



## Treasury Management

Huawei has always been a private company. Growing from within is the core and major driving force behind its future development. The company adopts an asset-light business model, which means it builds wealth by fully extracting value from labor rather than by being asset-heavy. This underlying principle means that as Huawei grows rapidly, its capital needs are mainly satisfied from within, through effective management of its capital structure and indirect financing scale, as well as through increase in working capital efficiency. This business model has raised high requirements for treasury management. Treasury management though, is not the sole responsibility of the Treasury Management Department. Rather, it permeates the company's entire value creation process.

The 2008 financial crisis increased the financing and exchange loss risks each company faced. This pushed Huawei to continually improve its treasury management by emphasizing local financing, establishing diversified financing systems and cash settlement centers, enriching the financing structure, and dispersing financing risks.

To ensure fund security, Huawei establishes a unified treasury management system to centrally manage its funds, and implements daily reconciliation in accounting and treasury management departments. On top of fund security, Huawei embraces technological advances and uses IT systems and electronic means to continuously improve payment quality and efficiency.

The ability to deal with strict foreign exchange controls helps to guarantee the company's fund security. It is also a core competency that helps affected regions maintain their competitive advantages and robust business performance.

This chapter describes the treasury management system that Huawei uses to ensure corporate fund security.

### 13.1 EXPLORING A CAPITAL STRUCTURE FOR THE COMPANY'S LONG-TERM DEVELOPMENT

#### 13.1.1 *Growing from Within Is the Core and Major Driving Force Behind Huawei's Future Development*

Capital accumulation is a key management issue for all companies. Capital can come from two sources. One is to sell stock in the open capital market to raise money; the other is to accumulate capital on our own by expanding scale and increasing profits. The first way gets us money more easily, but it comes at a price, because investors may interfere with our system. Our system is based on labor, not on capital. We recognize high performers, and reward them with higher salaries, more shares, and other incentives. Therefore, when it comes to fund raising, we need to balance these two sources rather than prefer one over the other. (*Ren Zhengfei: Speech Regarding How Huawei Accumulates Capital, 1994*)

Our company will run out of cash if we don't open up our capital system. A cash-strapped company will lose its vitality and be unable to share its interests. If we open up our capital system, we can receive funds from external investors. Throughout this process, we must carefully balance the relationship between labor-based and capital-based value distributions, and deal with the conflict between the company's vitality and external investors' desire for higher returns. If we can't effectively manage this conflict, we will be unable to ensure fair value distribution, and the company will lose vitality and enter a vicious circle. (*Ren Zhengfei: Speech Regarding Corporate Organizational Goals and System Blueprints for the Future, 1994*)

We need to diversify our approaches towards financing and continue to maintain a reasonable level of debt to support our operations. We need to explore more capital sources, control capital cost, and speed up capital turnover. This will help cultivate financing partnerships that support the

company's long-term development and ensure our strategic plans are implemented. (*Source: The Huawei Charter, 1998*)

We must have specific numbers in mind when designing all our supporting systems. For example, when our sales revenue reaches 10 billion US dollars in two or three years, what will our capital structure look like? How will it work as a supporting and assurance function? How much will we pay and how much will we collect? What will the overall situation look like? These are all questions we need to address. We should be able to map out these statistics on clear charts. We also need to have plans for our organizational structure and operations. (*Source: Minutes of the Report on Developing the Global Financial System, EMT Meeting Minutes No. [2005] 035*)

The company is in a favorable position regarding borrowings in 2009. It is key that we make sure our reports meet essential banking requirements. Moving forward, Finance still needs to explore ways to manage the debt ratio. (*Source: Minutes of the Report on a Few Key Financial Issues Facing the Company in the Next Two to Three Years, Finance Committee Meeting Minutes No. [2008] 004*)

The Corporate Capital Structure (CCS) is a key module of the IFS treasury project team. The company's business and financial risks are closely correlated with the recent financial situations at home and abroad. In response, we need to have long-term business and financial plans in place. The company's Finance Committee will fully support work related to the CCS. (*Source: Minutes of the Report on Industry Practices Regarding the Corporate Capital Structure, Finance Committee Meeting Minutes No. [2009] 001*)

We need to actively explore ways to make full use of existing mature properties and use fixed assets more efficiently. (*Source: 2010 Key Work Requirements, EMT Resolution No. [2010] 007*)

Growing from within is the core and major driving force behind Huawei's future development. (*Source: Resolution on Proposals for Capital Investment Policies and Decision-making Systems, Finance Committee Resolution No. [2011] 038*)

Is going public the only way for a company to grow? Can some companies accumulate capital slowly on their own? Such companies usually focus on management and operations rather than capital investment. There has been a lot of speculation about whether Huawei will go public. Let me clarify a little bit. Over the past 20-plus years, the Board of Directors has

never seriously discussed company listing, because we don't think it's good for Huawei's development. I would like to share a few words Eric Xu told a senior executive of a carrier customer. I feel these words represent the will of the Board pretty well.

