FECMA Magazine for European Credit Managers 1| 2012

CreditManager Europe

FECMA

Credit Management goes straight up

- European Credit Management
- Doing Business in China
- Late Payment Directive
- Optimizing Working Capital


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European credit management

From Berlin to Barcelona and Birmingham to Budapest, the central most important function in any business is credit management. It does not matter that the law in Italy is not the same as the law in Belgium, or that the French speak French and the Dutch speak Dutch. Nor does it matter that in the United Kingdom they drive on the left, and everywhere else in Europe they drive on the wrong side (or in the case of Italy, any side they choose). The common aim of all credit managers in all countries is the promotion of the highest level of profitable sales over the shortest period of time with the minimum of bad debt. Sounds easy when said quickly, but the reality is that it takes professionals to do the job properly.

Credit managers are professionals. Without your expertise, companies would flounder in a mire of unprofitable sales and an ocean of bad debt – nobody can avoid bad debt, because you would not be doing business if you did not encounter bad debt from time to time, but better a small pond than the afore mentioned ocean. Since the establishment of the single European market, more and more companies have looked beyond national boundaries to grow their businesses, with the result that the credit manager needs to be able to face the marketing and risk assessment decisions, as well as the collection activity outside his or her traditional territorial base.

Credit management is pan-European, and the best way to tackle specific problems posed by cross border activity is to be part of a pan-European profession. Since 1986 the Federation of European Credit Management Associations (FECMA) has built permanent links between national credit management institutes and organisations and promoted co-operation, debate and discussion on all credit related topics. It has also allowed credit managers across Europe to talk to each other in a professional ne twork, share advice and experience and develop closer understanding. The ever evolving result is that there is a growing recognition and acknowledgement of credit management best practice – in Finland or in France, what is good is shared. More than that, it is promoted.

2012 sees the launch of the European Credit Management magazine, enhancing that network and sharing that knowledge and experience with a much larger audience. Furthermore, this launch illustrates the extent to which pan-European business is inextricably inter dependent. In addition, cross-country exchange is progressed further on 16-17 May, 2013 with the first "Pan-European FECMA Credit Management Congress" in Budapest. The opportunity to take part should not be missed.

These are difficult times, post 2007/8, with most national governments facing huge budget deficits and the need to impose massive cuts in public spending to put budgets on a national level back into balance. The effect on the business environment means that there will be casualties, both large and small. Never before therefore has the role of the credit manager been more vital and now is just the right time for the profession across Europe to work together for the common good.

Now is also the time for FECMA to honour those who have greatly contributed over the years to the development of credit management across Europe. To that end, FECMA has instituted the "FECMA Lifetime Achievement Award" to be given to someone, nominated by the national associations, who in the opinion of FECMA Council, has significantly raised the profile and the professionalism of the credit manager across all national boundaries in Europe. The decision will be made by the FECMA Council, following submissions with supporting testimonials, and the award will be made at the Pan-Euopean FECMA Credit Management Congress.

Glen Bullivant
President, Federation of European Credit Management Associations (FECMA)

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Connecting global and local standards

International credit management

Andreas van Koeverden CCM
Director Working Capital Management
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During the recent Financial crises, even the slowest sceptic must have noticed how the world economy is globally networked and connected. The highly complex and global flows of capital did their part to spark a worldwide crisis which began locally. These intangibly networked markets made themselves noticed to an unprecedented degree and made it clear that conducting business can only be successful if they are factor in all decision-making.

This is why credit management has to be "glocal" in order to meet the demands of the vital risk, liquidity and order flow parameters. In this context, "glocal" means that global standards have to be efficiently implemented at the local level. Further, specific requirements play a role here, alongside the basic rules that the local market conditions should be known and that one has to have detailed and extensive knowledge of one's customers. An internationally orientated credit management should bear in mind that the credit policy and its associated process have to allow enough flexibility. A regulation which is too narrow in scope would result in too many exceptions having to be defined. This would be detrimental to the clarity and distinctiveness necessary for such a regulation.

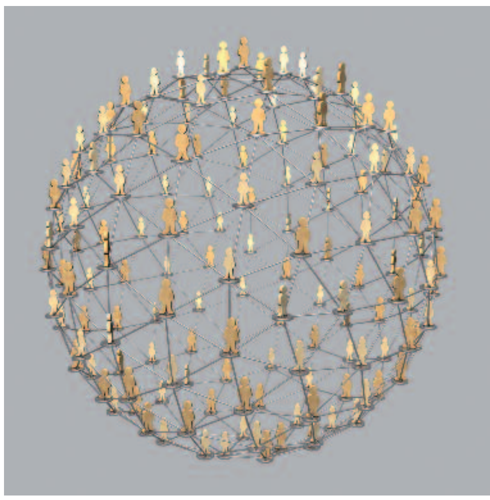
Terms of payment

The terms of payment are a good example, as they often have to comply with market conditions specific to a country. Using a segmented approach, it is advisable to allot different groups of customers to the three categories of payment, i.e. short, middle and long terms of payment, and to define the respective time periods at the local level. The legal framework is another area which can hold surprises. Real experts in this field are very rare. Be it for instance tax laws, which are regulated on the provincial level in China, or are extremely complicated in Brazil, where they consist of various tax type structures, thereby leading one to be easily inclined to delegate tax determination in the invoicing practice to external partners. This continues with the issue as to in which countries and under what circumstances is electronic invoicing possible, and whether an electronic invoice is accepted as a tax relevant original invoice. In this case, compliant countries such as China, Russia and Brazil also have a special status. In places where electronic invoicing cannot be directly employed, the function can be used as a supporting service, as the postal service is not fully reliable in a lot of countries, for instance Russia, Poland, Indonesia etc.

Issues related to accounting practices are similarly difficult, for example bad debt write-off. In China, for instance, it is not allowed to simply transfer payments from one enterprise to another. Other countries prevent the outflow of foreign currencies and thereby impede the compensation of demands. Examples are Bangladesh and Sudan.

