Guide

Manage your international business to ensure growth

How Business leaders and CFOs can manage an efficient international financial administration

How can you as a business leader or CFO manage your international financial administration?

Introduction

You can be a fantastic CEO or CFO, but the odds are that you will underestimate the practical implications of opening a new operation overseas, if you have not done it before. Things you take for granted on your own local market are not a given as you grow.

All of a sudden you can find yourself in a situation where you do not have a functional setup for:

- Efficient financial administration
- Real time reporting to make educated decisions
- Business data that you can trust
- Regulation and compliance issues with local governments, customers and suppliers.
- Being able to tweak business processes as you grow and thereby respond to changing demands and new business initiatives.

Our experience is that you can avoid a lot of issues, save a lot of time and experience more success, if you just manage to understand these challenges before you embark on your international journey.

Therefore we at Staria have gathered our experience into this guide that will help you to better understand the challenges and the basic approach for how to avoid them.

The guide is specifically created for the person that is the Owner/CEO or CFO of an organization that has international operations and/or ambitions and wants to know how to build an infrastructure that lets you still operate as ONE company across geographical borders.

Growing an international business

Growing an international business is not an easy task. You need to maintain the same level of focus towards your core business, whilst at the same time make sure your business model is tweaked to fit new local market specifics. This without jeopardizing your overall ability to execute as one company in accordance with the strategy that has brought you the success you have had so far. So the challenge is to adapt quickly, keep your eye on the prize and don't change too much where you might risk losing control.

Regardless of your approach towards building an international business, the challenges will be many and there will be hurdles to overcome. However, If you manage to build a structure that lets you scale with ease, the rewards will be exponential.

Preparations

The decision to establish operations overseas is usually not something that is taken lightly. The board and/or management team has probably known for a long time that this was the plan, and finally it's time. All of a sudden the need to get started is very urgent.

At this point, a surprisingly low percentage of companies have made any preparations at all for handling the financial administration efficiently.

The need, or desire, to start subsidiaries is naturally driven by things such as:

- customer centric variables
- market potential
- the ability to deliver
- strength of product or service
- the competitive landscape
- current market saturation

Never has the decision to go international been a result of the management team saying "Our back-office is just so randomly strong, lets open shop in a new country and see how that goes!". Nor would it make sense to have the backoffice ability as a key strategic driver on where you want to steer your next expansion.

It would however make a lot of sense if management, in time, were to better understand the practical implications. This from a financial administrative perspective of growing your business abroad.

Common approaches

If your company does not already have a global ERP solution, there are a few common approaches for handling financial administration when growing internationally.

We will describe a couple of different ways of handling an international expansion from a financial administration perspective. These will also be broken down to give you a better understanding of the strengths and weaknesses so that you can begin to apply a method suitable for your current need. The challenges that these approaches will result in will be summarized below.

The different approaches most companies tend to apply:

- No ERP & totally reliant on local accountants and their systems
- Buy local ERP & use local accountants for local practices
- Buy local ERP & depend on locally hired staff for local practices.

Regardless of approach

Evaluate the current situation

The very first thing a company planning to expand needs to do is to gain understanding of your current international capabilities. What experience is there inhouse? How local are your processes? How dependent is the ability to deliver on current infrastructure and practises? What can the various systems do and what are the limitations?

There needs to be a basic understanding on how well equipped the business is for a new market. If you already have a global ERP, great - but do not just take your suppliers word for it. Make sure to understand how the systems localizations are handled and make sure to evaluate that through your needs and local legislation.

There are a few things that apply for all companies who are setting up operations overseas. If you are investing heavily in a full scale expansion or if you are setting up a smaller sales office with the minimum level of infrastructure and process dependency, there are certain things you just can't get around.

Local knowledge

The first thing you need is local know-how about some fundamental things like, what you need to do and know before you can even register your company, you need to understand the local employee legislation and you need to how tax specific rules and regulations will affect you business.

Most organisations contact their local accountants and ask for advice. They can help you to find a local accountant in case they do not have the presence themselves. If they do not have a local partner to recommend, you have to find one by yourself. Most countries have a foreign trade organisation that are setup to help companies that want to export their business, these can be very useful to talk to when getting started.

1. No ERP & totally reliant on local accountants and their systems

This is a common approach when time is of the essence and funds are scarce. Most likely these companies are typical startups. Risks are high and the potential rewards even higher. In cases like these, the need to establish international subsidiaries is purely driven by the need to reach customers or even deliver towards a newly landed client. These companies might not have the luxury of contemplating every angle and, for now, they just need a solution that works.

The accountants will setup the financial admin for your company using their own local systems in the way the see fit. You will receive the relevant numbers you need from the local accountants, just to be able to close the books and produce your financial statements. You are up and running.

Challenges

The drawback with this model is that it offers no real control, the solution is not set up to fit your processes, your processes are instead tweaked to fit their way of working. You will have no real business insight as the reporting possibilities will be very limited. The financial information you do receive, is received after the fact and thus this information cannot be used to make proactive decisions. Whenever something is outsourced you do however have to live with giving up control, you give up control and hopefully you gain some time and maybe even some savings.

