Guide

# How to master financial administration when growing internationally

STARIA

# International growth

Growing an international business is not an easy task. You need to maintain the same level of focus on your core business while making sure your business model is tweaked to fit the specifics of the new, local markets.

This needs to happen without jeopardizing your overall ability to operate as one com- pany 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.

# Preparing for international growth

## The decision to expand

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 is 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 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 not operating well, let’s open a shop in a new country and see how that goes!”. It does not make sense to have the back office ability to be a showstopper for 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 is from the financial administrative perspective of growing your business abroad.

## Different approaches

The different approaches most companies tend to apply:

- No ERP and totally reliant on local accountants and their system
- Buy local ERP and use local accountants for local operations
- Buy local ERP and depend on locally hired staff for local practices

In this document, we will guide you based on our experience regarding the following:

- What is it that you must be able to master from a financial administrative perspective when running a business locally?
- What are the critical things to look for when buying a modern ERP solution that is capable of supporting you over time?
- Why is automated accounting critical for efficiency and quality as you grow?

# What you need to master

When running an international business with local subsidiaries - this is what you need to master from a financial administrative perspective.

1. Set up a proper company model
2. Handle accounting
3. Personnel-related matters
4. Reporting to management and stake-holders

## 1. Set up a proper company model

First, you must decide which company structure and model is the best solution for your company. What are the differences between the models and the costs? The company must handle country-specific registrations and authorize the right people to act on behalf of the company.

## 2. Handle accounting

During the decision-making process, you must take into account the size of the company's own finance department and the available resources. The alternatives are to handle the finances in-house or to outsource all or part of the tasks to an accounting service partner. Having the right partner will ensure consistent accounting principles and tax compliance, and will provide scalable digital processes with the latest technology.

An additional challenge is the system decision. Will the company use a unified accounting platform or multiple systems? Does the system enable real-time visibility of the financial figures at the transaction level and the possibility to drill down to the document level?

The NetSuite business platform enables consolidation and automated elimination of intra-group items. The system operates in a multi-currency environment, covering over 200 countries. The NetSuite system also enables automatically updated exchange rates, and figures for the whole group are available in real-time, in both local and group currencies.

## 3. Personnel-related matters

Starting a business in a new country or establishing a legal entity requires decisions to be made related to personnel. When starting the recruitment of local personnel you must consider the following:

- Whether to recruit employees and/or use subcontractors
- Employment contracts and related country-specific obligations (notice period, contractual basis, date of salary payment, etc.)
- Insurance and social security costs
- National salary levels and requirements
- Benefits in kind and other benefits provided by the employer
- Cultural and linguistic differences
- Working hours (including time zone differences)

## 4. Reporting to management and stakeholders

Financial figures must always be reliable – having real-time visibility of financial information is a key element for the growth of global companies. Slow, bad-quality reporting is a challenge for many companies. If the financial figures come from different countries and possibly from different systems, combining the figures is often a time-consuming, manual process. Often, the local financial data comes with a different chart of accounts and reporting model than what the group uses.

An additional challenge in the international group financial environment is the implementation of consistent accounting and reporting principles. For example, If a subsidiary has been acquired through a corporate acquisition the accounting and reporting principles may vary a lot from the group's own policies. There may also not be enough information on country-specific requirements.

## How do you set up a proper solution step-by-step?

To be able to get an effective solution that can work well over time, you need to do it step by step.

**These are the proper steps that you need to take in the following order.**

Step 1 – Company structure

Step 2 – Global chart of accounts

Step 3 – Tax templates

Step 4 – Payment files

Step 5 – Standard reporting

# What to look for when buying an ERP solution?

If you are going to be able to grow your business internationally and master the challenges that we have been presenting above, it is critical that you implement an ERP solution that supports all the aspects of both internationalization and localization. This is the basic requirement from a financial administration perspective.

However, it is equally important that you are able to scale your financial administration effectively to keep overheads to a minimum. To be able to achieve that, you need to understand what you should demand from the solution related to the possibility to automate financial administration, now and in the future.

## International accounting

There are ERP solutions available on the market today that are specifically designed to support international growth companies. Companies with ambitions to grow internationally can gain a lot by starting to use these ERP solutions at an early stage. In other words: before you need to manage the complex processes encountered later on in a company's development.

Getting things right from the start simplifies financial management processes and saves resources. It is vital for a growth company. It is always tough to change systems when these needs appear, instead of creating the right conditions from the start. Also, a lot of growth companies don't have time to reflect on what is needed in this area before the needs become clear.

Based on our experiences, this article will describe what you should look for in terms of how a modern ERP manages international localization. We will also give you an understanding of what to expect from a modern system when you, as a growth company, want to achieve effective business growth.

## What is the difference between internationalization and localization?

The difference between internationalization and localization are often mixed up.

Normally, internationalization means how a piece of software adapts in order to work in different business cultures and languages. Localization is more about how the system, based on a good foundation, is adapted to a specific local market. In order for adaptations to be made, a decision-making factor is that the system should have been designed to do this from the start.

