

Why bookkeeping is just not enough anymore

For many people, the finance department is just some sort of back office function which maintains accounting books and controls expenses. But it is just as essential as all other parts of the business. If it is weak, the whole company may be vulnerable, states Guenter Zorn, founder and Representative Director/President of z-anshin international management consulting.

Interview by Patrick Bessler and Elise Ketelsen

▲ Guenter Zorn and Miki Shinjo discussing the need for many SMEs to strengthen their finance function in line with business growth.

JM: A Finance Department can be seen as just a necessity or as critical support for business success. In any case, many foreign company leaders in Japan, especially among SMEs, are not paying enough attention to this function. Why is that?

Zorn: The typical subsidiary in Japan might have started 20-30 years ago as a small operation with just a few people, mainly sales. Finance had one person, who secured proper bookkeeping and tax filing. Then the company grew, but the finance department remained unchanged. This is the case in quite a few SMEs.

Shinjo: At the same time, what used to be a simple finance function has become much more complex. The needs for enhanced financial governance, increased by regulations and global corporate policy, are rising because of the exposures of global companies in the market and the increasing impact of Japan business due to its growth. Companies are no longer just dealing with accounting related issues locally but internationally, with many different internal and external regulations. Therefore, financial management became a lot more than bookkeeping, tax and audit, and sometimes it simply exceeds the scope of the legacy finance organization.

Zorn: A good finance manager for instance in a machinery company is at the same time quite familiar with products they are selling. He or she is an advisor to the country president when developing strategy or budgeting. We call this "bookkeeping vs. financial management". It is important even for smaller companies to develop a proper finance management that handles the classic functions and works with the external tax and audit consultants, lawyers and the tax office at eyelevel.

JM: Which part does the headquarter play?

Zorn: The demand by HQ for financial information is increasing all the time. HQ needs transparent and precise information from the subsidiaries to be able to steer the company and avoid surprises. HQs today are driven by finance much more than before, when it was driven mostly by operations or commercial teams.

Shinjo: And today the HQ can, with proper IT or reporting procedures, look into the financial data of the subsidiary on time. What they see, however, is only the data that has been put in. And without proper explanations, pure data means nothing. This exactly is one of the very important aspects of financial management. Often Japanese finance staff just report numbers without providing analysis for fluctuations and deviations. Such explanation requires analytical skills as well as business knowledge and experience. Language is of course another issue, as well.

This weakness on the reporting side may lead to a wrong perception and distrust, and possibly to flawed decisions by HQ due to lack of understanding.

JM: You mentioned increasing needs to enhance financial governance. Many foreign company representatives worry about these...

Zorn: Correct. Both, compliance internally and externally is extremely important. It is not only the financial damage but the reputation is at stake. Things can go wrong everywhere, as recent examples like Olympus or Toshiba show, but to mitigate the risk, you need to place certain instruments and to minimize liability you have to prove to tax authorities or courts and your HQ that you have made an adequate effort to prevent these issues.

In many companies, internal compliance is a more common

problem – say for example, people cheating with expenses. Some managers overlook these issues, because the person in question might spend too much money in bars, but “is such a great salesman.” Then, maybe, at one point you want to fire him – but on what grounds? He had been allowed to do so all the time.

JM: What can and should the role of the finance department be in such cases?

Zorn: The president usually does not have the time to look at every item, so what the finance person needs to be able to do is: highlight.

For the president to be able to do so, it is important to clearly define roles and responsibilities, then to empower finance manager. The finance manager should directly report to the president. A president or general manager should feel very uneasy if that is not the case, or if they have no direct interaction. The finance manager ought to be their right-hand person and protector, who ensures the integrity of the company. There is no need to know every detail, but for instance what someone who runs a company should know is: Are there any critical issues; something that endangers either the company or me? Do we have any major deviations in our plan figures?

JM: Can a small company really afford a competent finance management structure? And where does it find someone like that?

Shinjo: Yes and No. It should at least have one person who is able to deal with all involved parties to a certain level. There are excellent external tax advisors and auditors in Japan, but it is important to have somebody to speak with them on a base of knowledge, from a peer base. It is a lot easier for the external auditors to understand the business if your finance manager can talk to them with the same professional language but with depth knowledge of business.

Zorn: There are actually many good finance people available. But you need to attract them not only with salary but also a proper positioning and empowerment within the company. Otherwise they will not come.

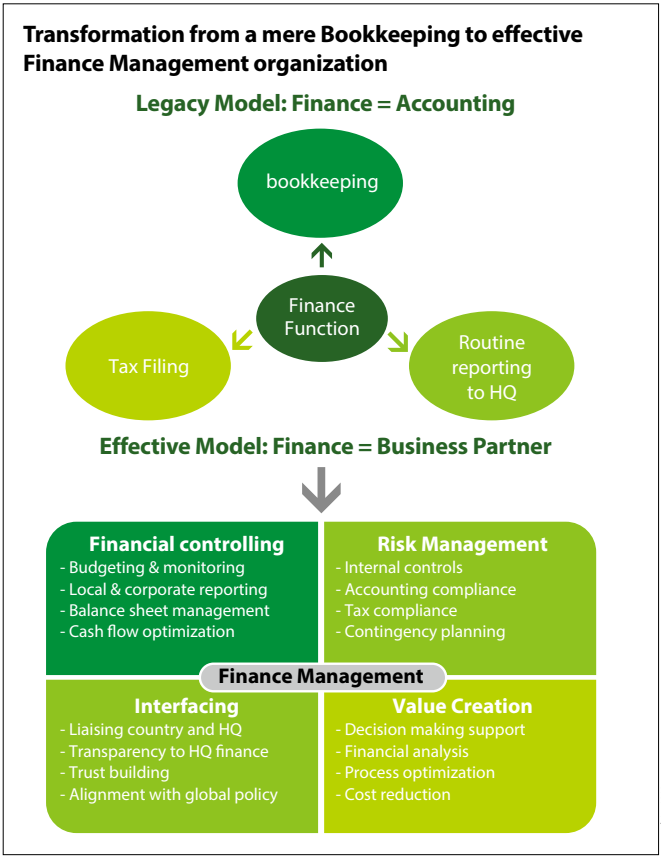
The first source can be of course existing staff, provided they have a solid background and are willing to be trained to go further from bookkeeping to financial management. A good start may be to sending them to HQ Finance to develop a better understanding of their expectations.

JM: Assume I want to revamp my finance department. But I cannot let it stop working for a while, just to regroup. How do you change a running operation?

Zorn: The first question is: is change necessary? What we offer first is an analysis of the situation. If action is needed, we make recommendations on how to proceed, help with the implementation, help to find proper people, set up reporting structures, simplify it or make it more comprehensive.

Shinjo: We look into financial processes from the viewpoint of business needs, rather than policing the accounting and tax compliance. In order to conduct a diagnosis of the finance department, it is important to have an outside expert who understands Japanese and international business practices, especially in fields where local managers and HQ sometimes have less knowledge and experience.

Zorn: By the way: If a local president wants the support of the HQ for further investment in Japan, she or he needs all the help they can get. And if you have a constructive relationship with the HQ finance department, you have a very powerful ally. ■



▲ “Bookkeeping vs. financial management”: Internationalization and more complex businesses are only a few factors that call for a more sophisticated understanding of finance management beyond basic financial controlling.

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