
The Reality of Intercompany

A Global Survey of Intercompany Stakeholders

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Dimensional Research | January 2022

Introduction

Intercompany is a complex and difficult business process that typically is expected to just work. In principle, intercompany accounting simply moves costs from one legal entity to another to satisfy service-level agreements, or moves the costs of goods and services to the end beneficiary. And each transaction is expected to balance for an overall net-zero impact on business financials. In practice, this is far more complex. Each region must respect its local tax policies and regulatory scrutiny. Different legal entities may use different systems that don't share data or workflows. There is also a large volume of transactions growing exponentially, making the difficult job of managing disputes among global stakeholders even more challenging. Global companies with complex operations consider intercompany the cost of doing business; however, too many business leaders don't even think about it until it's already created a problem and introduced risk — then it's a key priority.

This survey examines important questions about the state of intercompany at multinational companies. What are the types of challenges that accounting and finance teams face due to intercompany? Do those issues have any adverse business outcomes? What is the role of technology innovation for the future of intercompany?

The following report, sponsored by Blackline, is based on an online survey of more than 100 intercompany stakeholders working at multinational companies. The goal of this global survey was to capture hard data about the experiences of finance and accounting professionals with their company's intercompany processes.

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Key Findings

- **Intercompany is a mess**
 - 96% report challenges with intercompany
 - 99% say intercompany is becoming increasingly complex and challenging
 - All companies report their intercompany volume is greater than revenue, including 58% who say this volume is more than five times annual revenue
 - 86% agree intercompany is a very misunderstood concept
- **Intercompany issues have a significant impact**
 - Intercompany challenges negatively impact overall business outcomes (97%), finance and accounting operations (97%), and accounting and finance employees (98%)
 - 90% report their staff regularly pulls all-nighters as a result of intercompany
 - 97% have experience resolving multi-million dollar variances
- **Technology innovation for intercompany would deliver value**
 - 83% report using more than five different ERP instances
 - 96% agree that ERP systems only partially solve intercompany challenges
 - 97% would benefit from better technology capabilities for intercompany, with automated intelligent inter-company analytics topping the list

Definition Given to Participants

In this survey, "**intercompany**" will refer to financial processes that cross a business's global legal entities. This includes, but is not limited to, policy, accounting, tax, and billing/invoicing.

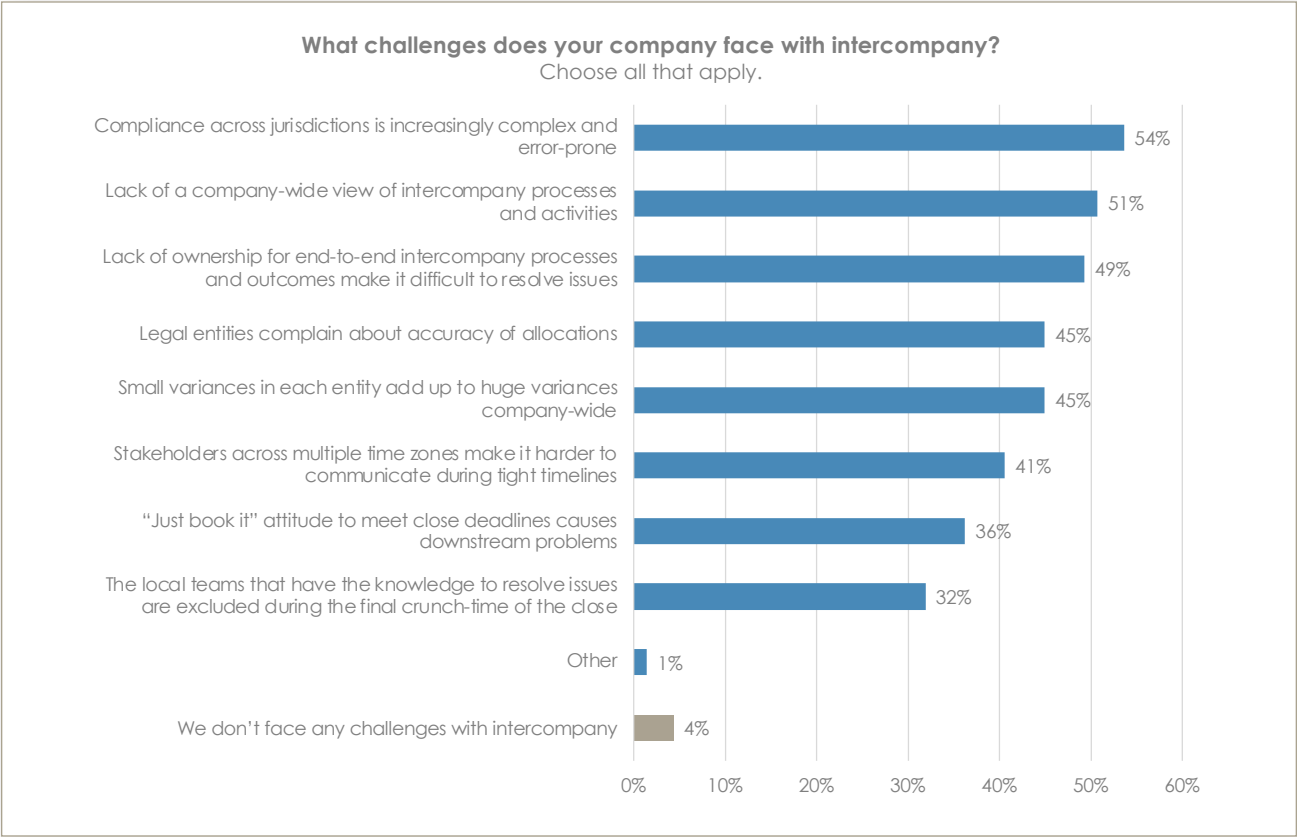


Detailed Findings: Intercompany is a mess

Intercompany is hard — and getting harder

At first glance, intercompany may not appear to be particularly complicated, especially when compared to other accounting activities. Any financial and accounting process requires serious attention to policy details, accounting guidelines, and accurate financial data. And multinational corporations are used to working with a complicated range of local tax laws and regulations. However, intercompany does have unique and nuanced complexities that make it particularly challenging.

The vast majority (96%) of intercompany stakeholders report their company faces specific challenges with intercompany. The reported issues include complex and error-prone compliance requirements across different jurisdictions (54%), lack of a company-wide view of intercompany activities (51%), difficulty resolving issues because of lack of ownership for end-to-end intercompany outcomes (49%), complaints about the accuracy of allocations from the different legal entities impacted by intercompany (45%), small variances across entities adding up to be huge company-wide variances (45%), time zone issues among key staff adding communication challenges in already tight timelines (41%), and more, as shown in the below graph. One participant took the time to emphasize that they had specific issues with ineffective transaction processes.