Payment mentalities

This is where the different payment methods, like the still very high number of check payments in Great Britain or bills of exchange in France or Turkey, come into play. The protracted RIBA-process in Italy also should not be forgotten. On a more positive note, some markets, such as Australia, have a very high affinity to electronic payments and



direct debit is very widespread in France. Challenges of this nature continue in the operational and judicial dunning process. Be it due to restrictions for the use of debt-collecting agencies, or simply the effectiveness of external debt-collecting, because charging for collection is not possible or external debt-collecting is entirely prohibited. It is therefore hardly surprising that a job

like that of the field collector is widespread in some Asian markets, such as India or Indonesia. A field collector visits his customers even for minimum claims, to collect receivables and, should the situation arise, to accept errands.

As far as complaints are concerned, it can help to remember that it is unusual to complain in some markets – such as Japan, China and other Asian markets. However, it is commonplace to try to renegotiate terms and it helps to be prepared for this. Such events can hardly be resolved a structured fashion. In a southern European like Italy, for example, it is even a widespread practice to renegotiate a previously determined price after invoicing

Approaches

There naturally are solutions for all of the mentioned challenges. As a rule, however, they depend on the experience of local experts. Bundling this local knowledge and experience is one of the main tasks of organising an internationally successful credit management. It can admittedly take a few years until one has assembled a reliable and central basis of expertise. The modern possibilities offered by networked communication allow a lot of things to be done by means of video and telephone conferences, or even webcasts. It is especially helpful to regularly organise panels with representatives from the main markets in order to collect best practices - and to keep their expertise available in a globally accessible database. This has a further advantage, namely that the database can be used to transfer internal know-how, without having to organise time-consuming travel. It can then be shown very quickly that the organisational units with the highest degree of applying best practices also produce the best results on a sustainable basis.

Switching the roles – is your bank at risk?

The international debt crisis has shaken traditional beliefs and demonstrated that all things are not necessarily what they appear to be. This article puts the spotlight on the company's banking relationship – a relationship that can mean life or death to companies in times of credit squeeze.

Søren Kargaard, CEO
Chairman of the Danish Credit Management Association

Dansk Kreditråd
www.dk-r.dk

In order to be able to produce and sell goods, most companies need liquidity. There are numerous ways to obtain liquidity, but it would be fair to estimate that a majority of companies make use of a bank to provide the necessary credit facilities.

So far so good – unless the company operates with an unusually positive liquidity in a cash-based environment, all transactions pass through a bank account, very often in combination with an overdraft facility, enabling the company to equalize all payments operations over time, regardless of any differences in the timing of the in- and outgoing cash flows.

Most companies will treat their bank account accordingly, i.e. as a debt or a liability in the books. More important – mentally the banks are considered as creditors.

This is probably the first mistake. The bank could easily be one of your most important debtors, but you do not encompass the relationship with the normal governance of credit management.

Your traditional suppliers will offer you credit simply because they want you to buy their goods. Maybe it has become a custom in their industry, maybe you have negotiated some favourable payment terms. Under all circumstances, the credit is given to facilitate both parties' interest in trading. The size and extension of the credit is relative to your importance as a business partner.

Banks provide credit for a living. Their interest income is determined by the total size of their loan portfolio, and you are only a very small part of it. In other words you depend more on them than the other way round. The relationship is and will never be fully balanced.

Mistake number two is linked with your free, disposable liquidity. The free and disposable liquidity is the surplus liquidity needed to balance the cash flows of your company. Very often more than 90 per cent of a companies' free liquidity is represented by the difference between the actual level of debt on the overdraft facility and the credit maximum of the credit line.

How do you then treat this free, disposable liquidity? Try to imagine that this liquidity was cash, gold or a bank deposit. How would you protect it? In the first two cases, presumably through keeping cash or gold in a safe with an alarm, in the last case through evaluating if the bank is sufficiently solid. If in doubt, you would maybe tend to use more than one deposit bank.

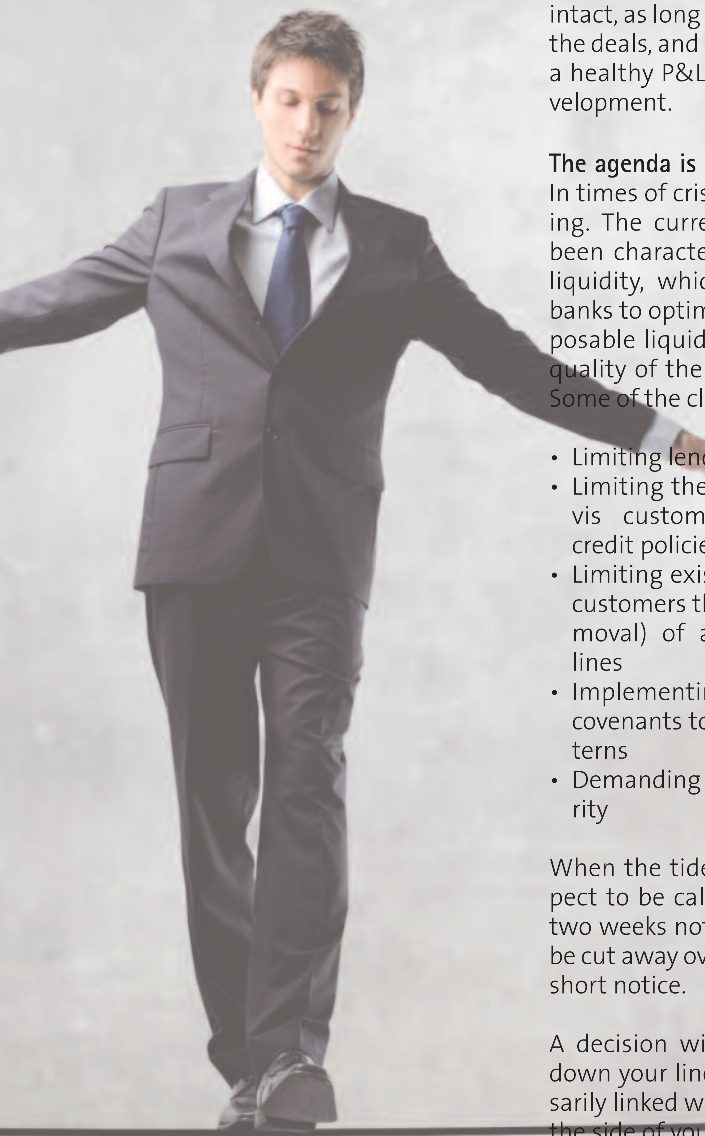
ASSETS	LIABILITIES
Non-current assets 50	Equity 25
Inventories 15	Bank debt 50
Trades receivables 35	Trade payables 25
TOTAL ASSETS 100	TOTAL LIABILITIES 100

Note: unused credit lines-30

Most companies will regard the bank as a creditor, when in fact the bank is one of the most important "debtors" of the company.

