finance? In essence, it must have created value for the enterprise or reduced the operating risks and costs of the enterprise. In the short term, the digital transformation of enterprises and the construction of a business-finance integration system platform will increase the company's R&D expenses; but in the long run, business-finance integration will reduce the company's costs and increase its profits. The article selects the data of Midea Group from 2013 to 2020 for analysis. The author counts the frequency of words in the indicators of digital technology application, cloud computing technology and artificial intelligence technology in Midea Group's annual report, which represents the degree of digital transformation of enterprises. The realization degree of business-financial integration is closely related to the degree of digital transformation, so this paper uses digital transformation degree indicators and enterprise management expense rates as examples to verify whether business-finance integration reduces the management costs of enterprises. The specific statistics are shown in the following table:

Table 1. Midea Group's Digital Transformation Degree and Management Expenses from 2013 to 2020

years	2013	2014	2015	2016	2017	2018	2019	2020
Degree of digital transformat-ion(times)	24	50	23	14	40	45	69	110
Management expense ratio (%)	5.57	5.29	5.38	6.05	6.14	3.69	3.43	3.26

Data source: CSMAR Guotai'an Financial Research Database

In order to more intuitively reflect the correlation between the changing trends of the two indicators, a line chart is used to display it, as shown in Figure 1 and Figure 2:

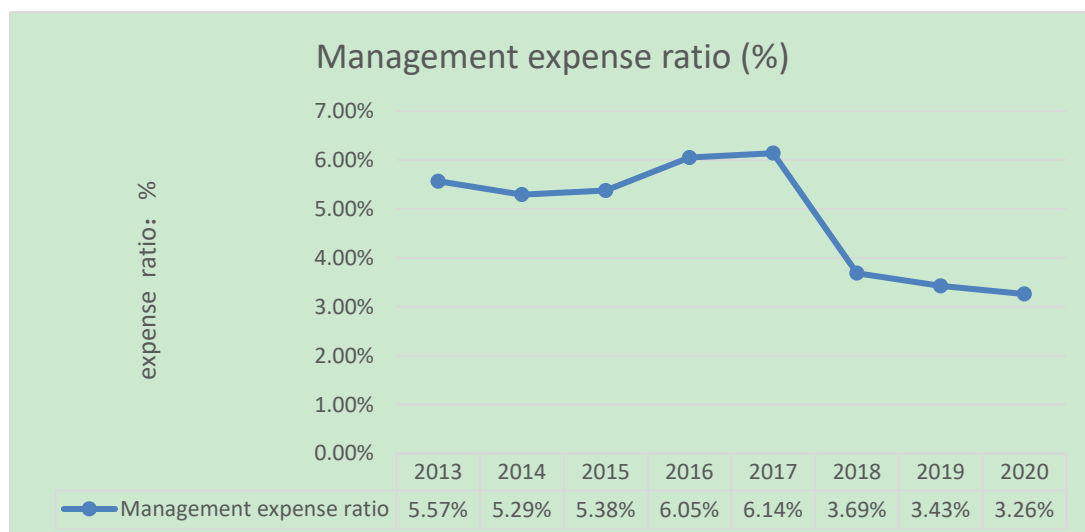


Figure 1. Midea Group's management expense ratio from 2013 to 2020

Data source: CSMAR Guotai'an Financial Research Database

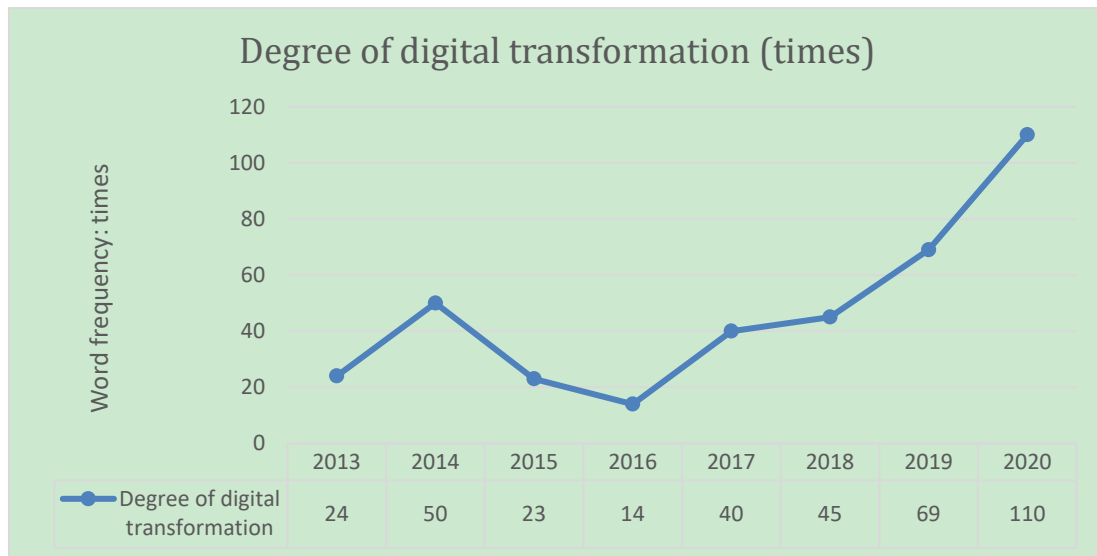


Figure 2. The degree of digital transformation of Midea Group from 2013 to 2020
Data source: CSMAR Guotai'an Financial Research Database

As shown in the figure above, we can clearly see that the trend of the degree of digital transformation and the management expense ratio is opposite. The higher the degree of digital transformation and the higher the degree of integration of business and finance, the lower the management expense ratio of the enterprise will be. Therefore, we can conclude that the integration of business and finance will reduce management expenses and achieve cost reduction and efficiency increase for enterprises.

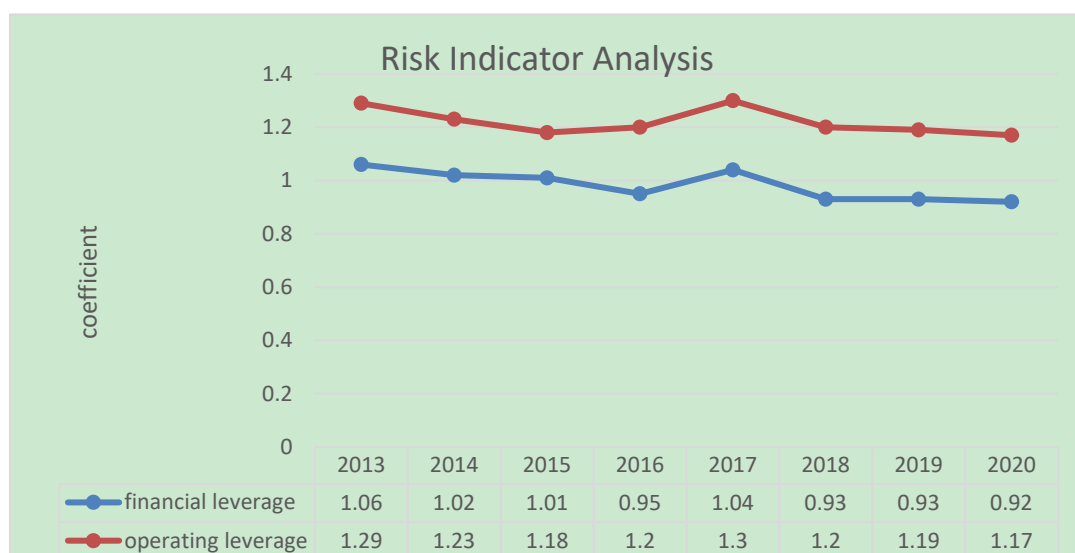


Figure 3. Statistics of Midea Group's risk indicators from 2013 to 2020
Data source: CSMAR Guotai'an Financial Research Database

Furthermore, the integration of business and finance reduces business risks. With the development of the economy, the market is constantly changing, and the business risks faced by enterprises are also increasing. The integration of business and finance makes the thinking of financial personnel change, financial management work is more reasonable, and decision-making risks caused by information asymmetry are reduced. Extend from the financial side to the business side, implement control over all aspects of the business, and carry out effective

risk management. Based on this, this paper selects the financial leverage coefficient and operating leverage coefficient of Midea Group to analyze the correlation between business-financial integration and risk coefficient, as shown in the following figure:

As shown in the figure above, we can see that from 2013 to 2020, the overall financial leverage and operating leverage have steadily declined, although they increased slightly in 2017. This may be due to the fact that Midea Group's major mergers and acquisitions are mostly concentrated in 2016-2017, but began to gradually decline after 2017. According to the chart, we can see that the financial leverage factor of Midea Group in recent years is less than 1, which may be caused by negative financial expenses, which reflects that Midea Group not only has no interest expenses, but also has a small part of interest income. It shows that the United States is basically under no debt repayment pressure. In addition, the operating leverage ratio has decreased steadily and slightly, indicating that Midea's profits may fluctuate slightly, and operating risks are relatively smaller. From this, it can be concluded that the digital transformation of enterprises and the promotion of industry-finance integration have not increased enterprise risks, but have shown a downward trend.

On the other hand, the integration of business and finance can achieve the goal of maximizing enterprise value. Midea Group's operating income increased from 134.1 billion in 2013 to 285.7 billion in 2020, its net profit also rose from 6.7 billion in 2013 to 27.5 billion in 2020, and its total assets also expanded from 92.6 billion to 360.4 billion. The optimal goal of financial management is to maximize enterprise value, which is also one of the goals of enterprise management. Under the business-finance integration model, finance is integrated into the business chain, and the full-service data warehouse is used to bridge the gap, connecting finance and business, management and accounting, and strategy and execution. Therefore, Midea Group should manage and analyze the value of each business link from the perspective of the overall interests of the enterprise, from simply looking at financial indicators to combining business indicators, to fully understand the value creation status and key value links of each department of the enterprise, and effectively and reasonably Resource allocation, timely decision-making to seize market opportunities, so as to improve the value creation ability of enterprises and maximize enterprise value.

3.3. What Problems Exist in the Current Implementation of Business-Finance Integration in Enterprises?

Before the implementation of business-finance integration, the financial department and business department of the enterprise were independent of each other, and there were information barriers in communication, so the road to integration was bound to be hindered. During this process, Midea Group's financial staff and business staff could not efficiently collaborate with each other because they did not understand each other's work. Financial data involves the core data of the enterprise, some data may not be shared with business personnel, and financial personnel do not understand the actual situation of the business, and business personnel cannot take into account the financial personnel's concerns about cost efficiency, so there is a gap between the business and financial departments. For example, as Midea Group is a manufacturing industry, the cost of purchasing and sales directly affects the profit of the company. Therefore, our financial staff should not only see the increase in purchasing costs and sales expenses this quarter or this year, but also pay attention to the business motivation behind the financial indicators.

Secondly, the construction of enterprise informatization is insufficient. Although many enterprises have also established ERP systems and financial sharing systems, there is still a certain gap in realizing the complete integration of business and finance. On the basis of the ERP system, Midea Group has built the "Meijiebao" financial sharing information system of Meiyun Zhishu, and constantly optimizes the enterprise information system, all of which rely

on the technical support brought by digital transformation. However, the current management accounting system is relatively weak, and the industry-finance integration system that Midea is building is different from the above two. Building an industry-finance integration system directly on top of the financial sharing system may result in the inability of relevant data to be compatible and cannot be used directly, resulting in an ineffective connection. Moreover, the integration of business and finance requires the establishment of an enterprise-wide information system with long-term planning from top to bottom. Because Midea Group has branches and subsidiaries all over the world, the complex and huge industry requires Midea to rely on digital transformation and use digital technology to rebuild an effective information system integrating industry and finance. In addition, Midea should also pay attention to the precautions against data security issues while constructing. Because the system of branches and subsidiaries is transnational, there may be risks or system instability.