What you really want to be careful with is that this does not affect your ability to service your clients.

Another normal problem is that the local accountants do not fully understand your business which in turn will lead to “bad” accounting with heavy administrative corrective work needed as a result. In the very beginning this might be ok, but as you grow and and become a “real” business, it will become evident that you just don’t have the transparency needed to run your business.

Local data

If you go with local accountants quality of data will always be an issue. Local accounting will always be just that - local. With local chart of account and a lot of time will be lost constantly merging different realities trying to get a clear picture of your operations.

When is this a good approach?

This is a good solution if you have limited funds and you need your international operations to be up and running asap.

The big drawback is that you will lose some of the control. If this is the model you have to apply we recommend putting time towards finding a strong trustworthy partner who will take the time to really understand your business as a whole.

We also want to emphasize the importance of being careful and make sure that your administrative shortcomings, never affect your clients.

2. Buy local ERP & use local accountants for local practises

Some companies are not comfortable using a software that is not theirs. They might know they want to seriously pursue a market but they need local help. For those companies it makes sense to buy a local ERP solution and use local accountants. Most likely these companies have a quite good solution for their HQ which is a contributor to them not wanting to use external software. But that solution does not support international rules and practises. They have understood the need to be able to view the operation as a whole, in one system and will import data from the new platform or build a proper integration.

This might be a functioning solution in terms of that it can get the job done. It will also give you more control than if you would be depending on a foreign software of local accountants, where there will be almost no room for customization. With some effort you can now consolidate your books and harmonise the systems, but you will still be in the hands of local accountants. This means a lot of extra costs and that hard work is needed in order to get this type of solution to work properly.

Challenges

This solution will however never give you the real time visibility that you are going to need. You need to be able to see how local occurrences impact the business as a whole, and you want this information at the touch of your fingertips. Keep in mind that although the the financial administration is important, it is only one aspect of functionality needed to gain the control and insight an international growth company needs. As a company grows, it is time consuming to define the integration between the local and central system. This must also be maintained over time.

As a company grows and starts to reach its maturity, more and more factors come into play and the need for real time visibility increases.

An organisation as a whole is likely to be composed, dependent on industry, of different variables that affect your ability to make smart decisions and deliver on your main objectives. From intricate supply chains to complex projects, service or product delivery, customer insights or Human Resource related issues, you need to be able to understand how one end of your organisation relates to the big picture. Not only to make informed decisions but to deliver to the best of your ability. This is a challenge that grows exponentially as a company grows internationally.

When is this a good approach?

If you choose to go for this solution it is important that you choose the right local ERP. One factor is to ensure it can handle your needs. As always, you need to figure out how well it can serve you in terms of industry specifics, desired deployment and in other fundamental areas. Equally important is the understanding of how compatible it is with your current platform. Have integrations been built before? What are the associated costs of getting this up and running?

Ask yourself if this is a good choice if you should decide to go for more markets. It might make more financial sense to look at your overall solution and then build your whole organisation on a solution that can serve you regardless of market.

3. Buy local ERP & depend on locally hired staff for local practises

Everything that has been said about the previously mentioned solution is also true in this case. In terms of the companies desire to own the system and the companies need for more from the system than could be offered through the first basic approach of relying on local accounts systems. What differs is that some companies choose to hire the skills needed locally.

There may be many contributing factors to why a company needs people on site from the start. Sometimes the main reason for a subsidiary in a new country can actually be to attract personnel. Some companies go for hiring local staff because there is no other option, and sometimes local staff is needed to sell pro- ducts/services and to be a competitive player.