Eric said, "We will not go public, list through divestiture, or engage in the 'capital game' by means of M&A anytime within the next five to ten years. We will not invest in projects that external capital engages in. We take this stance to avoid being dragged down into the traps of the capital market. In the next five to ten years, we will be committed to management transformations to drive a shift in our operational model. Over time, we will move responsibility and authority forward to the field, with our centralized governance giving way to a system that allows those closest to customers to call for support. By doing so, our HQ will shift from a management and control role to a service and support role, and we will establish a company that has modern management approaches and meets modern requirements."

I totally agree with him. Rumors about Huawei's going public are simply groundless. (*Ren Zhengfei: Speech at a Meeting with the Representatives' Commission, Huawei Executive Office Speech No. [2013] 056*)

"Have we saved up sufficient energy over the past 20 years?" It's a good question. Like the strategic talent reserve we have built, a capital reserve is also necessary for the company. While increasing incentives, we also need to invest heavily in strategic areas. This creates a dilemma when we try to reserve capital. We need thick "clothing" to fend off the challenges of a stormy economic environment. That requires wisdom from our management and the combined effort of all our employees. (*Ren Zhengfei: Reply to Xinsheng Community Users' Comments on the Speech "Firm Belief and Strong Focus Lead to Greater Success", Huawei Executive Office Speech No. [2016] 006*)

### *13.1.2 Improving Working Capital Efficiency and Quality to Ensure the Continuity and Robustness of Operating Cash Flow*

#### *Payment Collection Problems can Lead a Company Into Peril*

We must take cash flow very seriously, because it is a bottleneck that could choke the company. Over the next three to five years, there may be serious global crises. If we continue with our current approach, which lacks a proper level of granularity, where would we end up? The company will run out of cash and collapse. Cash flow is a tough nut to crack. To address the

issue, we must be determined and implement transformations. Starting from this year, interest losses caused by overdue receivables should be deducted from the bonuses of all involved employees, including sales, R&D, and global technical services (GTS) staff. Piecework staff and staff paid by the hour can be excluded from this. Payment collection will affect the company's survival over the next three to five years. This problem must be addressed. Front-end employees should assume responsibility. In fact, it is a responsibility that needs to be shared by all employees. (*Ren Zhengfei: Strengthening Payment Collection and Improving Cash Flow—Speech at the EMT ST Meeting on February 28, 2006, Huawei Executive Office Speech No. [2006] 007*)

Payment collection problems can lead a company into peril. It's not that we don't have money. We have plenty of money; the issue is that it hasn't yet been collected from our customers. Without cash inflows, the company will be in a very dangerous situation and we could possibly die. All regional offices must take cash flow very seriously. As long as there are goods sitting in our warehouses and as long as payments remain uncollected, we will always be at risk. We need to put in place an ownership system for payment collection and address the source of the problem. We need to establish a project ownership system which includes payment collection plans during project planning and bidding. We should end our practice of collecting payments on a contract basis; instead, we need a finer-grained approach. That means we need to collect payments by site, site group, or project progress. In this way, we are paid for what we deliver on time. All regional offices must take this issue very seriously. (*Ren Zhengfei: Speech at the 2008 Mid-year Report by Regions to the EMT, EMT Meeting Minutes No. [2008] 028*)

Apart from payment security, the most important for corporate fund security management is to ensure continuous cash flow. Both on-time payments and fast payment collection are important. Regional financial organizations need to establish baselines for collection cycles to push for customers to make payments promptly. (*Source: Minutes of the Report on Fund Security Monitoring of the Accounting Management Department, Finance Committee Meeting Minutes No. [2015] 045*)

Our meeting in Sanya has resulted in two core goals for our consumer business: increasing profitability and keeping inventory at a proper level. Today, these two goals still stand. Our consumer business must be profitable and profitability must be based on healthy cash flow. (*Ren Zhengfei: Speech at Consumer BG's Annual Meeting, Huawei Executive Office Speech No. [2017] 024*)