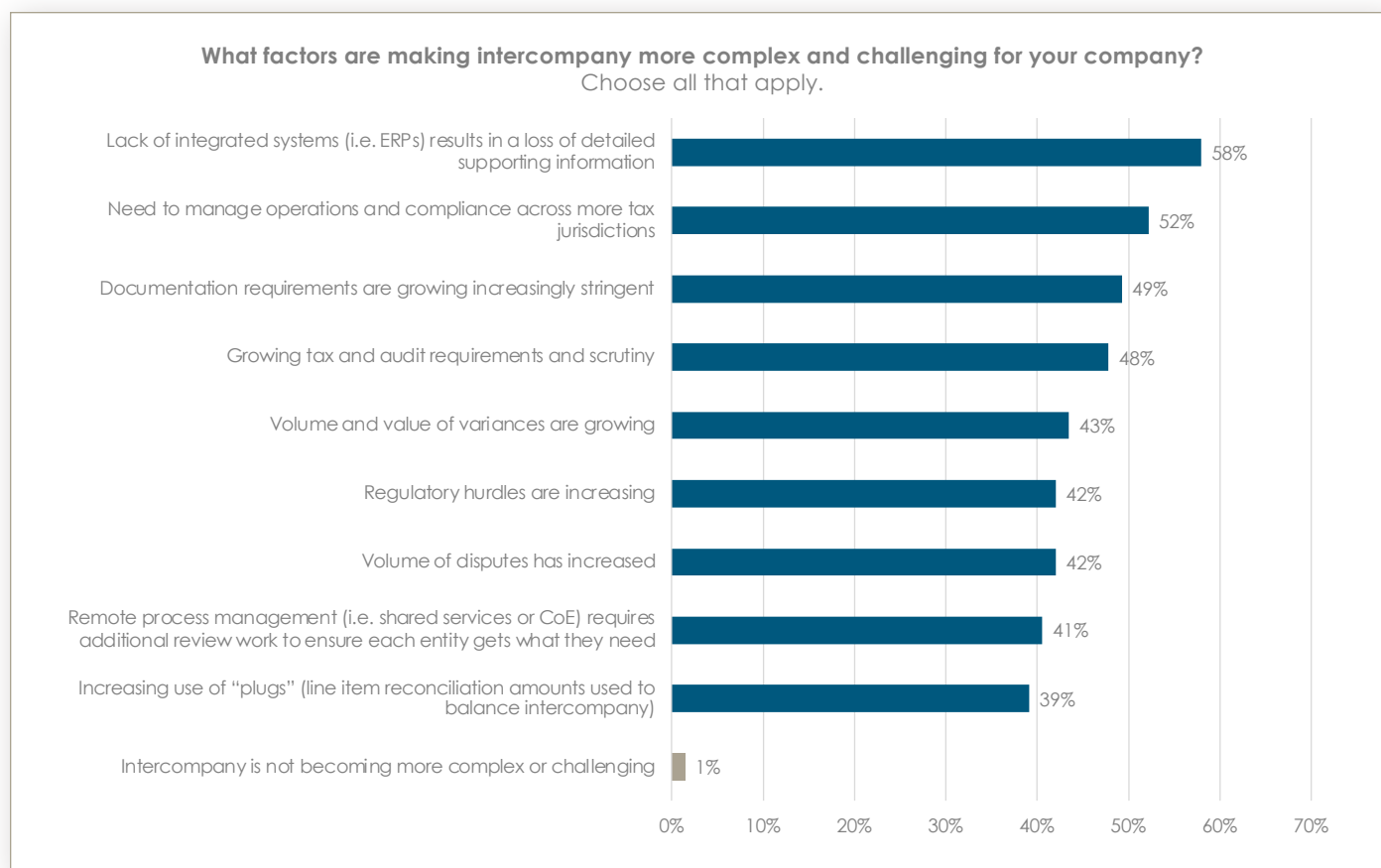
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These issues are expected to only get worse, with almost all (99%) intercompany stakeholders reporting that the job is increasingly difficult. When asked about the factors making intercompany more complex, the top cause cited (58%) was a lack of integration among systems (i.e., ERPs), resulting in a loss of needed supporting information. Other considerations included a need to manage operations and compliance across more tax jurisdictions (52%), more stringent documentation requirements (49%), growing tax and audit requirements and scrutiny (48%), growth in the volume and value of variances (43%), increasing regulatory hurdles (42%), expanding volume of disputes (42%), and more, as shown in the following graph.



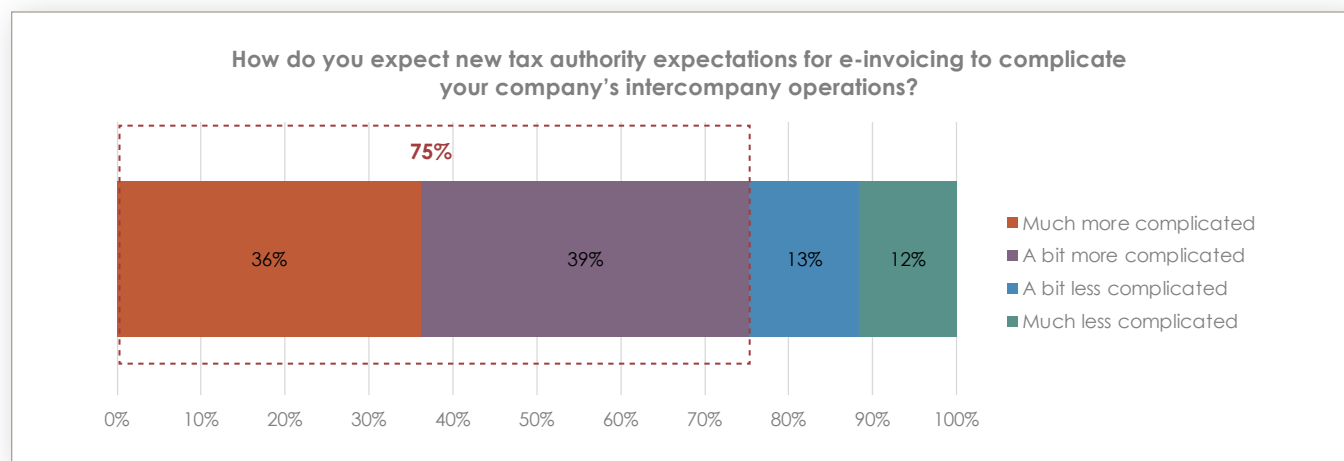
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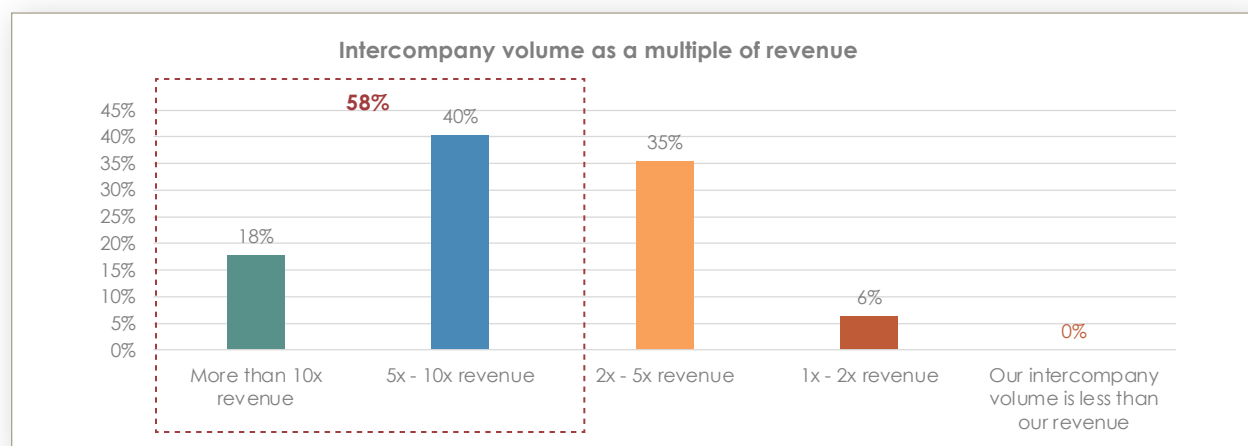
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Discouragingly, recent new governance policies by tax authorities worldwide are expected to add to the burden rather than help it. For example, there has been considerable traction on e-invoicing requirements and the potential benefits as a way to streamline and increase accuracy. However, intercompany stakeholders are typically not optimistic that this will have the intended positive impact, with three quarters (75%) reporting that they expect e-invoicing to increase the complexity of intercompany.