Internationalization normally involves:

- Language
- Layout & icons
- Workflows
- Country-specific data
- Currency management

Localization is more about:

- Translation
- Data based on legal requirements
- Specific local workflows and processes
- Specific reports

## How should modern ERP support your localization needs?

For the creation of specific solutions for local requirements, the ERP solution should have a concept supporting app development so that you can add new functionalities related to localization without affecting the standard software delivered from the ERP vendor.

Apps make it possible for different partners to develop applications that can be added to the standard system without affecting it. Apps can be developed by different specialists and partners, and they offer specific functions and solutions for localization. Apps should run as a part of the standard applications.

Solutions that are important for localization:

- Adaptations and reports adapted for local requirements – country-specific apps
- Knowledge of the implementation partner in the specific country
- An app development network and partners that are actively developing apps
- Other partners who developed add-ons based on local expertise.

Examples of important functions to create effective localization in a modern ERP:

- Manage multiple legal subsidiaries and business areas and accounting in multiple ways at the same time
- Different fiscal calendars for financial and tax reporting
- Adaptation of the general ledger
- IFRS qualifying features
- Electronic payment solutions for different countries
- API*s for integration with payment gateways, transport providers and a tax API for calculating local tax rules
- International address handling and different date formats

## Specific rules when implementing an ERP solution for different localization requirements

In general, we often talk about "legal regulations" and "regulatory requirements". Legal requirements are specified by law, whereas regulatory requirements are determined by different types of authorities and industry agencies.

There are different types of regulations to be followed, particularly within the following areas:

- Local or industry-specific regulations for processes or reporting
- Accounting standards
- Currency controls and different standards for currency management
- Tax calculations & reporting
- Salary deduction management
- Tax declaration management
- Tax auditing files
- Layouts of business documents
- Electronic payment management
- Regulations and processes for debt collection management

## Why is automated accounting critical when you grow?

For a long time, companies have looked to make their accounting more efficient. Technological development within business systems, AI (artificial intelligence) and RPA (robotic process automation) are creating completely new opportunities for automated accounting.

It is a question of saving time and of increasing quality. It should also lead to critical financial reports being produced more quickly.

Being able to leverage modern technologies and drive automation should be a top priority for all companies with high growth ambitions. Accounting is one of the areas where there is a lot to gain already today.

### Accounting becoming increasingly complex

Accounting for international growth companies is becoming more and more difficult. This is due to the increasingly complex local regulations introduced and the increased business risk involved in making a mistake. Furthermore, new regulations are being introduced all the time, which international companies need to observe in their accounting processes.

Automating accounting in an international growth company is more complex than it is for a more "regular" local company with relatively stable operations. However, the gains made by creating automation will be bigger for a larger and more complex company. This is because more time can be saved and lowering the risk of making mistakes reduces the overall business risk to which international business is exposed.

We will highlight the opportunities offered by some modern solutions and what is required to attain a completely different level of automated accounting. An international growth company should not ask for anything less than this, and should aim for the maximum level of automation over time.

## What does automated accounting involve?

Basically, automated accounting means getting rid of as much of the manual work as possible through digitalization and automation of the accounting process.

This can be done in a number of different areas, such as:

- Receiving & sending electronic invoices
- Integration with bank systems for automatic payments
- Automatically accounting for different types of invoices using machine learning
- Electronic expense receipts
- Posting receipts directly via mobile apps when a person receives them
- Automated VAT accounting & reporting
- Accounting taking place in real time as transactions are created
- Automating time reporting and invoicing where accounting happens directly.

## Accrued income and costs

The basis of a good solution is to be able to create the automatic accrual of income and costs. The system should be able to be set up to process of accruals of income and costs according to the type of income and cost. It is important that the function of is flexible and can process many different types of requirements. The ability to make forecasts based on these rules is also important.

## Accounting of different currencies

One challenge, particularly for international companies, is the efficient management of different currencies. It should be possible to set up solutions to automatically manage the updating of currencies from different sources depending on local requirements. One such requirement in Poland is that exchange rates must be obtained from the Bank of Poland. Normally, the standard integration from general suppliers for obtaining exchange rates is insufficient. The ability to create scripts to determine how updating should occur is necessary.

## Revaluation of booked income and expenses

When the books are balanced, the system needs to be able to manage the revaluation of booked income and expenses smoothly and take care of differences in exchange rates.

## Consolidation

The system needs to be able to support the option to consolidate countries using different currencies into regions and groups.

## Automated accounting without programming

It is also important to be able to create automation without programming being required. This is extremely useful and can save a lot of time if the users can do it themselves. When transactions are made, different types of data are added depending on different rules established by the user.

For companies with international growth ambitions, these types of requirements are essential for setting up a modern business system. If the system supports this type of function, it will provide large gains over time:

- Less time required to perform various work tasks and balancing the books
- Improved accounting quality
- Better reports created more quickly based on more accurate data.