



Study on the Internal Control of Wahaha Group Co. under the Normalization of Epidemic Prevention and Control

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Abstract. Wahaha was founded in 1987 under the leadership of its founder Zong Qing Hou. The company started with three people and an investment of 140,000 yuan, then gradually developed into a mega-leading food and beverage enterprise group company, which is currently the largest beverage manufacturing company in China. It also ranks among the top exporters in the world. During the period 2019-2022, the epidemic spread freely, but under the role of the internal control mechanism of the enterprise, Wahaha Group minimized the damage, overcame difficulties and forged ahead in the face of adversity. In conclusion, in the face of various uncertain crises, the internal control mechanism of Wahaha Group is indispensable, and it is the existence of this mechanism and the important role it plays that enables the Wahaha Group to turn the danger into success every time. In this paper, I study the internal control of Wahaha Group under the normal situation of epidemic prevention and control.

Keywords: outbreak; enterprise; internal control mechanism.

1 Introduction

Asset security is an important issue widely considered by investors, shareholders, and any interested parties, and is an important foundation for sustainable corporate economic development. Sound corporate management must present a strong mechanism for property security and reasonably maintain the security of the company's assets. From this case, it can be found that the goal of asset security in company management is the key reason to ensure the smooth operation of the company. Wahaha Group should take this as a lesson and pay attention to the agreement signed with the cooperative investors to clarify the rights and responsibilities of each party. And improve the internal management system, especially when the company is involved in the signing of contracts, involving corporate intangible assets, major fixed assets, equity transfer and other related major operations, reasonable authorization, layers of approval and separation of duties are particularly important.[1]

In this paper, the case of the "Wahaha and Danone brand dispute" is used to analyze the "asset objective", one of the five objectives of internal control. The dispute over the

intangible asset (trademark) contract arising from Danone's acquisition of Wahaha is a classic example of commercial contract risk. Once a commercial agreement is signed and approved, it has legal effect. Wahaha did not pay attention to the logic of the language in the contract regarding trademark rights for its own immediate benefit ten years ago. According to the contract signed by both parties, "the Chinese party may use the (Wahaha) trademark for the production and sale of other products in the future, and such product items have been submitted to the board of directors of Wahaha and its joint venture for consideration," indicating that Wahaha had to obtain Danone's consent or joint venture with it to use its trademark for the production and sale of its products. The incident sparked fierce protests by Wahaha Group employees and received widespread attention from the community. Eventually, a settlement was reached between the two parties, coordinated by both governments.

2 Five Elements of Internal Control in Wahaha

2.1 Internal environment

Firstly, Wahaha has a clear organizational structure and a location of authority and responsibility. Unlike the managerial leadership of other large companies, Wahaha is market-oriented and action-oriented, and follows a standardized, effective and centralized management concept, and adopts a linear management function model with the structure of "mother-subsidiary". In other words, the company's headquarters is directly in charge of key aspects such as manufacturing, supply, marketing, as well as the training, appointment and dismissal of management personnel, and the general manager is directly in charge of each department and branch, with almost no intermediate links, especially for the production bases of Wahaha Group in the center of each large area, the general manager of the group has full jurisdiction. The general manager implements a hierarchical authority management model for each department and subsidiary, including the executive vice president, vice president of operation and vice president of science and technology, leading each department and branch directly responsible to the general manager. Due to the flat leadership structure, the entire project decision-making process goes through at most three levels: from the grassroots staff directly reported to the person responsible for each department, the person responsible for each department finally submitted to the vice president, the vice president finally reported to the general manager Wang Zongqing after. Yet, before the decision is made, socialist democracy is fully developed, and the staff can also express their opinions more fully, and the group makes the decision on the basis of fully listening to various suggestions; after the decision is made, each link is carefully implemented.[2]