What does the future hold for us? We must have profitable growth and healthy cash flow in the future. We must aim to eliminate restlessness among our managers so that they can settle down and serve our customers earnestly. (*Ren Zhengfei: Speech at Huawei Market Conference 2017, Huawei Executive Office Speech No. [2017] 007*)

*Working Capital Efficiency and Quality is an Important Source of Operating Cash Flow*

Working capital efficiency should be managed by category: (1) Historical accounts—For projects that have already been delivered, we should manage their payment collection separately and collect payments as soon as possible. (2) Future accounts—When assessing the value of a project, we need to assess the project’s profits and losses, cash flow, and working capital efficiency, and manage them against baselines. We will continue to improve end-to-end transaction quality and manage it as a top priority of the company. During project execution, we need to closely follow the project plan, stay on budget, and effectively manage project costs, profits, and cash flow to ensure delivery quality. (*Source: 2010 Key Work Requirements, EMT Resolution No. [2010] 007*)

It is customers that drive working capital efficiency to improve. The optimization of performance indicators such as Days Sales Outstanding (DSO) and Inventory Turnover (ITO) should be aligned with our customer strategy to continuously improve transaction quality. For example, in installed base markets where we aim to expand capacity, we should benchmark ourselves against industry leaders. For new networks or new carriers, however, we should ensure favorable contract terms during our initial bidding process to improve later-stage operating efficiency. (*Source: 2010 Key Work Requirements, EMT Resolution No. [2010] 007*)

We should improve the company’s operating cash flow by improving contract quality and properly controlling inventory. All relevant departments must view this as a priority and contribute to these goals. We can benchmark ourselves against multinationals with medium- and high-level inventory management expertise to improve our inventory turnover, reduce our inventory losses, and set our standard inventory baselines. Inventories of each type in each region should be controlled to avoid tying up too much cash flow in inventory. Our standard inventory baselines should be detailed to regions, countries, and inventory types, with owners clearly defined. Inventory with low turnover should be effectively controlled. Departments who fail to meet these inventory baselines will have some of their bonuses deducted. (*Source: Minutes of the Report on the 2011 H1 Performance Review, EMT Meeting Minutes No. [2011] 011*)

Working capital efficiency and quality is an important source of operating cash flow and should be given due consideration in our future fund planning. We need to strengthen working capital management, ensure that cash tied up in working capital is kept at a reasonable level, and improve efficiency and quality to maintain sustainable and robust cash flow. (*Source: Minutes of the Meeting on 2011 Corporate Capital Structure Planning, Finance Committee Meeting Minutes No. [2011] 003*)

Balanced growth must be based on robust operations. There are only two metrics for appraising the performance of our consumer business. One is profitability, and the other is inventory. Inventory constitutes a risk, while profitability is our goal. If our shipments cannot meet customer needs, it's okay. If the customer says that they will pay extra, it's okay. But they need to sign a contract and pay. Then we can ship more products. This way, the inventory risk will be borne by the customer, not us. If they don't pay us when they place an order, please don't accept it no matter what they say. What if they ask for customized mobile phones and then later on decide they don't want them anymore? If inventory piles up, the company will go bankrupt. Didn't some mobile phone manufacturers in China collapse in this way? We can't make the same mistake. (*Ren Zhengfei: Comments to Staff of the Guangzhou Representative Office, Huawei Executive Office Speech No. [2013] 057*)

We need to manage asset liquidity effectively based on the distinct features of different business segments such as direct sales, channels, and devices. Set performance indicators against their respective benchmarked enterprises, including DSO, ITO, Days Payable Outstanding (DPO), asset turnover ratio, and operating cash flow (OCF). Net cash inflows and capital structures should be managed separately for network and consumer businesses. They should be continuously improved by benchmarking against leading enterprises in their respective industries. (*Source: Minutes of the Report on Corporate Funds and Financing Management, EMT Meeting Minutes No. [2015] 010*)