So back to the question – how do you secure the company's liquidity, if it only appears as a small note in your annual accounts?

A potential answer could be; "we have a written credit agreement with the bank, so we are not at risk". Well, maybe you are right. But in most cases you are probably wrong. And even if you have a strong legal credit contract, it is of no use if the bank faces a severe liquidity shortage, suspends its payments or goes bankrupt – as seen in numerous cases during the current crisis.



Banks are usually professionally run companies. Credit management is a key skill, and the reaction patterns are typically quite quick. In normal circumstances you can rely on the fact that your lines of credit in the bank are intact, as long as you keep your part of the deals, and as long as you can show a healthy P&L and balance sheet development.

The agenda is changing

In times of crisis the agenda is changing. The current financial crisis has been characterized by a shortage of liquidity, which automatically leads banks to optimize the use of their disposable liquidity and strengthen the quality of the assets (loan portfolio). Some of the classica tools are

- Limiting lending to new customers
- Limiting the future exposure vis-à-vis customers through tougher credit policies for new lending
- Limiting existing exposure vis-à-vis customers through reduction (or removal) of already existing credit lines
- Implementing stronger financial covenants to speed up reaction patterns
- Demanding new or additional security

When the tide is turning, do not expect to be called for a meeting with two weeks notice. Lines of credit may be cut away over night or at extremely short notice.

A decision within your bank to cut down your line of credit is not necessarily linked with bad performance on the side of your company. The key factor in banking is equity. The necessary level of equity is regulated by law, and will typically follow international capital adequacy rules – e.g. Basel II. Should the level of equity decrease below the threshold, the bank will be forced to report to the national Financial Services Authority (FSA), who in turn will put up a (typically very short) deadline to restore the appropriate level of equity. The objectives of the FSA are very clear; to protect customer deposits and avoid a run on the bank. Unfortunately, protecting you line of credit is not a part of the FSA objectives.

Not only actual balances on credits go into the equation when banks calculate their equity ratio. Also unused, promised credit lines are subject to equity requirements.

Hence the incentive for a distressed bank to make quick reductions on unused credit lines.

How do you protect your company?

First of all, take the matter seriously. A credit squeeze can mean life or death for a company. Second – make your "contingency plan". The following elements may be useful:

- Avoid mistake number one – remember to consider your bank both as a creditor and a debtor at the same time. Acknowledge that a bank is a privately owned and run company, operating on very dynamic (sometimes risky) markets and subject to detailed regulation, due to a very low capital base – in comparison with other industries. Their responsibilities and duties towards private customers, shareholders and regulators sometimes force them to act in a way that does not seem logical from your point of view.
- Evaluate the relative risk level of your bank as a debtor on an ongoing basis.

Look for:

- Gearing ratio – equity level versus loan book
- Large exposure towards single industries or customers
- Cost of risk level versus the industry
- Equity ratio requirement (if published) compared to industry average
- Funding situation – is there a stable match between funding and lending in terms of volume and duration?
- Liquidity situation – level of liquidity surplus?
- The market's perception of your bank's risk profile
- Avoid mistake number two – protect your "free credit line". Read the terms of the credit contracts and determine the reaction time, you can expect from your bank.
- Consider using more than one bank. But be aware – unused credit lines typically have a cost attached and are easy to close.
- Optimize the use of credit lines from your suppliers. If the size and duration of credit can be negotiated – make sure that the lines are sufficient.
- Consider not netting deposits and debt! From a pure financial point of view, cashpooling is the cleverest way to minimize capital cost. But putting all your eggs into one basket may turn out to be risky....

If you are a credit manager, and the management of the credit risk related to your bank is not already under your scope, you could either hope that some one else in your company is managing it – or you could start doing it. The choice is yours, the reward could be substantial.

FECMA Council Meetings 2011 in Malta and Helsinki

The Maltese Credit Management Association (MACM) hosted the FECMA Council meeting in St. Julian's, Malta in spring 2011.

The day before the Council meeting, the MACM organised a very successful National Congress.
The Council granted the Hungarian Association membership. Mark Harrison of the recently established Czech Republic Credit Management Association informed the Council about their progress.
Jan Schneider-Maessen of the German Association informed the Council about their new name; "Bundesverband Credit Management e.V". (BvCM). Furthermore, he informed the Council of their involvement in helping the Swiss to form their own national Credit Management Association. They had their first successful meeting in April 2011.
Søren Kargaard of the Danish Credit Management Association gave a presentation about responsible lending. A lot of attention has focussed on the subject recently and it is mentioned, but not defined, in the CCD. As of yet, very few banks and finance companies have detailed a responsible lending strategy. In discussing the subject, the Council tried to define just what responsible lending is and how it will affect lending practices in the future. Based on the discussions, a press release will be prepared and sent out to FECMA members to help them gain greater awareness for the topic.
Jean-Didier Clémencon of the French Association informed the Council about their annual AFDCC meeting in November 2011 where they also had a late payment workshop. They asked MEP Barbara Weiler to present the new EU directive on late payment.

FECMA

FECMA – the Federation of European Credit Management Associations was founded in 1986 by Sir Roger Cork, who lately served as Lord Mayor of London from 1996-97. FECMA is a not-for-profit organisation, consisting of members who are all national credit management associations. FECMA vision is to promote best practice in credit management by enabling the members of all the FECMA associations to share their knowledge and experience. For more information please visit: www.fecma.eu

The autumn FECMA Council meeting was hosted by the Finish Credit Management Association and held in Helsinki, Finland.
The newly established Czech Republic and Hungarian associations reported on their progress. Intrum Justitia gave a very interesting presentation about the differences in payment behaviour and terms amongst European countries.
FECMA Members were also informed about the progress on the FECMA Pan-European Congress and the FECMA Pan-European magazine. The magazine has now been published and you are currently reading it.
The FECMA Pan-European Congress will be held in Budapest, Hungary on 16 and 17 May 2012. The programme has been finalised and you can read more about the Congress' content in this issue. The next FECMA Council meeting will be held in Berlin on 25 May 2012.

