

Research on the Driving Forces and Impact of Huawei's Business Policy Transformation

Haixin Li^{1,a,*}

*¹School of Accounting, Shandong Technology and Business University, 191 Binhai Middle Road,
Laishan District, Yantai City, Shandong Province, China*

a. leelhx008@163.com

**corresponding author*

Abstract: In the second half of 2022, Huawei Technologies Co., Ltd. (hereinafter referred to as "Huawei") internally published an article titled The Company's Business Policy Should Shift from Pursuing Scale to Pursuing Profit and Cash Flow. In the article, Huawei's founder, Ren Zhengfei, stated that the global economy was expected to continue declining, leading to reduced consumer spending. As a result, Huawei needed to adjust its business policy, shifting from a focus on scale expansion to prioritizing profit and cash flow, with survival as the primary objective. This paper analyzes the driving factors behind Huawei's business policy shift by examining its internal and external environment from political, economic, financial, and business development perspectives. It outlines the transformation process and summarizes the financial impact based on relevant data. The paper extracts valuable insights from Huawei's experience, providing a reference for similar enterprises on how to adjust their business strategies in a changing environment.

Keywords: Business Policy Transformation, Profit, Cash Flow

1. Introduction

The business policy of an enterprise serves as the fundamental guideline and pathway for implementing its business philosophy and achieving its strategic objectives. It is formulated in response to significant challenges faced by the enterprise during a specific period and is subject to change as external environments and internal conditions evolve. Only through such adjustments can a company effectively tackle challenges and seize opportunities for growth. Different enterprises have varying motivations for adjusting their business policies, and these adjustments can yield both positive and negative impacts. As a leading private enterprise in China, Huawei has undergone notable policy adjustments in response to supply chain pressures and global economic downturns, making it a valuable case study for business strategy research.

2. Overview of Huawei

Huawei was founded in 1987 by Ren Zhengfei in Shenzhen, Guangdong. As a global leader in ICT (Information and Communication Technology) solutions, the company has consistently focused on technological innovation and high-quality services. Huawei has established a strong presence in fields such as network equipment, cloud computing, and smart devices. Adhering to its core value of

"customer-centricity," Huawei collaborates with global partners to build an open, cooperative, and mutually beneficial digital ecosystem.

3. Drivers of Huawei's Business Policy Adjustments

3.1. External Environmental Factors

3.1.1. Increasing Political Risks

As the strategic rivalry between China and the United States intensifies, Huawei has faced multiple rounds of sanctions imposed by the U.S., including attempts to completely cut off its chip supply. These restrictions have significantly impacted Huawei's terminal business and supplier network, leading to its first revenue decline in nearly a decade in 2021. Moreover, the U.S. has pressured global telecom operators to exclude Huawei's 5G technology, causing a growing number of international operators to remove Huawei from their supplier list[1]

3.1.2. Challenging Economic Conditions

The global economy has been in a state of prolonged recession due to factors such as U.S. interest rate hikes, geopolitical tensions, and the COVID-19 pandemic. These conditions have weakened consumer purchasing power and created an uncertain market environment. Recognizing that the coming years will be difficult, Huawei has adopted a cautious approach in business forecasting and budget allocation, aiming to manage risks effectively.

3.1.3. Intensifying Market Challenges

Following the imposition of U.S. sanctions, Huawei's revenue from overseas markets has declined year by year, with the proportion of income from overseas falling to 35% in 2021. In the domestic market, large-scale 5G network construction has been largely completed, and the smartphone market has entered a mature stage. At the same time, supply chain pressures have to some extent weakened the competitiveness of Huawei's products. According to relevant data, in the first half of 2022, overall shipments in the domestic smartphone market declined by 14.4% year-on-year, and Huawei's sales dropped out of the top five rankings. Overall, Huawei is facing significant pressure in both domestic and international markets, making strategic adjustments an urgent necessity.

3.2. Internal Development Needs

3.2.1. Low-Yield Investments Affecting Profitability

Huawei's 2021 financial report shows a 29% revenue decline, but operating expenses only decreased by 3%, leading to an imbalanced cost structure. Consequently, Huawei's operating expense ratio surged to 38.8% in 2021 and further increased to 42.2% in 2022. Additionally, gross profit fell by 4.4% in 2022, decreasing by 25.5 billion yuan, while operating expenses increased by 9.9%. The primary reason behind this decline is Huawei's investments in low-yield, high-cost projects that diverge from its core business strategy. Such ventures have struggled to achieve strategic alignment, highlighting the need for more cautious investment decisions to avoid financial inefficiencies.