Liquidity ratios should be approached differently for different businesses. The liquidity ratios for the consumer business should be different from those for the network business. The two cannot be mixed up. A high liquidity ratio for one business does not mean that the ratio is also high for the other. We need to create ratio roadmaps for different businesses and benchmark against leading companies in respective domains. Ask yourself: Why is my turnover ratio low? What's the underlying problem? Can it be fixed? How? You must pay attention to these details. The point of setting a roadmap is to give yourself a goal. It doesn't matter if you can't immediately

reach the goal. But you need a goal to motivate you to forge ahead and scale new heights. (*Ren Zhengfei: Speech at the EMT ST Meeting on August 28, 2015, Huawei Executive Office Speech No. [2015] 132*)

The only way to deal with crises is to speed up cash flow. Without an adequate level of cash, issuing bonds is no different from borrowing money and problems with the financial health of the company will persist. Therefore, making our cash flow faster is the key and improving our financial health is our only way out. The reason why the German economy hasn't been severely affected is that it has a healthy financial system. (*Ren Zhengfei: Speech at the EMT ST Meeting on August 28, 2015, Huawei Executive Office Speech No. [2015] 132*)

The company should set clear goals for asset turnover so it can gradually improve across the board. The growing importance of our consumer and enterprise businesses means that we must manage asset turnover of different business groups separately. The Treasury Management Department should analyze and measure the contributions of the Consumer BG and Enterprise BG respectively to our asset turnover ratio. (*Source: Minutes of the Report on 2015 and Mid- to Long-Term Corporate Capital Structure Planning, Finance Committee Meeting Minutes No. [2015] 015*)

We have some “customer warehouses” where customers stock goods. We must not allow this to happen if customers haven't bought the inventory. If this continues, the flow of our goods will suffer. We wouldn't be able to ship goods to regions that run out of stock. Though the warehouse may be built by our customer, it is essentially a Huawei warehouse. The customer only pays for warehouse management. We must come up with solutions to customer and subcontractor overstocking. We must control inventory risks, and properly manage the smartphone inventory. For example, we must ask our customers to pay for the goods they intend to stock to put some pressure on them. We can sort out arrangements like this with customers beforehand. If they stock goods in our warehouses, they must pay interest on those goods. If the inventory they stock with us is worth 100 million US dollars, they must pay higher interest rates because they are affecting our cash flow. (*Ren Zhengfei: Speech at the Report on Integrating the Process from Central Warehouses to Sites, Huawei Executive Office Speech No. [2015] 005*)

We should have a contingency plan in place to deal with financial crises that includes reducing long-term overdue inventory and accounts receivable (AR). Improving contract quality is the most important thing here. (*Ren Zhengfei: Be First to Know When Springtime Comes. Vow Not to Return Till We Reach Our Goals—Speech at an Oath-taking Rally for*



*Reassigned Senior R&D Experts and Managers, Huawei Executive Office Speech No. [2016] 093)*

## 13.2 BUILDING A GLOBAL TREASURY MANAGEMENT SYSTEM TO BETTER MANAGE FUND RISKS

### 13.2.1 *Scaling Up Financing, Enriching the Financing Structure, and Dispersing Financing Risks*

To support the company's rapid growth, we must continue to push our financing to the next level. We need to build on our previous work and extensively diversify our financing channels, explore financing opportunities with banks overseas, and use multiple international channels and financial instruments to harness the power of international financial capital. (*Ren Zhengfei: Current Situation and Next Steps—Speech at the Review Meeting of the Marketing & Sales Department, 1995*)

We need to build on our last year's effort to diversify our financing channels and consolidate our work comprehensively. We need to work more closely with foreign banks on buyer's credit. This can help improve our market competitiveness and payment collection considerably, thus alleviating our financial burdens. In the meantime, we can use as many other financing channels as possible according to international practice to support the company's growth. (*Ren Zhengfei: Exerting Ourselves and Sharing Weal and Woe to Improve Management, 1997*)

Financing departments should keep the company's strategy in mind when approaching their work and use the input-output principle to build framework models and scale up financing. Don't be too obsessed with financing costs. The company has entered a stage of rapid growth. Our current priority is scaling up financing. In addition, we need to make full use of our internal resources and adopt a holistic approach towards financing. We need to improve our ability to make market forecasts and, if necessary, change the way we deal with funds in compliance with applicable laws and regulations. This will help lay a solid foundation for the company's rapid growth. (*Ren Zhengfei: Promoting Development Through Four Unifications—Minutes of the Meeting with Financial Managers, 1998*)

We need to establish global financing systems and diversify our financing channels. (*Source: Guidelines on Sales Priorities, EMT Meeting Minutes No. [2008] 014*)