Intercompany volume is consistently far higher than revenue

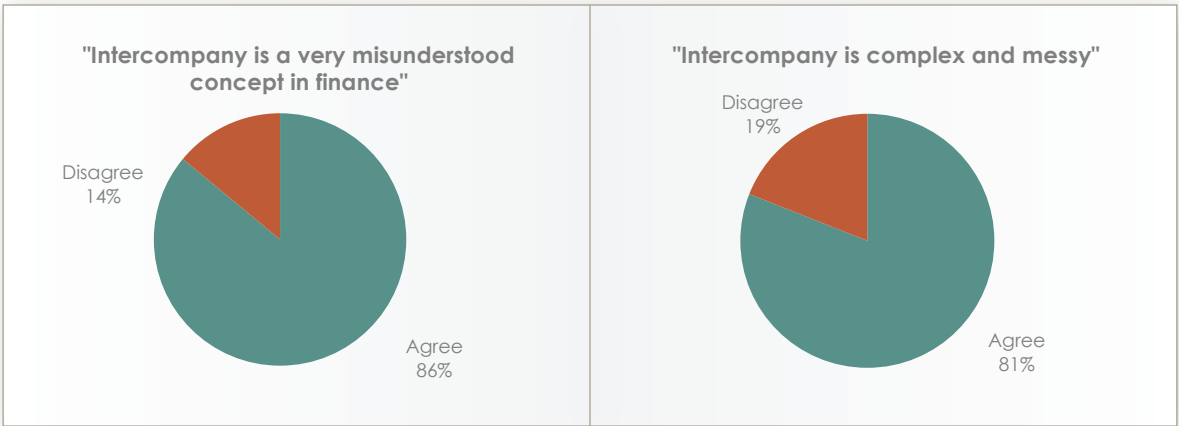
One of the critical underlying challenges that makes intercompany so complex is that a single cost can pass through multiple legal entities. Coupled with business process centralization trends and an increase in M&A activity, these activities often create a tremendous volume of transactions. For the multinational companies in our study, all (100%) indicated that their intercompany volume was actually higher than their overall company revenues. For many, this picture was even more extreme. More than half (58%) reported that their intercompany was more than five times annual revenue, and almost one in five (18%) reported an intercompany volume that exceeded their revenue by more than 10 times!





Finance stakeholders widely agree that intercompany is a mess

The participants in this survey were surprisingly willing to acknowledge the overall issues with intercompany. While these stakeholders had ownership of intercompany and a clear investment in its success, they agreed with the challenges faced by multinationals. The clear majority (86%) agreed that intercompany is a finance concept that is frequently misunderstood. A similar number (81%) concurred that intercompany can be characterized as “complex and messy.”



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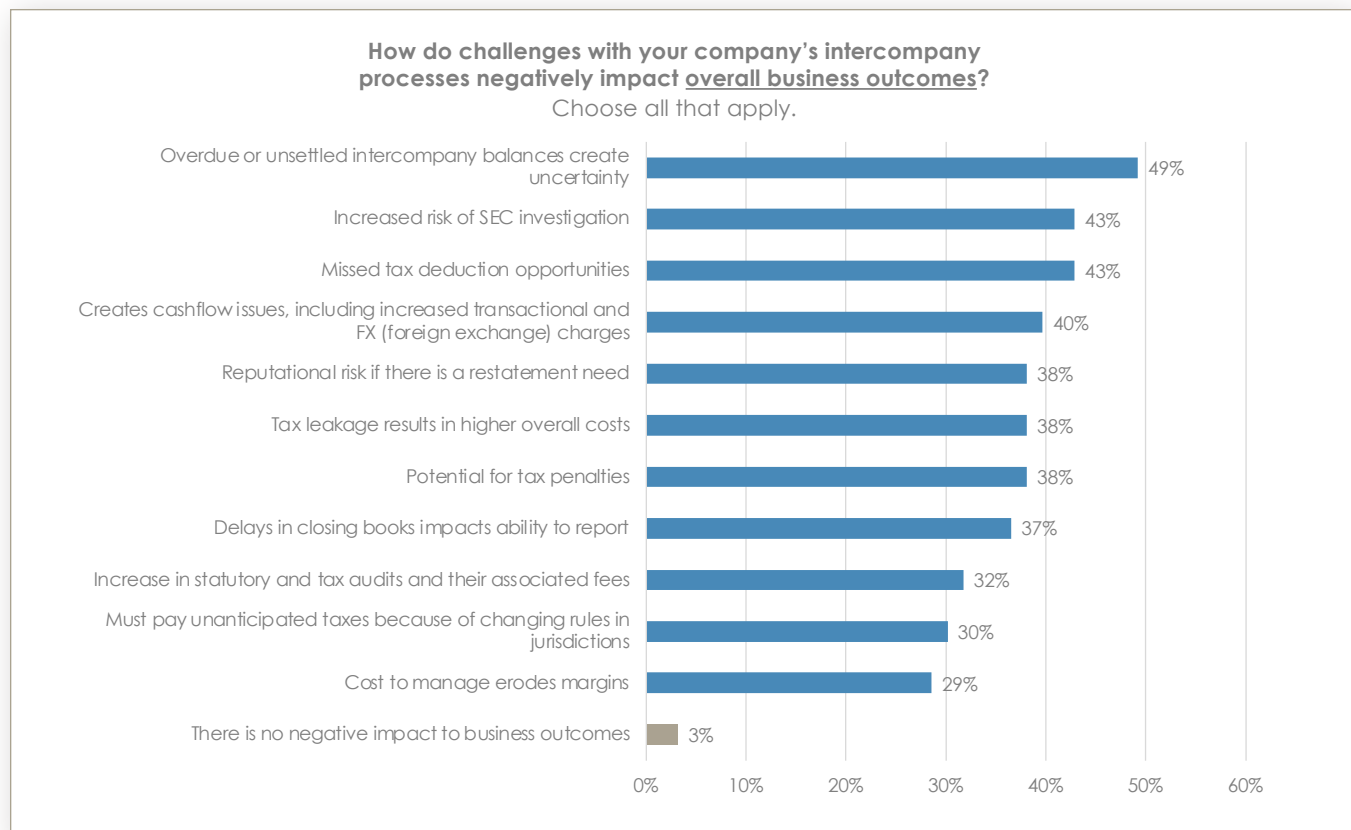
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Detailed Findings: Issues with intercompany have a significant impact Challenges with intercompany impact business outcomes at all levels

