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Multinational Corporations Need Intercompany Financial Management

Ventana Research defines intercompany financial management (IFM) as a discipline for structuring and handling transactions within a corporation and between its legal entities that is designed to maximize staff efficiency and accounting accuracy while also optimizing tax exposure, minimizing tax leakage, and ensuring consistent tax and regulatory compliance. Better execution of IFM can have a meaningful impact on the bottom line, improve financial control, and reduce reputational and other risks. Yet few senior executives are aware that common but unobserved gaps in financial systems, communications and coordination within their organization pose challenges to IFM. Through our efforts to call attention to the issue, Ventana Research asserts that by 2025, one-half of organizations with 10,000 or more employees will have implemented IFM to achieve tax, risk management and financial close benefits.

IFM issues arise because individual business units in larger corporations often buy and sell goods and services to each other. The accounting processes that match, reconcile and eliminate these transactions are steps to produce a consolidated set of financial statements, but are often complicated because, according to our Benchmark Research, 69% of corporations with 1,000 or more employees have ERP systems from multiple vendors. Furthermore, when transactions span multiple tax jurisdictions, involve trade regulation or require internal cost allocations, financial software packages for consolidation and reconciliations can handle only part of the process.

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Better execution of IFM can benefit a broad set of people and roles in a company by way of efficiency gains, better management of tax costs and greater control of risks. Improving IFM can substantially reduce the time spent reconciling intercompany transactions, thus saving staff time and potentially accelerating the monthly and quarterly accounting close. Tax departments in particular benefit from more effective worldwide tax management because IFM allows them to detect and prevent tax leakage, reduce their workloads and develop stronger audit defense capabilities. For corporations that use acquisitions strategically, IFM can streamline the post-merger financial integration process.

Competent IFM requires an integrated approach to the people, processes, and the information (data) and technology (software) elements of the discipline. Above all, the processes must have the following key elements:

- Accurate, timely and consistent corporate-wide data comprising all relevant intercompany transactions.
- Automated invoice processing to ensure accuracy and efficiency.
- A global billing and payments capability that provides speed and accuracy and that supports a high level of granularity.

However, while the use of IT is necessary in IFM, it is not sufficient by itself. Because of the ambiguities and complexities inherent in tax and accounting on a global scale, people are the most important ingredient. Their expertise, acquired through education, training and experience, makes IFM work. This expertise has become more valuable as tax codes become more complex and enforcement becomes more aggressive.

Corporations with large volumes of intercompany transactions operating in multiple tax jurisdictions with even modestly complex legal structures and with ERP systems from multiple vendors will likely find measurable benefits from adopting IFM. Doing so enables them to address the problems created by an uncoordinated approach to intercompany transactions built on inconsistent and incomplete data.

Ventana Research recommends that finance and tax executives, as well as shared services heads in multinational corporations, immediately investigate and assess how well they are executing their IFM processes and take steps to address any outstanding issues.

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Robert Kugel is responsible for the Office of Finance and business research, focusing on the intersection of information technology with the finance organization and business. His research agenda includes the application of IT to finance and business process optimization, looking particularly at ERP and continuous accounting, financial performance management, predictive planning, price and revenue management, revenue and lease accounting and robotic finance.