3.2.2. Declining Cash Flow

Huawei's operating cash flow has declined significantly since 2020, reaching its lowest level in four years in 2022, at less than 20% of its 2019 level. In addition to the impact of the pandemic, supply chain pressures have further constrained cash flow, with Huawei's terminal business—once its

primary cash generator—losing momentum and contributing 34% less revenue. Moreover, expenditures on loan and bond repayments in 2022 were three times those of 2021, leading to a significant reduction in financing cash flow due to concentrated debt repayments. If no measures are taken to increase cash flow, Huawei will face considerable financial risk.

4. The Process of Huawei's Business Policy Transformation

4.1. Optimizing Business Structure

Following the shift in its business policy, Huawei has adopted a more rational approach to financial planning, striving for the most effective use of its budget. Projects that were previously launched but involved reckless investment have been scaled back or discontinued, allowing the reallocation of human and material resources to core business areas and the optimization of organizational structure.

Non-core businesses have been separated from Huawei's strategic core, with a comprehensive evaluation of their potential value and required resource input. For businesses that are unlikely to achieve the expected results, Huawei has considered opening them up to external partners rather than attempting to manage all business operations internally. The company has shifted its focus to core strategic areas. Additionally, for essential business operations that have underperformed, organizational adjustments are necessary, including leadership changes and process restructuring. [2]

4.2. Focusing on High-Value Markets

Huawei has become more focused on high-value market segments, strategically withdrawing from markets that do not generate substantial value while exploring markets with strong profit potential. For remote regions that can generate value but present challenging conditions, Huawei views them as critical training grounds for cultivating and selecting future leadership talent. Although these environments are highly demanding, they play a significant role in talent development, providing young professionals with valuable practical experience and helping them grow into competent managers.

The finance department has also strengthened its cash flow planning and management, emphasizing financial self-sufficiency during difficult times. Huawei prioritizes high-value markets, avoids blind expansion, and implements targeted measures to mitigate potential risks. By ensuring sufficient cash flow and establishing contingency mechanisms, the company has reinforced its ability to achieve stable development. [3]

4.3. Adjusting Employee Incentive Mechanisms

Huawei has further clarified responsibilities by linking employee promotions and salary increases to the company's financial performance, encouraging employees to pay closer attention to profitability and cash flow. The company has increased the weighting of cash flow and profit in performance evaluations, ensuring that even when sales revenue declines, profitability and cash flow remain stable and continue to grow. This adjustment helps employees better understand the company's business policies and motivates them to generate more profit and cash flow through cost reduction and business innovation. Each responsibility center is provided with a fixed base salary as well as flexible performance-based bonuses. Business units that generate higher profits and cash flow receive larger bonuses, incentivizing employees to create more high-margin business opportunities. [4]

4.4. Enhancing Product and Service Quality

Huawei adheres to the principle that "quality is the primary driver of productivity," requiring R&D teams to take full responsibility for product quality and performance. This responsibility also serves

as crucial support for market-facing service teams. In today's fast-paced information era, any quality incident can severely damage market trust. Recognizing the growing importance of services in an increasingly competitive market, Huawei has shifted from a past focus on R&D while neglecting service quality. Now, services play a more integral role in the overall business strategy. While maintaining R&D investments, Huawei has elevated the status of its service system by increasing resource allocation, talent development, and business innovation efforts, thereby enhancing its overall service capabilities.

5. The Impact of Huawei's Business Policy Transformation

5.1. Improved Profitability

Huawei's business policy transformation signifies a shift toward profitability rather than mere scale expansion. The company now prioritizes high-quality orders over quantity, which has significantly boosted profitability.

This improvement is evident in Huawei's annual reports. In 2023, the company achieved global sales revenue of RMB 704.2 billion, marking a year-on-year increase of 9.63%. This result not only exceeded market expectations but also represented the highest annual revenue growth since 2019. However, net profit trends provide deeper insights. In 2021, Huawei's net profit surged due to non-operating income from the sale of its Honor business, despite a decline in sales revenue. Yet, this did not truly reflect Huawei's operational performance, as net profit plunged in 2022 to only 55% of its 2020 level. Following the policy shift, Huawei's 2023 net profit saw a remarkable 144.5% year-on-year increase. By the third quarter alone, net profit had already exceeded twice the total for all of 2022, with the net profit margin more than doubling to 12.35%, demonstrating the effectiveness of Huawei's efforts to optimize operations and enhance profitability.

5.2. Optimized Resource Allocation

After adjusting its business policy, Huawei has clarified its strategic focus, concentrating on core businesses such as ICT infrastructure, terminal devices, and Huawei Cloud. This approach has allowed the company to allocate resources more precisely, redirecting investments from low-margin businesses to core areas to maximize efficiency. By continuously investing in R&D and innovation for its core businesses, Huawei has maintained its technological leadership and sought to expand its market share. The company's core business units, including ICT infrastructure, have shown steady growth. Even the terminal business, which previously experienced a downturn, has stabilized and returned to growth. While overall revenue growth in core business areas may not be exceptionally high, given the scale of these operations, the level of growth achieved is still considerable.