In this study, we wanted to understand the effect of intercompany challenges and uncover the full scope of business impacts. Was this a people problem where staff members had to deal with some craziness, but it didn't affect overall business goals? Or were there strategic considerations to overall business outcomes?

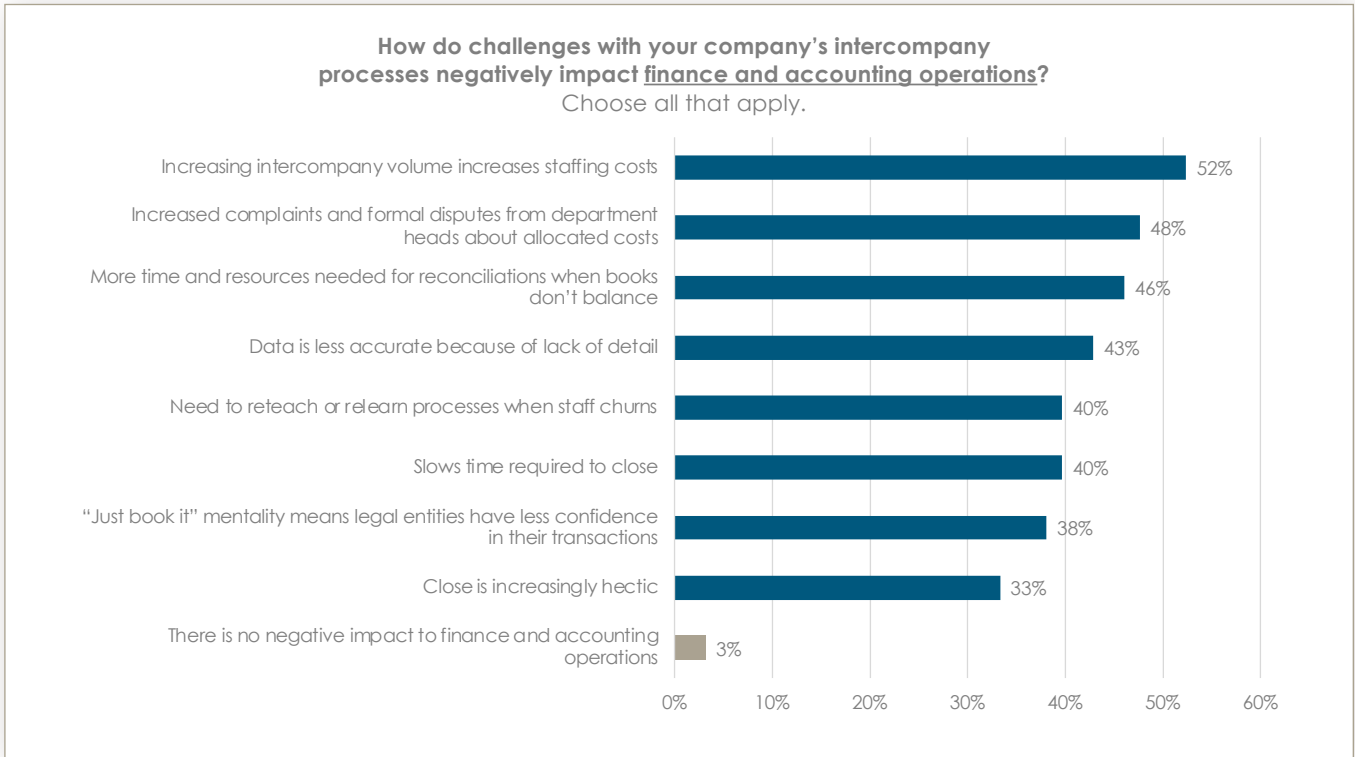
This research shows that the challenges of intercompany have negative impacts at all levels — overall business outcomes, finance and accounting operations, and team members. Let's explore each of these.

There is definite potential for intercompany to have serious negative impacts on overall business outcomes, with almost all (97%) reporting this as an impact. The most frequently reported negative outcome is the uncertainty created by overdue or unsettled intercompany balances (49%). A wide range of other business outcomes was also reported. Some cited indirect impact to the P&L, including missed opportunities for tax deductions (43%), tax leakage that resulted in higher overall costs (38%), the potential for tax penalties (38%), an increase in fees for statutory and tax audits (32%), and the cost to manage eroding margins (29%). Other negative impacts were less direct, although very serious, such as the increased risk of SEC investigation (43%) and reputational risk caused by a financial restatement (38%).