Further information:
www.cm-congress.eu

European Best Practices

On 16 / 17 May 2013 in Budapest, Hungary

The Pan-European FECMA Credit Management Congress is a platform for Credit Managers across Europe to share knowledge and experiences. With an attractive program and sufficient time for discussions, the congress offers a unique opportunity for international networking.

The program includes:
- Status & Trends in International Credit Management
- Credit Management Processes & Best Practices
- Future Outlook on Credit Management in Europe

The congress starts on May 16th with two key notes from industry top speakers. Following this there will be a plenary session on current research "Trends & Best Practices in International Credit Management". Afterwards international and local companies together with members of the FECMA Council will share their view on International Credit Management in a panel discussion.
The networking dinner will be opened by a prominent guest speaker. During the dinner the "FECMA Lifetime Achievement Award" will be handed out to a credit professional who, in the opinion of the FECMA Council, has made an outstanding contribution to the credit management profession across Europe.
On May 17th, the plenary sessions will address the overall economic situation in Europe and required changes in Credit Management, afterwards in several plenary sessions Credit Management Best Practices will be presented. The congress will be closed by a session on "Credit Management Processes & Future Outlook".

Organised in collaboration with:
Verein für Credit Management (Austria)
Dansk Kredit Forum (Denmark)
Association Francaise des Credit Managers et Conseils (France)
Irish Institute of Credit Management (Ireland)
Malta Association of Credit Management (Malta)
Svenska Kreditföreningen (Sweden)
Asociaciön de Gerentes de Crédito (Spain)
Czech Republic Credit Management Association (information) (Czech Repulic)
Instituut voor Kredietmanagement (Belgium)
Luottomiehet Kreditmannen ry (Finland)
Bundesverband Credit Management e.V (Germany)
Associazione Credit Managers Italia (Italy)
Nederlandse Vereniging voor Credit Management (the Netherlands)
Institute of Credit Management (UK)
Hungarian Credit Management Association (Hungary)

Rainer Wieland in interview:

Fighting late payment

In June 2000 a European Directive on combating late payment in commercial transactions (Directive 2000/35/EC) was put into effect in the European Union. In 2009 changes to improve the Directive were suggested by the European Commission. CME asked Rainer Wieland, vice-president of the European Parliament, about reasons, reactions and results.

CM: Mr Wieland, could you please briefly explain why in 2000 the European Commission thought the time had come to implement a first late payment Directive and what the contents were?

Wieland: At the end of the 1990s it was obvious that delayed payments were becoming an increasingly bigger hurdle for the success of the common market. Member states were found to have considerable differences in some cases in their terms of payments and practices, which, as a result, restricted business activity between member states. This is contrary to the basic principles of the European treaties which state that cross-border business may not have higher risks than domestic business. Competition is distorted if the terms for domestic and cross-border business differ too greatly.

In addition, payment periods that are too long and delayed payments both create high administrative costs for small and medium businesses (SMBs). These problems are actually the main reasons for insolvencies and therefore endanger the existence of companies and numerous jobs.

CM: What amount of money are we talking about here?

Wieland: According to figures issued by the European Commission, the sum of unpaid invoices within the EU amounts to 90 billion euro. Two thirds is owed by public authorities and one third by companies.

The "European Payment Index Survey" has shown that European companies spend around 25 billion euro each year on recovering receivables. This is naturally particularly painful for small and medium-sized businesses.

CM: Has the economic crisis added to the problem?

Wieland: Yes, especially because small businesses are, due to the financial crisis, confronted with payment delays on the one hand and harder access to loans on the other.

CM: Then in 2009 changes were suggested for the Directive. What were the deficits detected in the first version, what additions were made and why?

Wieland: The amendment of the 2000 Directive is one of four legislative proposals, the 2008 Small Business Act, by which the European Union provides support to SMBs. It was one of the main demands made by SMBs who had warned that late payments were increasing the risk of insolvency.
Late payments are still a problem in general, despite the 2000 Directive. The Directive's 30-day payment period was only a minimum standard and companies had total freedom of contract to agree upon much longer payment periods.
Moreover, SMBs often disclaim their default interest as their recovery is bound up with costs and administrative effort and because they are afraid their business relationships may suffer if they assert their claims.
Finally, it has also become evident that the public sector is less reliable than the private sector. Public authorities need on average 37 days more to pay their invoices.
The new Directive now determines a 30-day payment period Europe-wide for companies and public authorities. The payment period for companies can only be prolonged to 60 days or more if creditor and debtor both agree upon the extension and the extension itself is not grossly unfair.
An extension for public authorities is only possible in precisely defined circumstances and the period may not exceed 60 days. This has to be explicitly agreed by the creditor and debtor and the extension must be objectively justifiable.
Default interest of at least eight per cent is to be levied after expiry of the deadline. The interest rate is at least

eight per cent above the reference rate (European Central Bank refinancing rate). Creditors shall also receive a minimum fixed sum of 40 euro as compensation for a reminder and can claim compensation for further costs.

CM: What is your personal view on the Directive and the changes? Are these appropriate to sustain the companies or do you think further steps will have to be taken?

Wieland: It's naturally difficult for small businesses in particular to assert their interests against the public sector. They often shy away from insisting on interest when a payment is delayed, as they are scared their business relationships may suffer. Thanks to the new Directive, they'll now be in a better position to enforce their claims.
Another important step is the harmonisation of periods for the judicial enforcement of receivables.

CM: Have the changes been transferred to European law already or are they at this point in time still suggestions?

Wieland: Both the European Parliament and the Council approved the directive in 2010 and it has taken effect this year. The new terms will have to be transposed into national law by 16 March 2013 at the latest.

CM: What did companies, officials and associations say about the suggested changes? Do they support them, or are they opposed to the ideas?

Wieland: The revision is a compromise that has come about after a long struggle between both the factions in the European Parliament, as well as between parliament, commission and the council. The commission's suggestion originally only contained tougher regulations for the public sector. My faction, the EPP, made a determined effort to also include transactions between private enterprises. This was also demanded by the bodies representing small and medium-sized businesses. The solution is a good compromise which makes allowance for the interests of SMBs, but doesn't unnecessarily restrict the freedom of contract.