In addition, the talent pool required for business-finance integration is insufficient. The integration of business and finance is not only the integration of information, but also the integration of management, knowledge, and corporate culture. The integration of business and finance is the direction of our reform, and the talents we need are bound to be compound talents, but most of them are professional talents at present. Finance does not understand business, and business does not understand finance. Therefore, it is difficult to synergize the two departments of industry and finance, and the expected operation effect cannot be achieved. The talent pool required for the integration of business and finance is insufficient, and the management is unable to efficiently make overall arrangements. Therefore, the promotion of business-finance integration requires corresponding talent adaptation. The realization of organizational strategic goals requires rapid introduction of talents and development of talents. Enterprises should regularly conduct business training for existing talents and introduce more compound talents.

4. Relevant Suggestions

By analyzing the possible problems in the implementation process of Midea Group's integration of industry and finance, this paper puts forward targeted suggestions. One is to put forward relevant suggestions on how to improve the Midea Group in the next step, and the other is to provide reference and reference for other transformation enterprises to integrate business and finance.

4.1. Improve the Organizational Mechanism for the Integration of Industry and Finance

The smooth advancement of business-finance integration requires the overall coordination of the management. At present, the organizational mechanism of Midea Group may not completely eliminate the barriers to information exchange, and the departments cannot communicate effectively. This requires the management of Midea to carry out top-down organization and coordination, improve the organizational mechanism, and eliminate the barriers between departments. First, the management can hold regular business-finance integration seminars to promote exchanges between departments. The main relevant personnel of each department sit together to communicate, listen to the suggestions of different departments on the integration of industry and finance, and the problems existing in different departments in promoting the integration of industry and finance. Secondly, according to the different circumstances of each department, the design of the industry-finance integration plan is carried out, and the departmental interests are combined with the overall interests of the enterprise. Furthermore, it is necessary to take into account the difficulty in integrating the business department and the financial department. The involvement of the financial department in the business department may cause the business department to resist, so this requires the overall planning of the

management. First, the current mechanism can be changed, and the business and finance are not separated; second, the management plays a guiding and encouraging role, taking into account the contribution of the department's work to the overall value of the enterprise, and providing support and service contributions to other departments; Then give employees the benefits of the value-added part of the enterprise created by the integration of industry and wealth, so that employees have a sense of mission and belonging, so as to promote the work effect and accelerate the integration of industry and wealth.

4.2. Establish a Sound and Effective Information System

Establishing a sound and effective information system is to provide technical support for the integration of industry and finance. Digital transformation has brought convenience and created opportunities for the integration of industry and finance. With the help of digital development, Midea Group improves the information system, builds a data processing platform, and sorts out the information currently required for the integration of business and finance. Integrate and process customer information, product information, and after-sales information of various operating businesses in a timely manner, break down information islands, and enable business, financial and other information to be exchanged. In addition, the financial system and the business system are quite different, and Midea needs to do a good job of connecting the systems. More importantly, the information of the information system must ensure that it is valid, accurate, real-time, valuable and comprehensive; Therefore, Midea Group should take advantage of the digital and intelligent development environment, actively use advanced information tools such as cloud computing, big data analysis, artificial intelligence, etc. Build a complete information system, strengthen the prevention of data security, encrypt the system and maintain 24-hour network to improve the level of information system construction.

4.3. Cultivate a Talent Team that Integrates Industry and Finance

The foundation of building a good business-finance integration is the construction of a talent team. From the enterprise level, the enterprise needs a professional talent team integrating industry and finance, and a talent team in management, finance, business, taxation, technology and other aspects; From the perspective of managers, professional talent teams can help managers optimize decision-making and reduce decision-making risks; on a personal level, it promotes personal learning and growth. The integration process of business and finance is complicated. Not only financial personnel need to change their thinking, but talents in all departments must develop comprehensively and cooperate with each other. Talent team building is the first step towards the integration of industry and finance. Talent is the wisdom bag of our company. Our technology needs to be updated and iterated, our professional knowledge needs to be continuously expanded, financial personnel need to have the courage to transform, and they need to learn and understand business knowledge, To analyze the economic consequences at the business level from the motivation at the financial level, in the face of the complex and ever-changing market environment, Midea Group needs professionals to assess risks, deal with them, and solve problems. In addition, talent training also needs to test the results, which is inseparable from the assessment system. Midea Group needs to formulate corresponding assessment methods and systems to ensure the realization of the goals of strategic management and control.

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