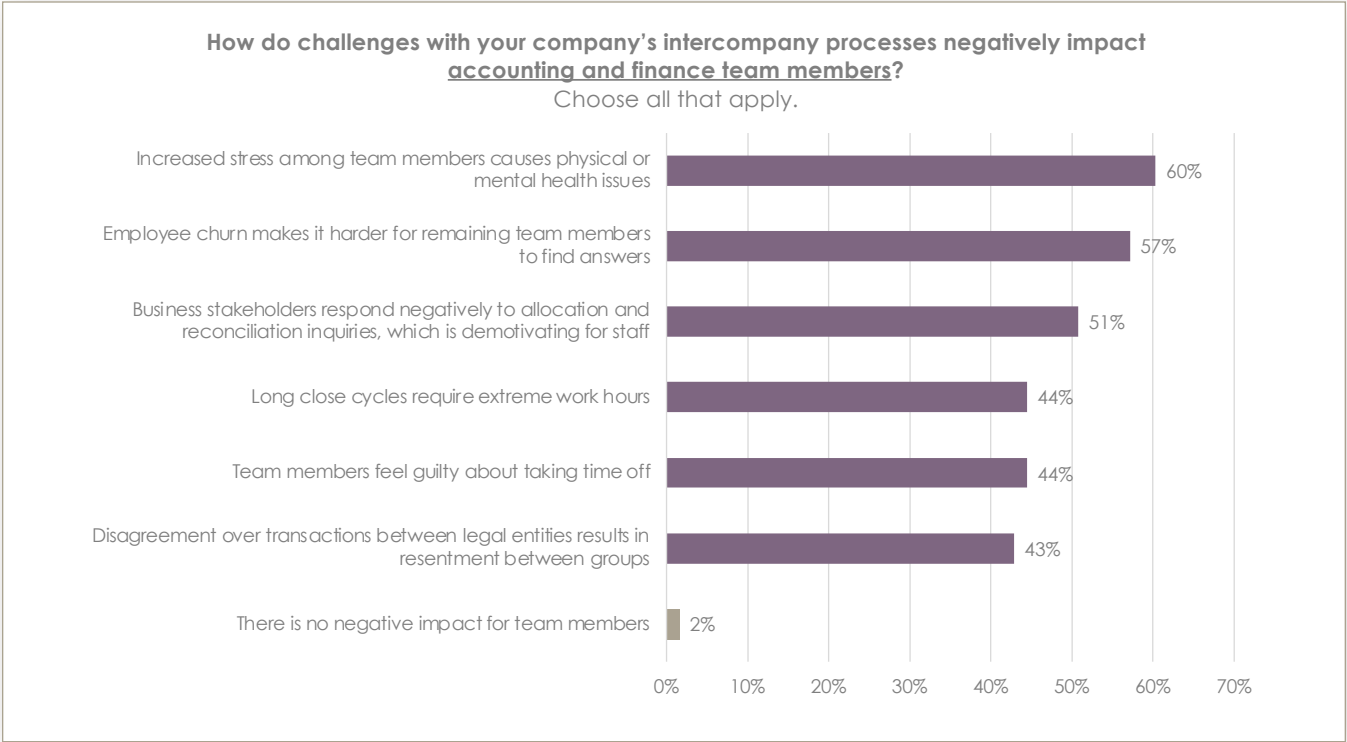
Perhaps the most obvious negative impact of these complex financial processes happens at the finance and accounting operations level. This is certainly the case for intercompany, with 97% reporting an impact in this area. Specific issues include a need for increased staffing costs to manage intercompany volume (52%), managing the level of complaints and formal disputes from department heads about allocation costs (48%), additional time and resources needed for reconciliations when intercompany books don't balance (46%), lack of detail causing less accuracy in the data (43%), the effort needed to relearn processes when staff churns (40%), and a lack of confidence in transactions among entities because of "just book it" mentality (38%). Intercompany complexity also impacts the close by making it slower (40%) and increasingly hectic (33%).





Accounting and finance teams frequently face a personal impact because of intercompany complexity. An alarming 60% report increased stress due to intercompany causes team members’ physical and mental health issues!

Employees at almost all companies (98%) are directly impacted by intercompany chaos. In addition to the physical and mental health issues reported above, intercompany stakeholders also share that their team members struggle to find answers because of employee churn (57%), work extreme hours during the close (44%), and feel guilty for taking time off (44%). There are also negative consequences for finance and accounting team members when business stakeholders don’t understand the details of intercompany. Staff can be demotivated by negative responses from business stakeholders to simple allocation inquiries (51%), and they frequently deal with resentment between groups that disagree over translations between legal entities (43%).



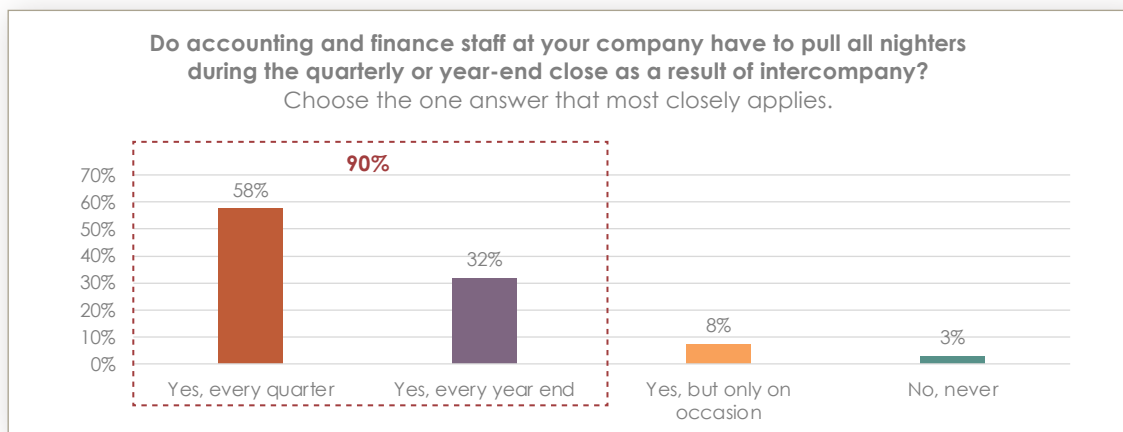
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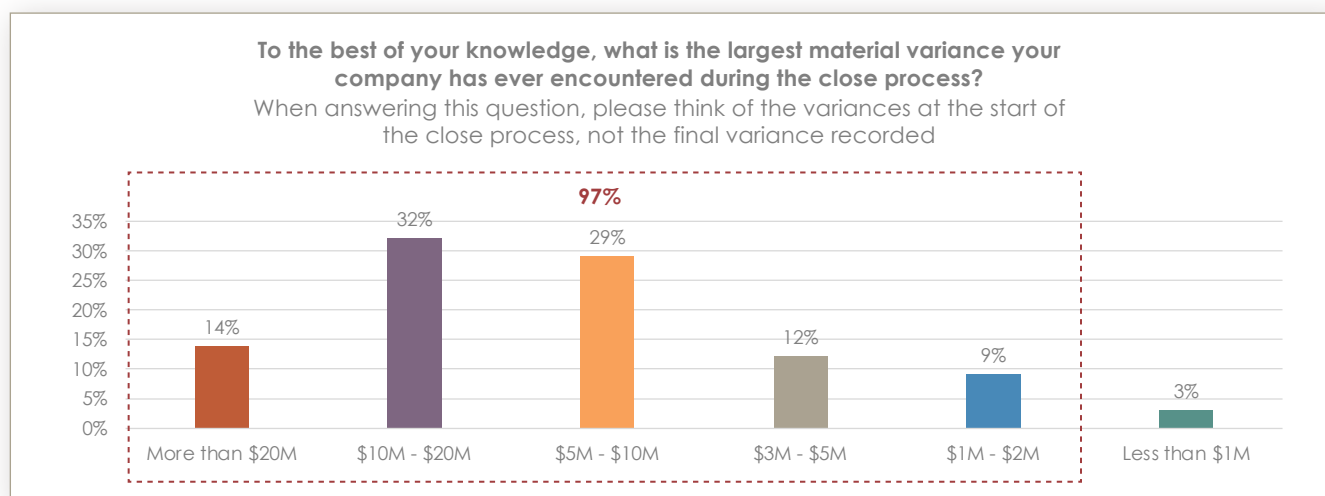
Given the medical community's guidance on the importance of sleep in contributing to good physical and mental health, one of the most concerning findings in this study is the frequency of staff pulling all-nighters. Nine out of 10 (90%) companies report that their employees regularly lose full nights of sleep due to intercompany. And well over half (58%) state this happens every quarter!