Rainer Wieland was interviewed by Vivian Pellens.

Josef Busuttil in interview:

What about credit management in Malta?

The credit function and its value for businesses.

Josef Busuttil
Director General of Malta Association of Credit Management (MACM)

Malta Association of
Credit Management (MACM)
www.macm.org.mt

CM: When was MACM established and what is the 'credit' function?

Busuttil: The Malta Association of Credit Management (MACM) is this year celebrating its 10th anniversary. It was officially established in June 2001 with the main scope being that of providing a central national organisation for the promotion and protection of all credit interest pertaining to Maltese businesses.

Credit is involved when a firm sells its products or services and agrees with the customer to get paid at a later date. Therefore, credit can be described as the oil that keeps the wheel turning for businesses and the economy at large.

The rationale behind granting credit can vary according to the industry, product type, the level of competition in the market, customers' demands and marketing objectives of the firm granting credit.

In principle, firms grant credit to allow their business customers the required time to add value to the products and to promote and sell the goods to the next customer in the supply chain. In business-to-consumer transactions, firms grant credit to individuals who may not have enough money to pay for their purchase now but are able and willing to pay by instalments or as agreed with the seller.

Therefore, granting credit can be seen as a form of investment in the customer. And like any other investment, it involves risks and costs money. This implies that firms granting credit should protect their investment by minimising the risks and cost involved in credit. Hence, the credit function is one of the most sensitive departments of a business organisation, as it is the responsibility of the credit function to ensure that customers honour their payment agreements and thus, protect the cash flow of the firm, which is the lifeblood of a business organisation.

CM: What are the main achievements of MACM during the past 10 years?

Busuttil: To answer this question, one has to know the main objectives of MACM, which are threefold and complementary to each other:

1. Lobbying with various stakeholders for a better credit environment in Malta.

2. Promoting good credit management practices with the local business community by means of educational events, such as lectures, seminars, workshops and conferences.

3. Providing relevant tools and up-to-date information to MACM members by which they will be able to analyse the credit worthiness of their prospective customers, as well as, to monitor and manage their existing credit customers efficiently and proactively in a cost-effective manner.

Since its establishment, MACM has embarked on a number of lobbying activities, addressing various matters pertaining to the local credit scene. To name but a few, MACM was successfully involved on various fronts such as improving the number of dishonoured cheques in the local market; promoting the introduction of specific legislation, such as the Company Recovery Procedure, the Late Payment in Commercial Transactions Directive, the Consumer Credit Directive and the efficiency of the local judicial system.

As regards the promotion of good credit management practices in Malta, MACM organises a number of events every month. The primary aim of these events is to educate the credit practitioners employed by local businesses. These events help to provide best strategies and tactics that would assist businesses to ensure sound cash flow and secure long-term profit.

MACM is also the accredited training centre of the UK-based Institute of Credit Management (ICM). It provides lectures leading to recognised Diplomas in Credit Management to local students who work or would like to pursue a career in the field of credit management.

To compliment the above activities, MACM was the pioneer in Malta to provide the Maltese business community with the required tools and up-to-date databases containing information that would assist local creditors to take profitable credit decisions. Thanks to today's technology, MACM members avail themselves of comprehensive credit reports on every entity registered in Malta. MACM collects information both from its members by means of exchange of information and also from other sources on a daily basis to ensure that its members are well-informed and equipped to minimise credit risks and costs and to turn these risks into credit rewards and better profit.

MACM is also the distributor for Graydon International within the Maltese market. Therefore, through the MACM Secretariat, a Maltese firm can request a Credit Rating Report on any company registered anywhere in the world.

CM: To what extent is the credit function between companies utilised?

Busuttil: Customers are demanding and expecting their suppliers to grant them credit. Statistics show that 80 to 90 per cent of business-to-business transactions involve payment at a later date and the agreed credit terms are often extended.
The wider use of credit is also remarkably noticed when examining the accounts of businesses. On average, the "debtors" account amounts to 40 per cent of the assets of a company.

Creditors argue that in B2B transactions, customers are giving great importance to the credit terms offered when negotiating business deals. This implies that more businesses are using credit as a marketing tool to gain a competitive advantage in order to boost sales and increase market share.

CM: How has the credit crunch affected company credit?

Busuttil: Following the credit crunch, credit has been rationed all over the world. Banks are being more vigilant and rigorous when lending money to their customers and credit insurance companies have increased their rates considerably. This means that credit has become more expensive. Maltese companies have also been affected. Local importers are finding their foreign principals (exporting companies) less willing to grant them credit and many complain that they are being requested for upfront payment. This may create financial pressure on the local trade creditors as the latter cannot rely on the credit once obtained from their foreign exporters to finance the credit they grant themselves to their customers in Malta. Nevertheless, from what I have experienced during the past two years, meeting with business people all over the world, I have come to the conclusion that Malta, as a country, has managed the credit crunch well as compared to other economies. Having good regulatory authorities helped a great deal in those difficult times.

CM: Have the benefits of the credit function been recognised by Maltese companies?

Busuttil: The people involved in the management of credit are far from just being responsible to crunch numbers. These people can be of great benefit to their respective firms as they are the ones who are in direct contact with the customers from the beginning till the very end of the business transactions.

I always contend that the credit function should be considered as a sales function. The credit people know their customers well and they can be instrumental in enhancing the profile of the firm and in building long-term customer relationship, which would in turn help to gain and maintain competitive advantage in the market. Hence, increasing repeat sales should enhance the synergy between the sales and credit teams, and not the other way round.

Yet, the credit function is still seen by a number of CEOs and business owners as the ugly stepchild of the finance department, the necessary evil function. If the credit practitioners are well skilled, it is the department that can bring in significant benefits to the firm.

My suggestion to the Maltese business owners and CEOs is to involve the credit team more in the business strategies and decisions. They can add value to the business. They are able to distinguish between "sales" and "profitable sales". One has to keep in mind that a firm can have notable revenues but still suffers from sound cash flow and long-term profit due to late payment and bad debts.

CM: What are the problems which local companies experience in terms of credit?

Busuttil: One of the main concerns of local businesses is late payment. Some industries are worse than others. MACM compiles data and issues industry DSO figures on a quarterly basis for its members.