Secondly, Wahaha has a strong social responsibility and corporate culture. In 2020, after the outbreak of the epidemic, Wahaha Group Co., Ltd. quickly set up a company-level (group-level) and department-branch-level leadership group for epidemic prevention and control, formulated the daily operation specification for epidemic prevention and the daily disinfection specification for public areas, and set up a system for epidemic investigation and data and information reporting, and implemented emergency

handling measures. In order to prepare for the resumption of work in advance, Wahaha fully implemented the resumption of work inspection, established a "one person, one file" system, and tracked the health status of various employees. For those who came from or passed through the key areas of the epidemic, they were all required to delay their return to work or stay at home for isolation and observation in accordance with government regulations, and were allowed to return to work after ensuring their health and implementing a daily temperature clocking system. As one of the first companies to return to work, Wahaha has resumed about 80% of its production capacity in March, and its sales in April even increased by nearly 30% compared to the same period in 2019. The excellent internal staff epidemic prevention and management system has enabled Wahaha to form a stable set of solutions to deal with the new crown epidemic, and even today, under the normal state of epidemic prevention and control, Wahaha can achieve the production and operation efficiency of the enterprise while ensuring the safety of employees' lives.

2.2 Internal risk assessment

Identification of matters: technological advances pose risks.

Risk Analysis: Through its long-term production operations, Wahaha is seen as a low-tech company in the eyes of Chinese consumers, and has long relied on price wars to gain market share. Nowadays, with the development of technology, more competitors' products are improving the nutrition and taste of products through high-tech technology. In addition, customer requirements have changed, customers no longer only consider the price of the product requirements, more consideration is the taste, nutrition and other needs. In today's competitive food market and beverage industry, Wahaha's failure to keep up with the changing requirements of customers has led to rapid aging of product quality and lack of innovation, which will affect its future cash flow. [3]

Risk response: In introducing advanced equipment and technology and strengthening basic research technology, we are exploring the perfect fusion of natural raw materials and high technology while achieving large-scale business effects and reducing investment costs. We will also continue to develop new products that are suitable for consumers through market research. As this risk response measure belongs to the reduction of business risk, after weighing the cost effectiveness within Wahaha Group, corresponding control measures should be taken, such as increasing the investment in market research, in order to reduce the business risk or reduce the loss, to control the business risk within the risk tolerance.

Identification of matters: centralized management

Risk analysis: about Wahaha's 2014-2017 annual operating performance decline, the most important factor is due to the rise of e-commerce in 2014, consumer values have changed, and traditional consumer goods companies also faced the test of corporate transformation, but it is in this period, Wahaha did not timely strategic transformation, the business went downhill. The main reason behind this is the insistence of the group's

general manager Zong Qing Hou alone. Before the emergence of traditional e-commerce, through the binding of nearly 10,000 sellers, Wahaha effectively control the offline channels, greatly improving the efficiency of product distribution and distribution rate, annual sales are gradually rising. Zong Qing Hou then insisted on the offline marketing approach, which made Wahaha's sales performance face unprecedented challenges. Although the centralized management helps the transmission of company information and the implementation of policies and strategies, the effectiveness of centralized management depends largely on the personal and subjective decisions of the general manager, which means that some employees of the company will lose the opportunity to give valuable opinions. If the decision made by the general manager of the group is difficult to be recognized by the majority of employees, or is seriously inconsistent with the future development direction of the enterprise and market trends, then it will cause the loss of outstanding talent, increased business risks and other serious consequences.

Risk response: Wahaha should improve the ultra-flat centralized organization, the general manager needs to be reasonably authorized to share the responsibilities and rights of General Manager Zongqing in various professional areas, and truly train a group of middle and senior management talents with professional origins. For example, talents with independent ideas and strategies for marketing and promotion, company operations, financial management and other dimensions. This will enable the decisions made by Wahaha Group Co., Ltd. in the future to be based on the discussions of the managers within the group, to be unanimously approved by the employees, and to be better implemented and achieve results.

Matter identification: narrow audit scope of IA

Risk analysis: Since the two subsidiaries of the Wahaha Group in Hunan and Inner Mongolia have a single business, are far away from the company's headquarters, and sales volume, sales revenue, total investment and number of employees account for a relatively low percentage of the Wahaha Group head office, the management of the Wahaha Group head office does not attach importance to the internal audits of these two subsidiaries. When making audit project plans, the two were often used as an alternative, so the audit project team visited the two subsidiaries less and less often to conduct audits on site, and the internal audit process for each year could not be guaranteed to be implemented. In the long run, there is a risk of financial fraud at both subsidiaries.