Intercompany operations are extremely complex

There are many reasons for the intercompany complexity that cause this huge range of adverse business outcomes. This research captures hard data on the extent of some of these issues.

Any accounting or finance professional can relate to the Sisyphean task of always having unreconciled balances and continuously working on them. This research shows that variances are frequently enormous, preventing settlement and creating write-off risk to the P&L. Almost all intercompany stakeholders (97%) have experience resolving multi-million dollar variances, and nearly half (46%) started the close process with a variance of over \$10,000,000. It should be emphasized that the purpose of this question was to understand the complete scope of issues with variance, so we asked participants to report the number at the start of the close process, not at the end after the finance team had worked to resolve unreconciled variances.



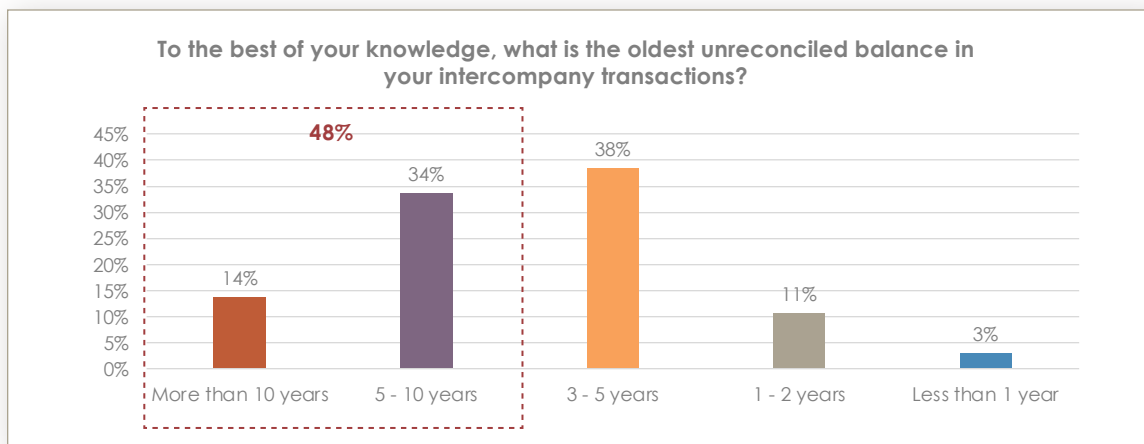
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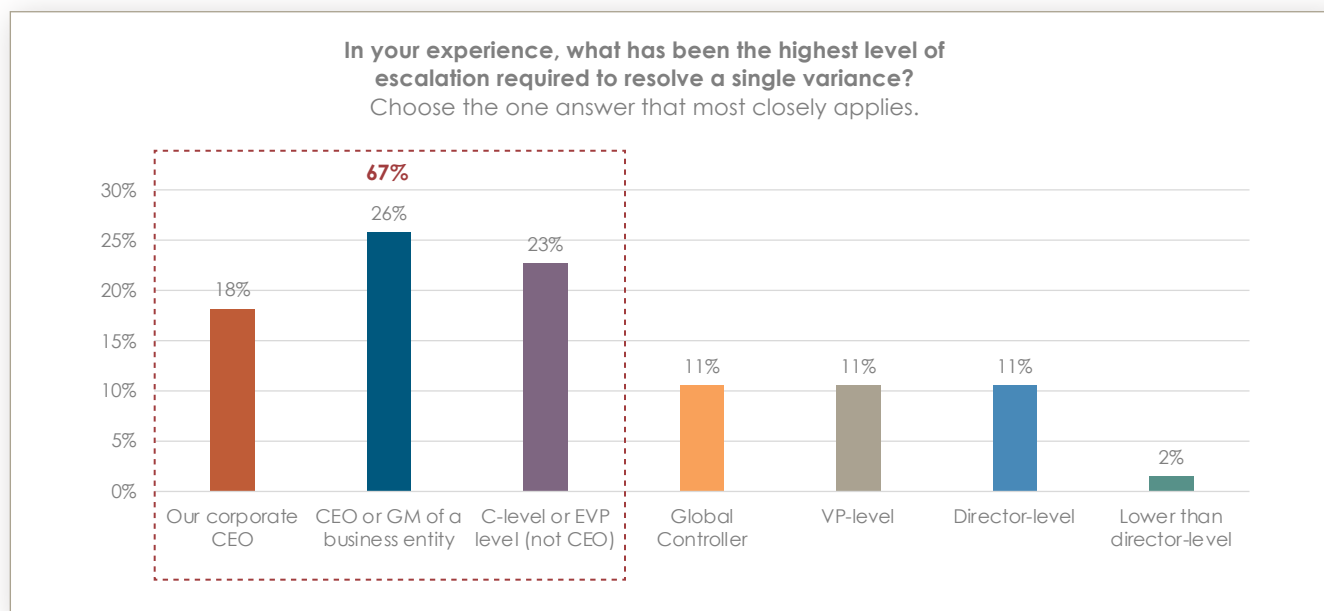


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Another issue facing intercompany teams is aged, unreconciled balances. These create ongoing problems as they compound over the years, but they are unfortunately common. Almost half of intercompany stakeholders (48%) report that they have unreconciled balances that are more than 10 years old.