We need to ensure that the company has sufficient financial support from multiple channels. Good partnerships with local financial institutions

through our overseas subsidiaries will help us establish a balanced global treasury management system. (*Source: Several Requirements on Cooperation with Banks, Finance Committee Doc. No. [2012] 008*)

We need to work with valued banks in key countries more proactively. Our subsidiaries can take care of local financing. We need to establish multiple settlement centers to fully leverage the financial advantages of key countries. (*Source: Several Requirements on Cooperation with Banks, Finance Committee Doc. No. [2012] 008*)

We need to find more long-term financing channels in more regions and explore more financing products such as bond issuance. (*Source: Minutes of the Report on Corporate Funds and Financing Management, EMT Meeting Minutes No. [2015] 010*)

We need to actively cultivate stable financing channels overseas and maintain stable profit margins to support large-scale financing needs overseas and cope with future uncertainties. (*Source: Minutes of the Meeting on the Review of Corporate Capital Structure 813 Planning and Initial Budgeting of 2017 Debt Ratio and Cash Flow, Finance Committee Doc. No. [2016] 055*)

### 13.2.2 *Establishing Diversified Financing Systems and Cash Settlement Centers*

We need to spend more local currency to avoid accruing too much profit overseas. We need to streamline the payment channels of our overseas research centers. For example, expenses of our American, European, and Indian research centers can be paid in local currencies. Superfluous local currencies can also be used to build facilities such as office buildings, dormitories, training centers, canteens, and fitness facilities, especially in countries with high inflation rates. We need to comprehensively assess our global business presence. In addition to business needs and legal frameworks, we also need to figure out the direction of cash flow and profit distribution. (*Source: Guidelines on Improving Financing, EMT Resolution No. [2011] 015*)

We need to take diversified approaches to financing and settlement, and reduce foreign exchange losses by spending local currencies locally as much as possible. In Japan and Europe, a good proportion of local settlements are done in local currencies, which partially hedges our foreign exchange position. In these countries and regions, we don't need to convert local currencies into USD. In countries where local currencies have no way to be used, we will assume exchange risks. (*Ren Zhengfei: Speech at the EMT ST Meeting, March 30, 2012*)

We cannot change the fact that the external regulatory environment for finance is tightening. Therefore, we must pay special attention to settlement risks and revisit our strategy on cooperating with banks. Seek settlement in different currencies wherever possible. Establish regional settlement centers in places including Dubai, London, and Tokyo to secure more settlement channels and work with more local banks. (*Ren Zhengfei: Remarks During Visits to Countries Where Cash Is Trapped, Huawei Executive Office Speech No. [2015] 023*)

### **13.2.3 *Guaranteeing Financing Capabilities with Stable Financial Policies***

Over the past two decades, Huawei has invested more than 150 billion RMB in R&D. However, the R&D capabilities and intellectual property rights that have come out of this investment haven't been reflected in our company value. Thanks to our robust financial policies, we are not in too much debt. Our current indirect financing approach based on financial statements and financing capacity limits do not involve our actual asset status. (*Ren Zhengfei: Comments at a Meeting with Sales Financing Experts, Huawei Executive Office Speech No. [2012] 025*)

We don't have any issue with bond issuance; we just weren't ready to issue bonds before. Today our governance structure is maturing and our approach to corporate management is becoming clearer and more standardized every day. I think it's time to explore international financing channels and issue bonds. At present, I think it is feasible when we issue bonds to banks and other financial institutions. (*Ren Zhengfei: Comments at a Meeting with Sales Financing Experts, Huawei Executive Office Speech No. [2012] 025*)

## **13.3 CENTRALLY MANAGING FUNDS TO ENSURE FUND SECURITY**

### **13.3.1 *Centrally Managing Funds and Enhancing the Process Ownership System***

All cash must "flow down the Yangtze River" and our accounts need to be consistent. We do not allow too many reservoirs because they would dilute the cash flowing down the river. If the funds going down the river are from banks, the cost of financing will increase. (*Ren Zhengfei: Minutes of the Report on the Work Approach of the Accounting Departments in China, 2001*)

Our treasury management is done at three levels: The Finance Committee designs and manages macro policies; the Sales Financing & Treasury Management Department takes care of financing and payment collection for sales projects as well as financing for production and supply; and the Accounting Department is responsible for execution but does not make decisions. We exercise oversight using checks and balances in this way. (*Ren Zhengfei: Financial Transformation Is About Huawei Rather Than Only the Finance System, Huawei Executive Office Speech No. [2007] 004*)