5.3. Ensuring Corporate Stability and Sustainability

Huawei has placed a strong emphasis on maintaining healthy cash flow, prioritizing the development of "cash cow" products—those with high profit margins and stable cash flow. This strategy helps control investments in high-risk, long-cycle projects and reduces operational risks. Huawei has also strengthened budget control, carefully managing cash inflows and outflows to avoid unnecessary expenditures and ensure financial stability.

According to the 2022 financial report, Huawei's operating cash flow dropped significantly from RMB 59.7 billion in 2021 to RMB 17.8 billion, while net cash reserves fell to RMB 176.3 billion, a 26.9% year-on-year decrease, indicating financial distress. However, after the strategic policy adjustment, Huawei's operating cash flow rebounded sharply in 2023, reaching RMB 69.8 billion—a 292.13% increase—demonstrating the success of its cash flow optimization efforts. A strong

financial position enables Huawei to better navigate market fluctuations and debt pressures, ensuring the company's long-term stability and growth.

6. Lessons for Similar Enterprises

6.1. Timely Strategic Adjustments

In an ever-changing environment, adaptability is crucial. When faced with adversity, Huawei promptly reassessed its strengths and weaknesses, adjusted business priorities, and reallocated resources to adapt to new market conditions. This transformation reflects the importance of timely strategic adjustments. Different industries face unique challenges and risks. Other enterprises should consider their industry characteristics and specific circumstances, cultivate rapid decision-making capabilities, and proactively respond to market changes.

6.2. Diversified Global Expansion

As a leader in the ICT industry, Huawei has long pursued a global strategy. Today, its operations span over 170 countries and regions, serving more than 2 billion users. Additionally, Huawei has diversified its business portfolio around its core operations. These decisions are based on long-term strategic planning and market demand analysis. A diversified global presence helps expand business operations, build strategic partnerships, and mitigate risks associated with geopolitical tensions and industry competition. By avoiding over-reliance on any single business sector or regional market, companies can navigate strategic shifts and external disruptions with greater resilience.[5]

6.3. Commitment to Innovation and R&D Investment

Innovation is a key driver of competitiveness. Huawei consistently allocates over 10% of its revenue to R&D each year, with a cumulative investment exceeding RMB 1 trillion over the past decade. With R&D staff making up 55.4% of its workforce, Huawei has become one of the world's leading patent holders. This strong R&D focus not only generates direct revenue through patent-sharing agreements but also enables Huawei to differentiate its products and services. When faced with U.S. sanctions, the company's self-developed Kirin chips and HarmonyOS provided Huawei with resilience, minimizing potential losses. Other enterprises can take inspiration from this approach by increasing their investment in innovation and R&D to enhance competitiveness and develop distinctive products.[6]

7. Conclusion

In an era of rapid change, businesses must adjust their policies in response to evolving market conditions. As a leading Chinese private enterprise, Huawei has demonstrated strategic foresight by shifting from a focus on scale to prioritizing profitability and cash flow. By optimizing its business structure, concentrating on high-value markets, refining employee incentives, and improving product and service quality, Huawei has successfully enhanced its profitability, optimized resource allocation, and significantly improved cash flow management. These lessons can serve as valuable insights for other companies seeking to develop sustainable business strategies suited to their unique circumstances.

References

- [1] Shen, G. B. (2023). *Strategic adjustments in U.S. supply chain policies and China's response*. *People's Tribune-Frontiers*, 2023(03), 78–85.

- [2] Li, H. X. (2023). *How long can Haidilao last?—Financial strategy adjustments and effects of Haidilao under the pandemic*. *Friends of Accounting*, 2023(01), 2–6.
- [3] Liang, L., & Duan, S. Y. (2023). *Organizational resilience characteristics and formation processes of born-global and traditional global enterprises: A comparative case study of TikTok and Huawei's responses to U.S. suppression*. *Economic Management*, 45(05), 27–42.
- [4] Gan, T., & Zhou, L. (2023). *Key elements and evaluation model construction for power enterprise cadre training needs: A review of Huawei Cadre Management: Unveiling the Underlying Logic of Huawei's Talent Multiplication*. *Leadership Science*, 2023(03), 157.
- [5] Zhang, Y. J., & He, Y. (2023). *Analysis of enterprise value creation paths based on the synergy between business strategy and financial strategy in Huawei*. *Finance and Accounting*, 2023(14), 35–39.
- [6] Zhang, N. N., Wang, Z. S., & Xie, W. (2023). *How latecomer enterprises can overcome management constraints—Lessons from Huawei*. *Science Research Management*, 44(05), 34–43.