The DSO figure represents the average time taken by customers (trade debtors) in settling their invoices due to their suppliers. It is a tool widely used by businesses around the world to measure the performance of the credit management function. MACM publishes the DSO figures so that its members will be able to benchmark their DSO figure with that of their own industry. In Malta, the DSO figures vary considerably from 36 days for the agriculture supplies to 250 days for the industrial equipment industry. This shows that businesses operating in certain industries are much more exposed to late payment and should therefore strive to change their working processes and habits.

Late payment causes cash flow problems to firms, especially to SMEs which are more vulnerable, leading to bankruptcies, loss of jobs, financial uncertainties for businesses and discourages entrepreneurs to invest. This restricts economic growth which is vital to an economy like our country's, which is a small market economy depending heavily on the private sector's initiatives.

CM: Are there "tools" which companies can utilise to improve their credit?

Busuttil: Definitely the tools exist to help companies to improve their credit practices and decisions. Nevertheless, one has to keep in mind the cost of these tools and balance well the cost and the rewards emanating from these tools. Being a not-for-profit organisation, with no commercial objectives, MACM provides a number of valuable credit tools and pertinent information to its members, which are considered not only indispensable by the local credit practitioners but also very cost-effective.

As already pointed out, good credit management practice is vitally important. From time to time MACM issues tips and publishes literature to members to help them improve their credit management processes and procedures. Recently, MACM published a Credit Management Wall Chart which is a step by step guide to manage credit profitably. The Credit Management Wall Chart is available from the secretariat of MACM.

MACM also provides sample copies of various credit documents including a credit application form, invoice, monthly statement, part-payment receipt, collection letters, stop supplies letter, and others with specific wording referring to local legislation and other caveats to ensure greater effectiveness. Members also have access to a Credit Scoring Tool which rates a company according to its financial data.

At MACM, we believe that credit management is all about being proactive. Therefore, MACM runs a system by which credit information regarding defaulting debtors is exchanged between the members of the association on a daily basis to ensure that the information provided is always up-to-date and relevant. MACM also provides factual information related to the law courts proceedings. These include judicial letters, law suits, and court warrants related to the local commercial scene. Therefore, through the MACM website – www.macm.org.mt, members have unlimited access (they do not pay per use) to information pertaining to credit provided by MACM. In addition, MACM provides a system by which members are able to monitor their existing accounts (credit customers) on a daily basis. The MACM system automatically informs its members if it receives any news on any particular customer.

MACM strives to continue providing innovative tools and services by which its members would ensure sound cash flow and it is currently busy working on other services which are new to Malta and which will be launched in the near future. The association ensures that every business is able to make use of its services, irrespective of its size and industry the business operates in. All the MACM systems are developed with the needs of the local business community in mind and the association offers these systems at a low cost to ensure that every business organisation will be able to make use of these systems. The aim of MACM is not to make a profit out of its unique services and products but to improve the Maltese credit environment for the benefit of the Maltese economy at large.

CM: Is the local legislation adequate to sustain the credit function?

Busuttil: The necessary legislation is there. EU Directives have been transposed to local legislation, the Maltese Judicial System has been enhanced. However, the Maltese business community lacks the awareness and the knowledge of how to apply such legislation to protect itself and to sustain the credit function. In addition, the enforcement of court judgements is far from being satisfactory.

Research conducted by MACM revealed that the business community lacks the knowledge and the details of legislation pertaining to credit. They do not know how to apply The Late Payment Legislation in Commercial Transactions and they also lack knowledge about the implications of the Consumer Credit Directive. Following this survey, MACM has organised a number of seminars for its members to explain the implications of these two pieces of legislation. Other similar seminars will also be organised in the near future.

By the Legal Notice 233 of 2005, the EU Directive 2000/35/EC has been transposed into Maltese law. This Directive applies to all commercial transactions including all transactions carried out between undertakings or between undertakings and the public authorities. The government, the local councils and other public bodies are therefore included whenever a public procurement contract is signed with the private sector.

Although this Directive does not harmonise the payment period across the member states, it defines a fixed reference period of 30 days commencing from the date of receipt of the invoice or from the date of receipt of the goods. It imposes a penalty interest, which starts automatically in the event of payment delay at an interest rate of seven per cent above the ECB Intervention Rate. This penalty interest rate should help to discourage enterprises from paying each other late, since it would be more expensive to delay payment than use one's own banking facilities.

Moreover, the law addresses the compensation for all the costs associated with the recovery of the debt. It states that "unless the debtor is not responsible for the delay, the creditor shall be entitled to claim reasonable compensation from the debtor for all relevant recovery costs incurred through the latter's late payment".

Having legislation in place is one thing, but enforcing it is another. Efficiency in obtaining judgments is indeed important, and the judicial letter system, more commonly known as 166A, has helped tremendously. But the creditor is also very interested in having a truly effective legal means to enforce a judgment or executive title and recoup the money that he is owed. The problem in Malta lies in the enforcement of a judgment.

I always question: What is the point of obtaining a court judgment if the debtor still refuses to pay? What actions are being taken to enforce court judgments, in reality? I also criticise the Court Marshall System, which is both cumbersome and ineffective. A self-financed private system, administered in a professional and ethical manner should change the current situation at the law courts, which is currently not a great deal of help to businesses who are owed money and have an executive title in hand.

Coface reviews Country risks

Euro zone risk on the rise, improvement in Japan and the United States

In Coface's view, the world economy is presently marked by divergence between the three major advanced zones: the economic contraction in the euro zone is worsening (-0.3% currently forecast in 2012 versus -0.1% previously), whereas North American growth is stabilizing at 2%, and activity is recovering in Japan, with 1.8% growth after posting -0.9% in 2011.

In this contrasted economic context, Coface has upgraded its assessments of seven countries, including the United States and Japan, and downgraded those of nine other countries, including Portugal and Argentina.

American and Japanese companies are benefitting from their favourable economic outlook

Signs of economic recovery have led Coface to place the A2 assessment of the United States under positive watch and to remove the negative watch on Japan's A1 assessment.

