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Burying the intercompany hatchet

How a standardized dispute management process transforms internal trade relationships. By Christoph Kettner, senior treasury consultant, BELLIN

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Early on in my treasury consulting career, a new client approached me with what seemed to me a rather unusual request during their system implementation: "Could you please set up Deutsche Mark as one of our currencies?" I blinked. Deutsche Mark – the former German currency replaced by the euro in 2002? My confusion must have shown on my face because the client hastily added: "It's just that we have some old intercompany invoices in DM that still haven't been paid and we need to add them to the system."

Later, when I told some of my consulting colleagues, it emerged that my client was by no means alone in their seemingly anachronistic request. In a "I want you to pay this" vs. "I'm not paying that" logic fit for any novel plot or movie screen, invoices between subsidiaries can remain unpaid for years. Once a year, when they prepare the consolidated balance sheet, the parent company will stumble across them, wondering why some payables and receivables do not add up. Their solution? Acknowledge the difference, park it on an adjustment account and push the resolution into the new year, hope for the best and then promptly forget about it. Until the next consolidation comes around.

The reasons behind the non-payment

The reasons why so many intercompany invoices go unpaid vary. Sometimes companies are faced with goods stuck in customs. The subsidiary who has delivered the goods insists on being paid (after all, they have kept to their part of the deal), whereas the subsidiary still waiting for the delivery would like to have received the goods before they part with their money. Other times goods are damaged and subsidiaries therefore unwilling to pay the full amount, while their counterparty simply points to their insurance. Not to mention cases of invoices listing incorrect amounts or made out to the wrong entity.

The solution: a standardized dispute management process

Failing to fulfill payments doesn't just sound like bad practice, it is. Entities can easily end up in a situation in which they are short of money for investments or even production. If they're not paid, they need to borrow money and pay interest on it. And it can be surprisingly difficult to resolve these disputes – hence invoices in old currencies being dragged through the system for years.

So what can you do to break the cycle? The solution is a standardized dispute management process. Entities need to know where to turn and what steps are open to them, ideally within the framework of a [treasury management system such as tm5](#). Whether they are still waiting to be paid or unhappy with an invoice they have received, it is vital for subsidiaries to distinguish their point of contact and the best ways to reach said contact.

Such a dispute management process is usually integrated in a more [comprehensive intercompany reconciliation and netting process](#) and involves several, pre-defined steps.

- 1) Reporting a dispute: The process of reporting a dispute is traditionally strenuous and complex. With a proper dispute management system, companies can perform disputes without distinguishing contact personnel or details. One click within the system replaces countless and redundant interactions with distant representatives.
- 2) Explaining the context: The participating parties within the dispute have the opportunity to state their claim regarding the dispute by listing potential reasons for non-payment. Consequently, it is important to define company-wide acceptable justifications that will be accessible via a drop-down menu. Companies claiming "that's so much money, I don't really feel like paying that," will have a hard time justifying themselves. Conversely, damaged goods received or delayed delivery might be appropriate justifications if the company defined them as so. Lastly, the list of justifications must be definitive in order to prevent a bottomless tundra of back-and-forth negotiations.
- 3) Escalating a conflict: Sometimes that's all it takes for the entities to set aside their differences and settle the matter. But more often than not, things are more complicated. This is why companies benefit from a defined and structured escalation process. After a pre-determined number of days, an intermediary is notified of the issue, often the line manager. If the dispute still rages on, the case is escalated even further to someone higher up in the hierarchy.
- 4) Resolving a conflict: This process has a number of advantages: it sets out a clear, standardized workflow that applies to everyone and that can be fully automated. If a subsidiary doesn't get paid, there is a specified path they can follow that will bring about a decision, guaranteed. At the same time, it is rare for any cases to be escalated all the way. The escalation function is usually enough of a deterrent as subsidiaries might not be too keen on having their dirty laundry fall on the plate of upper management for a measly \$60 invoice.

The technology and the processes are there: there is no reason why anyone should feel stranded with their typewritten, pre-euro invoices. Time to fully enter the 21st century – your subsidiaries will thank you.

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About BELLIN

BELLIN is the global leader in technology for corporate banking and treasury. We provide solutions for the financial sector, catering to a range of clients from large multinationals to SMEs and banks. Founded by a treasurer, BELLIN has been championing innovation and out-of-the-box thinking since 1998. With the treasury software tm5 as the centerpiece, BELLIN makes a fundamental difference by offering solutions that zero in on the relationship between corporates and banks and cover everything from payments to FX, cash and risk management. BELLIN is an international company with offices on four continents, powered by a trailblazing fintech spirit and yet firmly rooted in the heritage of German craftsmanship and engineering. BELLIN delights nearly 500 clients and over 50,000 users around the globe.

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