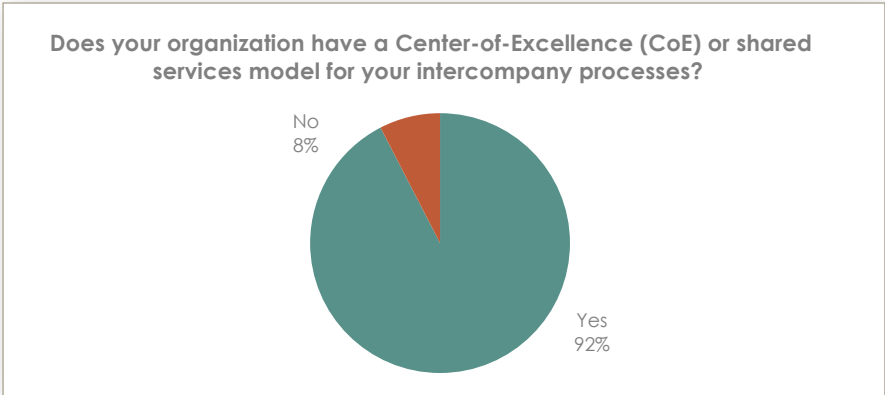
As we saw earlier when discussing the impact of intercompany on finance and accounting employees, negative interactions with business stakeholders in the entities are unpleasant. This can be particularly unnerving for team members who need to work with senior executives. However, these kinds of escalations are common. Two-thirds (67%) report that variances escalated to the C-level for resolution.



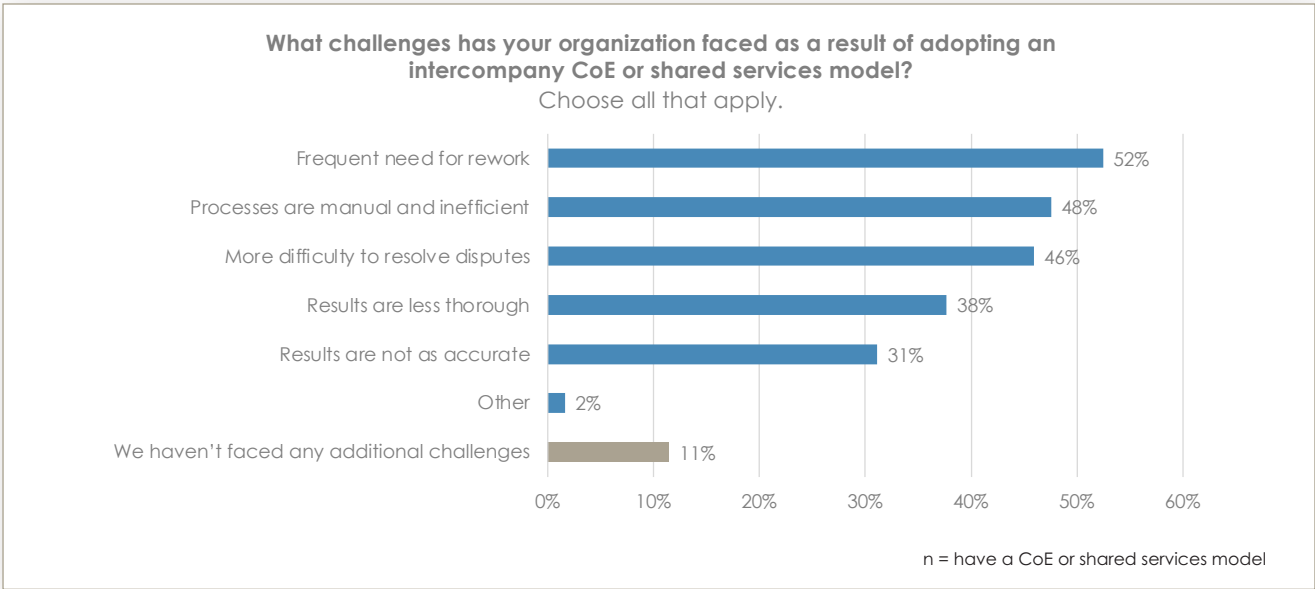


Shared services centers are not a panacea to intercompany challenges

Many companies have turned to a shared services model or Center of Excellence (CoE) for intercompany. The intention is to create a centralized team that can have responsibility for this complex process that touches multiple areas of the organization. This model is prevalent among multinationals, with 92% reporting that they have some version of this model for intercompany.



While there can be many benefits to a centralized model, it is not a panacea for solving all intercompany issues, as indicated by the data. Most of our survey participants do intercompany, and yet the level of challenges and issues remains very high. This research shows that there are challenges added by an intercompany CoE or shared services model, including the frequent need for rework (52%), manual and inefficient processes (48%), increased difficulty in resolving disputes (46%), results that are less thorough (38%), and less accurate results (31%). We also had reports of the CoE resulting in conflicts with their local team’s model. The majority of companies that have adopted a CoE or shared services model (89%) have faced additional challenges due to that decision.



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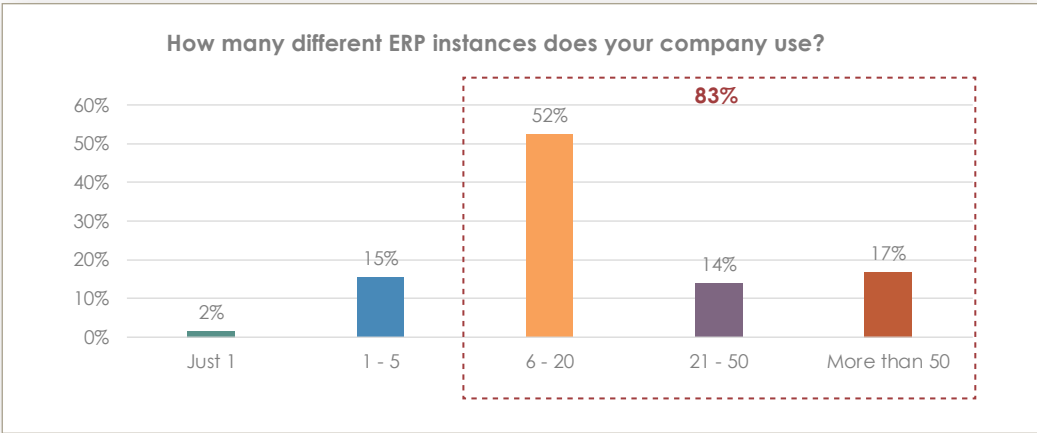


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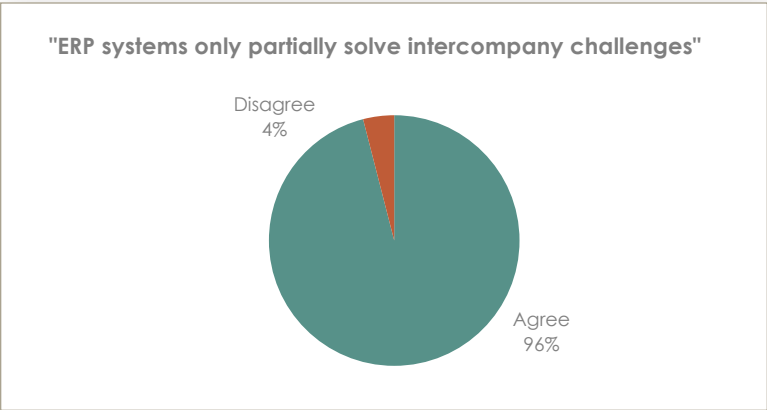
Detailed Findings: Technology innovation for intercompany would deliver value

ERP systems are not a complete solution for intercompany challenges

ERP (Enterprise Resource Planning) systems are the backbone of the financial and accounting team technology stack. Modern multinationals could not operate without this core application to capture complex financial workflows and centralize data and reporting. Multinationals have invested heavily in ERP applications. In fact, most (98%) have multiple ERP installations, including 83% that have more than five ERP installations. When answering this question, we asked participants to count all installations of software (i.e., four different SAP deployments) rather than just the number of vendors (i.e., three different ERP vendors).