We need to gradually increase the company's capital reserve. In the future, BGs will operate independently, but treasury will still be managed centrally. (*Source: Minutes of the Meeting on 2011 Corporate Capital Structure Planning, Finance Committee Meeting Minutes No. [2011] 003*)

About 80% of financial decision-making authority will be delegated to BG and regional CFOs. Group Finance will retain the remaining 20% of financial decision-making authority, including the authority over issues related to treasury and budget management. (*Ren Zhengfei: Remarks at the Briefing on Finance Process Building, Huawei Executive Office Speech No. [2013] 091*)

Cash inflows and outflows are centrally managed by the Treasury Management Department. (*Source: Minutes of the Report on Corporate Funds and Financing Management, EMT Meeting Minutes No. [2015] 010*)

HQ centrally manages treasury, accounting, auditing, and internal controls. The authority to make business decisions will be delegated to operating teams as long as they keep their data transparent. (*Ren Zhengfei: Speech at a Meeting in Paraguay, Huawei Executive Office Speech No. [2017] 025*)

All departments, except some centrally managed functions of HQ, exist to serve business departments. This includes Finance, Supply Chain, and HR. These departments oversee how things work in business departments, but are not centers of authority. (*Ren Zhengfei: Speech at a Briefing on Improvements and Future Planning for Carrier and Enterprise Regional Organization Transformation, Huawei Executive Office Speech No. [2017] 030*)

The company centrally manages three lines of oversight: treasury, accounting, and auditing. These lines are built into and made transparent in all departments. (*Ren Zhengfei: Speech at the Meeting on Extension of the Company's Oversight and Management Control System, Huawei Executive Office Speech No. [2017] 041*)

We should shift our focus of treasury management from process compliance to efficient exercise of authority and enhance the process ownership system by overseeing how authority is exercised. (*Source: Minutes of the Report on Overseeing Exercise of Treasury Management Authority, Group Finance CFO Office Meeting Minutes No. [2017] 016*)

### ***13.3.2 Standardizing Account Management and Establishing a Unified Treasury Management System***

We need to clean up our bank accounts. Too many accounts require high oversight and management costs. We must also move away from small- and medium-sized banks that do not have clear intent for cooperating with us. We must strengthen fund security and reject corruption. (*Source: Minutes of Discussions on Treasury Management System Building, EMT Meeting Minutes No. [2007] 013*)

Over the next five years, the company needs to continuously focus on fund security. Fund security should start with daily reconciliation. We must resolutely conduct daily reconciliation. If it's difficult, bring in more people to get it done. We need to establish a unified treasury management system. (*Source: Minutes of the Report on Corporate Funds and Financing Management, EMT Meeting Minutes No. [2015] 010*)

The treasury management function has already been established in Finance. Daily reconciliation has two layers. The first layer is the Accounting Management Department. Accountants, rechecking accountants, and payment approvers work in sequence when handling daily reconciliation. The second layer is the Treasury Management Department, which reconciles our payment records with bank statements on a daily basis. In certain countries, reconciliation can be done on a weekly basis and settlement on a daily basis. (*Ren Zhengfei: Minutes of the Report on Treasury Management System Building, EMT Meeting Minutes No. [2015] 022*)

We must resolutely perform daily reconciliation and make sure we have enough people to ensure fund security. For e-commerce transactions, we need to carefully attend to our bank account balances during daily reconciliation to ensure fund security. (*Ren Zhengfei: Minutes of the Report on Treasury Management System Building, EMT Meeting Minutes No. [2015] 022*)

Financial personnel are not responsible for the reasonableness of business requests. They do not decide whether cannons should be fired. Finance only provides financial support as requested by business depart-

ments, keeps records, and prepares reports. (*Ren Zhengfei: Minutes of the Report on Treasury Management System Building, EMT Meeting Minutes No. [2015] 022*)

To enter into new businesses, we must have associated financial systems and rules in place, especially when it comes to e-commerce and peer-to-peer engagement. (*Ren Zhengfei: Minutes of the Report on Treasury Management System Building, EMT Meeting Minutes No. [2015] 022*)