The confidence and consumption of American households are picking up, despite rising petrol prices and the stagnation of disposable income. The improvement in the labour market now involves a significant number of states, but the pace remains insufficient to rapidly decrease unemployment. Generally, corporate debt levels are very low and companies are highly profitable. In 2011, corporate investment increased. However, American SMEs remain fragile due to their difficulties in obtaining credit. Coface notes a good performance in its payment experience with American companies.

After the abrupt downturn following the catastrophic events of March 2011, the Japanese economy is expected to recover, driven by domestic demand and stronger exports. Exports, the traditional engine for Japanese growth, will benefit from the recovery in US economic activity and from the vitality of emerging Asian countries. Even in an environment of economic contraction, the payment behaviour of Japanese companies has remained positive.

European companies still in turmoil, notably in Portugal

The economic contraction in the euro zone is worsening, particularly in Italy, Spain and Portugal.

The growth forecasts for 2012 for Italy and Spain have been revised to -1.5% and -1.2%, respectively. In January 2012, Coface downgraded these two major euro zone economies to A4 and its payment experience with these countries continues to deteriorate in early 2012.

At the same time, Coface observes a marked deterioration in the financial situation of Portuguese companies. The country's recession is likely to deepen even further in 2012 (-4%).

Downgraded to A4 in March 2011, then placed under negative watch in September 2011, Portugal has now been lowered by one notch to B. Despite receiving European assistance, the solvency of the State continues to worsen and the period of austerity measures has been extended in the event of an expected downturn in European demand. The situation of Portuguese companies, like those in Spain, is characterized by an explosion of external debt, currently in excess of 180% of GDP, which explains their extreme vulnerability to negative economic developments. Since 2011, Coface has registered a surge in non-payments, in particular in the construction, distribution and textile sectors.

In Australia and New Zealand, despite strong growth, the manufacturing sectors are in trouble

Despite the solid growth expected in 2012, +2.8% for Australia and +3.2% for New Zealand, the A1 assessments of these two countries are now placed under negative watch. Driven by the mining sector, this growth veils the difficulties of the manufacturing and tourism sectors, which are more sensitive to the price-competitiveness mix. With the exception of the mining sector, companies are experiencing difficulties in obtaining credit, resulting in longer payment periods. Over half of recently surveyed Australian companies indicated that payment periods granted to their clients have grown by more than 60 days. In February 2012, on a six-month sliding scale, business bankruptcies increased by 17% in Australia and by 109% in New Zealand.

In Argentina, the government's restrictive measures put an end to the risk improvement noted in 2011

Coface has removed the positive watch on Argentina's C assessment as a result of the worsening business situation in early 2012. Coface notes payment delays following the establishment of currency exchange and import control measures, against a backdrop of deteriorating public and external accounts. In emerging countries, protectionist tendencies, which are especially strong in Latin America, have become a key factor in corporate credit risk. Despite an often positive economic trend, the access to foreign currency for importers may sometimes, and in an unpredictable manner, become more difficult due to a certain regulatory decisions.

CHANGES IN COUNTRY RISK ASSESSMENTS

	Country	January 2012	April 2012 decisions
Upgrades	Japan	A1↘	A1
	United States	A2	A2↗
	South Africa	A3↘	A3
	Tunisia	A4↘	A4
	Ghana	C↗	B
	Sierra Leone	D↗	C
	Venezuela	C↘	C
Downgrades	Australia	A1	A1↘
	New-Zealand	A1	A1↘
	Slovenia	A2↘	A3
	Iceland	A4↗	A4
	Portugal	A4↘	B
	Argentina	C↗	C
	Mozambique	B↘	C
	Mali	C	D
	Ukraine	D↗	D

Warning:
Coface country risk assessment measures the average level of payment defaults by companies in a given country within the framework of their commercial transactions. It does not pertain to sovereign debt. To determine country risk, Coface combines the economic, financial and political outlook of the country, Coface's payment experience and business climate assessment. Assessments have a seven-level scale: A1, A2, A3, A4, B, C and D.

Management liability in the finance crisis

Due to the financial crisis, corporate decisions made by both executive and supervisory organs have increasingly come under judicial scrutiny. It is therefore becoming more and more important for members of decision making bodies to understand the criteria behind legally compliant practices precisely and use it as a basis when diligently preparing and balancing their decision making.

Konrad Gröller
Partner Freshfields Bruckhaus Deringer LLP

Verein für Credit Management Österreich
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For the executive management to be held liable, the general preconditions of liability, namely damage, illegality, causation and negligence, have as a rule to be given. It is generally accepted that executive management shall be allowed an area of discretion when conducting its business. Not all risk-entailing enterprises are forbidden per se. Even measures that, with hindsight, do not turn out to be successful will not result in the executive management being held liable as long as the decision has been made in a diligent and painstakingly fashion. Nevertheless, in times of economic crisis there is, to all intents and purposes, an increased risk of liability. Therefore, entrepreneurial decisions increasingly do not lead to the desired result, or they have to be made under difficult conditions in an economically tense environment or former board members are forced to face critical checks undertaken by their successors. How can one best protect oneself against being held liable? What should one pay special heed to in business constellations caused by the crisis? Below are a few examples:

• Transparency: whether a body has acted in a way making it liable, it will be judged on the circumstances at the time of the decision in question. Vital is that, at the time of the decision making process, all recognisable risks are catered for and they are weighed up against the entrepreneurial opportunities. The basis for the decision making process should be transparently identified and illustrated. One can therefore prove that, at the time of the business transaction (ex ante), there had been a possibility or even the manifest probability that the business opportunity would turn out to be positive for the corporation.

• Documentation: In the event of loss, the examination of the decision made usually takes place a long time past the actual decision making process. The retrospective (judicial) weighing up of the entrepreneurial ad hoc decision making has to done on the basis of the available evidence. A comprehensive and exhaustive written documentation of the decision making process provides proof that the necessary entrepreneurial diligence was accorded at the time the decision was made.

• Compliance: Compliance measures increase the transparency and reduce the risk of liability due to organisational fault. A CEO can therefore, for example, avoid being held liable for an offence perpetrated by a staff member provided he can prove that he had already established a sufficiently effective control system. Courts look into the extent to which organisational structures and control mechanisms established within companies have influenced the perpetration of indictable offences.