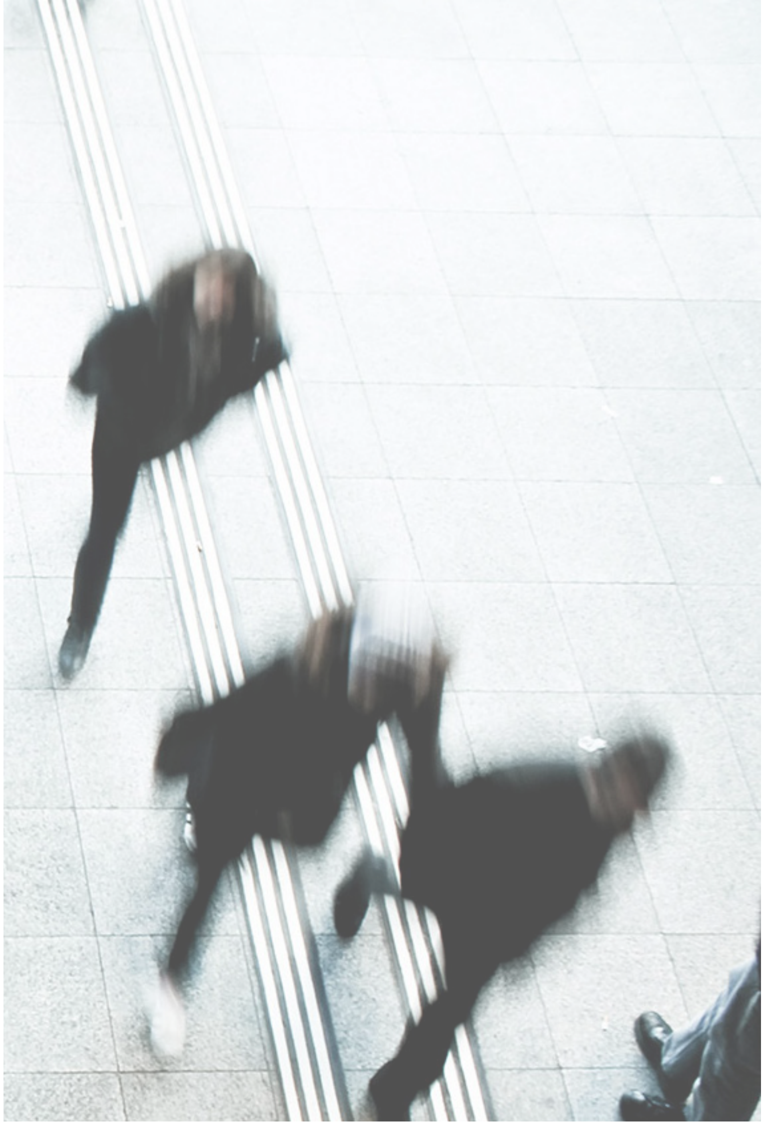
Challenges

There is no right or wrong, but there are risks. Most of the time this is not a highly conscious decision in relation to financial administration, but rather a result of the industry you are in or the products/services that you sell. If a comp- any, depending on industry, is highly dependent on local people and networks for their success, they will hire local people to manage their new subsidiary. Sometimes they, once again depending on industry background, have a working local knowledge of financial administration. Their ability to manage local financial administration is not not a criteria for their employment, but an added value towards getting the business up and running. The main challenge with this approach is that a company will be, in more than one aspect, at the mercy on one or a few individuals ability to deliver. What makes it even more difficult is that the company is depending on these individuals in areas beyond their expertise, areas where the individual neither thrives or excels. This will not help to optimize the financial administration and it will most likely take time and passion away from the operational tasks the individuals are hired to do in the first place.

There is always the option of hiring someone locally to purley manage financial administration. The added value of doing that compared to just going with a local account is however slim and it will not be cost efficient.

When is this a good approach?

Regardless if someone is hired to manage this parallel to their other tasks or if you choose to hire someone to solely manage the financials, the risk/reward calculation is tricky. With the right individual this option might make sense, both in terms of financial control through having someone that truly understands your business and from a cost perspective.



The challenges with these approaches

All these common scenarios will over time lead to significant challenges for the business and they affect the ability to grow and develop smoothly.

1. Several different people to work with

If you use local accountants there will be a number of different people involved that are working for different external organizations. This will make it difficult to manage an efficient process. New contacts assigned to work with you is also a common consequence.

2. Several local financial ERP solutions

This will lead to a situation where you will have difficulties to get access to the core data. You have to log in to different systems that you do not have the skills to use properly. The systems will be set up differently which will result in both bad data and bad business control. The systems might be on-premise and therefor in the need of maintenance or IT-support.

3. High cost of administration

These approaches will lead to relatively high costs for financial administration. Many different people will be involved and there will be a lot of extra work due to bad data and slow processes for consolidating the books.

4. Language and currency issues

Systems will often be setup in local languages or currencies. This will lead to problems when interpreting the data.

5. Problems with fraud

The same local accountant is doing all the administration and your actual control will be limited. This will lead to an increased of being exposed to fraud that also will be difficult to detect.

6. Managing orders efficiently

If you use the local ERPs for order management it is difficult to set up a process that will work both efficiently and in line with the central setup. This will lead to problems with an inconsistent business model, quality loss and bad data that will be difficult to consolidate. It will also drive high costs for system maintenance.

You could use a separate order management solution, but you would still then have to integrate that with several different financial ERP solutions.

7. Unnecessary business risks

There is a risk that, without true business control, the company and the CEO will be exposed to unnecessary business risk related to:

- tax compliance
- HR compliance
- payment problems
- internal business transactions and to book them correctly.

8. Bookkeeping that is not inline with central setup

The chart of accounts will be set up in different ways depending on country and the bookkeeping rules will be different. This will lead to bad data and difficulties to maintain business control. It will also slow down the process for consolidating the books.

The solution

1. Built for growth

The solution is to have the foresight to invest in an ERP solution that is built for international business, when getting started or even before you start your first local subsidiary. You can then build a solution for financial administration that can be easily copied when you start up you next business.

2. Find the right ERP

International cloud based ERP solutions is normally prepared for this scenario that you have a central set up and local international subsidiaries. You need to find a solution that can be used while you still are relatively small and that can grow step-by-step with more subsidiaries and more advanced business process support.

3. Trustworthy partner

It is costly and inefficient to use several different local accountants or local staff. Try to find a finance administration partner that can support you on all markets and take care of the financial administration. If they can set up the system in the correct way from day one you will also make sure that the system will do the job in the correct way, taking into account local rules and regulations and your your specific business processes requirements. Don't forget to ask their ability to run to local payroll.