Financially, we are a conservative company. Our top priority is to ensure financial security. After hearing the Financial Risk Control Center's (FRCC) report on risk control, I think that we were right to place our FRCC in London. Originally, we just thought that London, with its centuries of history as a financial hub, would be a better choice than China. In contrast, scientists must be bold in both thinking and action, and must have the courage to take risks. Their approach is completely different from our conservative financial approach. At 2012 Laboratories, Huawei accepts a failure rate of over 50%. In terms of fund security, we do not tolerate any errors. We must focus on developing, selecting, and attracting outstanding financial talent, allowing them to fully unleash their potential. (*Ren Zhengfei: Remarks at Meetings with the UK R&D Center, Beijing Research Center, and Financial Risk Control Center in London, Huawei Executive Office Speech No. [2015] 075*)

To ensure fund security over the next five years, we must first solve the problem with payment security. To do this, we have to firmly implement daily reconciliation. If a region can't manage to do this, we can send more senior managers and allocate more resources to help them. If our accounts are reconciled every day when we clock out, we will be confident in what we did that day. Do not leave a problem to the next day. Second, we need to build a unified treasury management system. Third, we are a company held by employees. If Huawei is in trouble one day, will our employees voluntarily support the company at their own expenses? If we can ensure this kind of support, how would Huawei collapse? (*Ren Zhengfei: Speech at the EMT ST Meeting on August 28, 2015, Huawei Executive Office Speech No. [2015] 132*)

On top of fund security, we need to embrace technological advances and use IT systems and electronic means to continuously improve payment quality and efficiency. When it comes to payment security, we must take all corporate functions into consideration. We need to establish a unified treasury management system to ensure fund security and reliability. (*Source: Minutes of the Report on Fund Security Monitoring of the*

*Accounting Management Department, Finance Committee Meeting Minutes No. [2015] 045)*

Fund security is a clear requirement for payment personnel. Their performance appraisals should be centered on the quality of this work. We should have more payment personnel than we need. *(Ren Zhengfei: Speech at a Meeting with Payment Staff, Huawei Executive Office Speech No. [2017] 042)*

Accounting and treasury departments should manage payment error rates in a scientific, reasonable, proactive, and positive way. Payment security relies on both system controls and our payment staff's meticulous work and dedication. *(Ren Zhengfei: Speech at a Meeting with Payment Staff, Huawei Executive Office Speech No. [2017] 042)*

***13.3.3 The Ability to Deal with Strict Foreign Exchange Controls Helps to Guarantee the Company's Fund Security. It Is Also a Core Competency That Helps Affected Regions Maintain Their Competitive Advantages and Robust Business Performance***

We can conduct more business in countries with strict foreign exchange controls if we can repatriate more money. We need to adopt a pragmatic approach in these countries. What are real customer needs? Those are the needs of customers that can pay. In these countries, payment collection is our biggest difficulty. If we can collect payments, we won't worry about sales; we may even raise prices. We must remember that our team that deals with strict foreign exchange controls is an important operating team. Regions must rethink this issue. In countries with strict foreign exchange controls, we must view people dealing with this issue as being part of important operating teams and invest in improving their capabilities. *(Ren Zhengfei: Minutes of the Work Report by the Algeria Representative Office, Huawei Executive Office Speech No. [2014] 070)*

In countries with strict foreign exchange controls, transferring money out of these countries is more important and difficult than sales. That's why people who deal with this issue are more important than sales personnel. Personnel dealing with foreign exchange controls in regional centers of expertise are business partners of business departments. Their performance appraisals should be mainly determined by how much cash they repatriate. They are also responsible for management and control of the entire business process. We also need to establish a "Contribute and Share" system, providing timely incentives to those who hit performance

targets for dealing with strict foreign exchange controls. (*Source: Minutes of the Discussions on Mr. Ren's Remarks During Visits to Countries Where Cash Is Trapped, Finance Committee Meeting Minutes No. [2014] 045*)

The US remains a very powerful economy, and emerging markets continue to lack stability. Therefore, strict foreign exchange controls will remain a long-term issue. Huawei needs to quickly train and develop personnel who are capable of dealing with this issue. (*Ren Zhengfei: Remarks During Visits to Countries Where Cash Is Trapped, Huawei Executive Office Speech No. [2015] 023*)

The ability to deal with strict foreign exchange controls helps to guarantee the company's fund security. It is also a core competency that helps affected regions maintain their competitive advantages and robust business performance (*Ren Zhengfei: Remarks During Visits to Countries Where Cash Is Trapped, Huawei Executive Office Speech No. [2015] 023*)

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