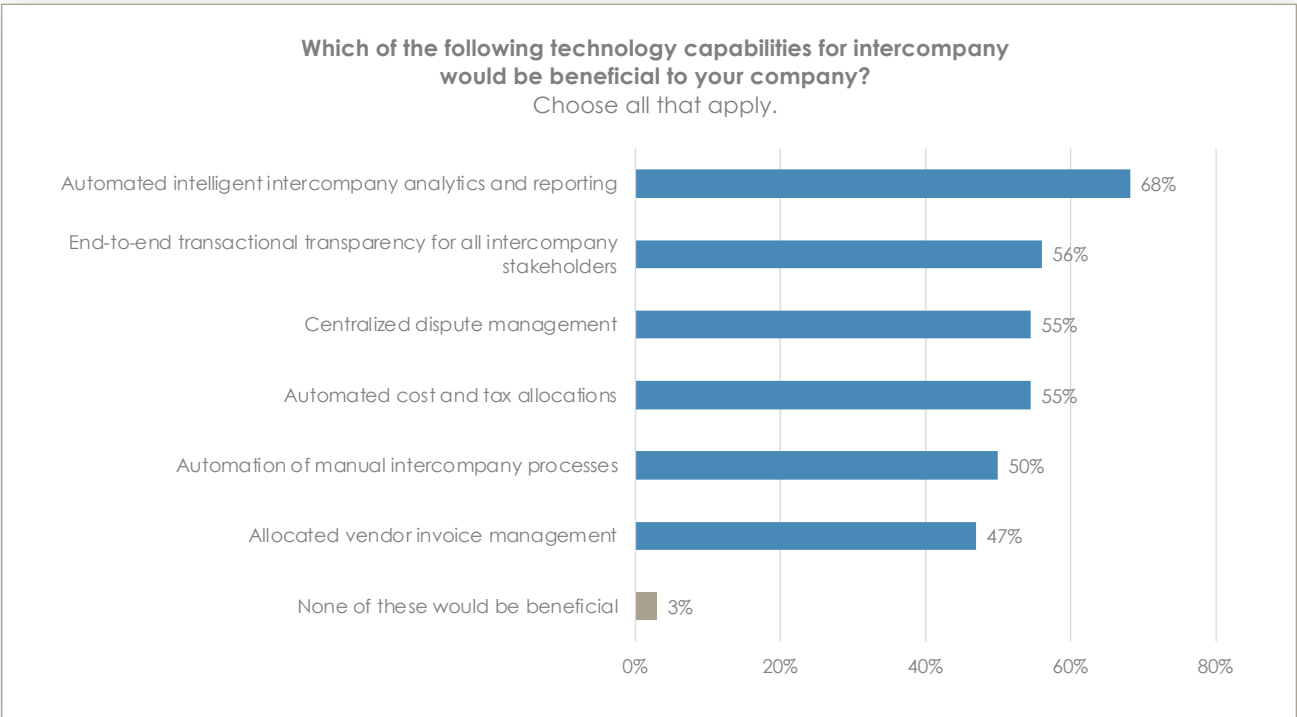
As we noted in our discussion of challenges at the beginning of this report, well over half (58%) said that a lack of integrated systems, including their ERPs, results in a loss of detailed supporting information. This issue was the top factor cited in making intercompany more complex and challenging. Another way to put this is that ERP systems only partially solve intercompany challenges, a sentiment that an overwhelming majority (96%) of intercompany stakeholders support.





Multinationals would benefit from a wide range of additional technology capabilities

Intercompany stakeholders see technology innovation as a way to improve intercompany. They would benefit from additional technology capabilities such as automated intelligent intercompany analytics and reporting (68%), end-to-end transactional transparency for all intercompany stakeholders (56%), centralized dispute management (55%), automated cost and tax allocations (55%), additional automation for manual intercompany processes (50%), and allocated vendor management (47%).



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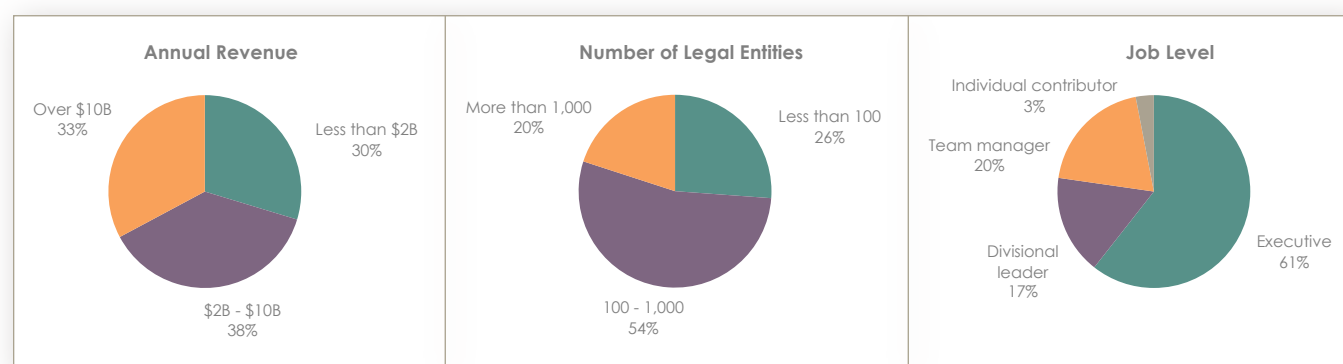
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Survey Methodology and Participant Demographics

An online survey was sent to independent sources of finance and accounting professionals working at multinational companies. A total of 106 individuals worldwide took part in the survey. Participants worked at multinational companies with finance or accounting responsibilities and represented a wide range of industries.



About Dimensional Research

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About BlackLine

Companies come to BlackLine (Nasdaq: BL) because their traditional manual accounting processes are not sustainable. BlackLine's cloud-based financial operations management platform and market-leading customer service help companies move to modern accounting by unifying their data and processes, automating repetitive work, and driving accountability through visibility. BlackLine provides solutions to manage and automate financial close, accounts receivable and intercompany accounting processes, helping large enterprises and midsize companies across all industries do accounting work better, faster and with more control. For more information, please visit blackline.com.