Risk response: Wahaha should expand the scope of its audit subsidiaries, especially for remote subsidiaries. At the same time, it should also pay attention to the independence of the internal audit department. If the human resources, professional competence and independence of the internal audit department cannot be guaranteed, external audit can be hired as a third-party supervision, or the content of internal audit work can be reasonably divided. In short, the objectivity and independence of the third party can make up for the shortcomings of internal audit, thus enhancing the efficiency of internal audit.

2.3 Control activities

At the level of quality supervision and management system construction, Wahaha has formed a complete food safety system covering raw and auxiliary material testing, product quality supervision and management, factory quality testing of goods, supervision and management of enterprise identification, supervision and management of non-conforming products, product recall, supervision and management of consumer self-investigation, and personnel training, etc. It has also made efforts to establish an enterprise's product investigation and risk monitoring system for major safety hazards, which provides a strong quality system guarantee for the implementation of the National Food Safety Law. We have provided a strong quality system to ensure the implementation of the national food safety law. [4]

From the other perspective, Wahaha has adopted a career-long learning system. Such as the Group's internal audit, internal auditors need to master the financial, legal, information, management expertise, as well as knowledge of multiple areas of business related to the main business of the enterprise, and need to be constantly exposed to new knowledge and new information, in order to be sufficient to deal with the competition of the enterprise on less, internal management. Therefore Wahaha Group Co., Ltd. establishes a career lifelong learning system for internal auditors to improve the knowledge system.

2.4 Information and communication

Wahaha Group Ltd. manages the company's processes comprehensively by adopting digital technology to reduce the chances and possibilities of human interference and in this way ensure the efficient implementation of the company's systems. The Wahaha enterprise has invested heavily in digital technology. The first step was the adoption of SAP (SAP) ERP system to re-engineer Wahaha's production, supply and marketing business processes. After the ERP system was successfully implemented, the OA (Office Automation) collaborative office platform was adopted to manage the company's various work processes, and after rigorous screening and comparison, the collaborative work management platform of Micromax Software was selected. The business processes established on the collaborative workflow platform of Wahaha not only covered daily management processes such as requesting reports, issuing management, personnel adjustment, financial reimbursement, etc.; but also covered complex and complicated business processes such as contract review process and bidding process, thus forming the core support platform of Wahaha system management. After the establishment and improvement of this whole set of business processes, Wahaha has realized the informationization and automation of the process management system. [5]

2.5 Internal oversight

For the Wahaha Group, food safety is a top priority. To this end, Wahaha has set up a food safety supervision and management organization with the chairman of the board as the head and the directors of the various plants as the main members, and has set up

important supervisors for all aspects of development, production, manufacturing, quality control and marketing. The main and primary responsibility for food safety supervision is clearly defined.

3 Optimization Strategies

Wahaha should also implemented a comprehensive budget management system. Each year, according to the enterprise plan, each production scheduling principles, for each subsidiary and branch to develop its production capacity to match the annual cost expenditure plan. According to their possible costs and expenses, the expenses of each product production unit are expected, the possibility of profit, and then the profit profit is used as the reward basis for each subsidiary and branch, such as the year-end award is directly linked to the amount of enterprise profit.

Furthermore, through careful research on large financial management software vendors at home and abroad, Wahaha Group chose the management-based financial software developed by Zhejiang Xinzhongda Software Group Company. The smooth operation of the financial information system enables the financial staff of the enterprise to be relieved from the tedious bookkeeping and accounting operations, so that they can have more sufficient time to monitor and manage the inventory, fixed assets, and various manufacturing processes, and provide rich and accurate data for the management decision-making process of Wahaha Group's decision makers. Moreover, the use of public financial information systems for bookkeeping and registration reduces the risk of fraud and misrecording by internal financial personnel.

4 Conclusion

In real life, enterprises are always facing huge and unknown risks in their operations, and the way to avoid collapse or bankruptcy and minimize overall losses as an enterprise manager is to strengthen the construction of enterprise internal control. Only when the enterprise internal control mechanism is constantly improved, the enterprise can be able to deal with internal and external problems in a well-organized and comfortable manner when facing various unexpected situations, and enhance the overall risk resistance to ensure the future development of the enterprise

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