• Internal company measures: many group companies see themselves as being exposed to pressure asserted by corporate management in respect of collaboration in measures associated with corporate interests. This can for example consist in having to contribute to the collateralisation of group financing measures. The contribution of the company subsidiary to such measures is governed by strict regulations prohibiting capital repayment whereby infringement precipitates personal liability of the executive management. The ban includes – with the exceptions of duly authorised capital gains distributions and corporate actions – payments to the associates or other group affiliates not complying with the arm's length principle. One therefore has to assure that the arm's length element is given in such measures – for example through an appropriate limitation of the risk, an operational justification, fair conditions as well as the avoidance of the group being endangered.

• Excessive indebtedness: whenever a company is in a state of crisis, the executive management has to exercise particular caution. They have an obligation to regularly examine the company's economic situation. Whilst liquidity problems usually come to light relatively quickly, excessive indebtedness is often overlooked. Whenever there are signs of an economic crisis, it may therefore be necessary to draw up an interim financial statement.

It remains to be hoped that courts judge past corporate decisions in a measured way. Though, in times of increased contingencies, it is so necessary to protect individual aggrieved parties and the public in general from negligent decisions made by management organs, it is so important for general economic interests to promote sensible economic risk and therefore ultimately entrepreneurship.

International Credit Management Congress in 2013:

At the invitation of the Federation of European Credit Management Associations (FECMA), Europe's credit managers will meet in Budapest in May 2013 to exchange ideas and share best practices. The location appears predestined for a European congress as Hungary in general and its capital in particular has, due to its geographical position, traditionally played a bridging role between west and east.

Peter Szentirmay
Chairman of Hungarian Credit Management Association

Hungarian Credit Management Association
www.hcma.co.hu

Hungary has been a challenging market in the last few years. The crisis has had a severe impact on the economy due to its open, export-based position (exports as percentage of GDP is greater than 80 per cent). Export growth and GDP are dependent on EU demand. Recovery seems to be under way but, like other CEE markets, it is reliant on exports to Germany. Hungary is a major beneficiary of EU funding and this boosts the economy and keeps GDP and sales on a higher level. The Hungarian EU presidency recently drew international attention to the country. Hungary is currently an economical and political hotspot.

In 2010, a new government was elected with the right-wing conservative party (Fidesz) having a two-thirds majority in parliament. The vision of the new administration is to boost the activity of local companies and increase consumption without exceeding budget deficit targets.

Macroeconomics

The new government which took office in May 2010 and which is headed by Viktor Orban has taken measures to reduce tax levels for businesses by lowering corporate taxes (one of the lowest levels in EU: 10 per cent for corporate tax base of up to around EUR 1.8 million, 19 per cent on top) and is trying to increase household consumption by introducing measures to benefit families. The aim is to strengthen Hungary's competitiveness and to support innovation.

The government's policy is to survive the crisis by decreasing taxes and by financing existing deficits and falling revenues via two main sources. Firstly by levying a crisis tax on banks, retailers, energy and telecommunications and secondly by abolishing the second pillar of the pension system. The "extraordinary" income means the government will easily achieve its 2011 budget deficit target of 2.9 per cent which is less than EU limit of 3 per cent of GDP. Compared to other EU countries, it is an outstanding achievement, but the effect linked to the nationalization of the pensions system will not last forever. After a modest recovery in 2011, the European Bank for Reconstruction and Development expects economic activity to contract in 2012 (GDP -1.5 per cent). The reasons are the sluggish domestic demand and the weakening of foreign demand due to the European debt crisis, but there are also scenarios which predict the Hungarian GDP will grow over the next few years. Hungary is an open market suffering from an imbalanced growth model where too much dependency on export and industrial output is paired with a significant drop in consumer demand.

Company structure

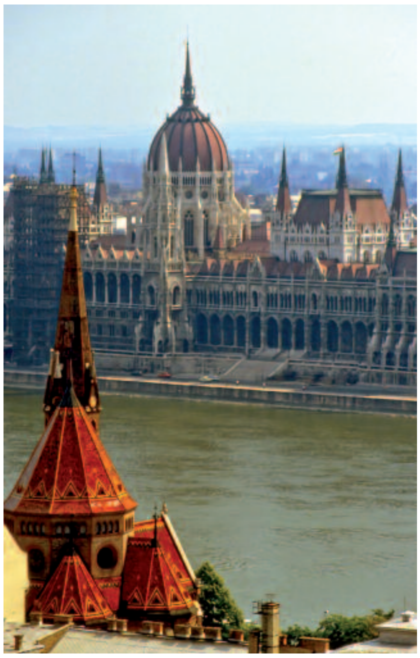
The Hungarian economy is considerably polarized as regards company size. Subsidiaries of multinational groups are dominant in terms of volume but the majority of employees work for micro-sized companies. The number of SMEs in Hungary is relatively low and the real medium-sized category is missing. “Constrained enterprises” are typical in Hungarian business life. Prevalent are one-man shows, where the monthly income is directly linked to owner’s cost of living. Often people working for a company are not registered as employees as it is better for tax reasons for both sides. There is an extraordinarily high number of insolvencies in Hungary – approximately 20,322 in 2011 which is almost more than 3 per cent of the total number of companies. One reason for the grave condition of the Hungarian business sector is the instable exchange rate of the forint.

But the focus should naturally move from Budapest to, above all, the rest of the crisis stricken Central and Eastern European. How are businesses faring there? What conclusions can be drawn from the situation? Where can European credit managers find stability in the region or, if possible, can they create new stability? The other congress topics will be drawn from the current matters of international importance, like for example the EU’s Late Payment Directive.

Credit management

Credit management as a profession is new in Hungary and has great scope for the future. Credit insurance has been available for more than 15 years but even large companies have only started to build up their own credit management knowledge-base and capacity in recent years. A lot of effort and international support based on many decades of credit management experience is needed if there is to be further development.

According to the European Payment Index 2012 drawn up Intrum Justitia, payment behaviour in the private sector has improved slightly 2011 whilst bills in the public sector take a little longer to be paid. The average delay of payments in B2C is 14 days, 20 days in B2B and 27 days in the case of public authorities. As for the business sector, the delay has increased by 5 days to 20 days since 2010! Payment loss rose in 2012 to 3.5 per cent from 3.0 per cent in the previous year. Hungarian businesses expect payment risks will remain at the same level over the next few years. The recent average payment duration in the Hungarian B2B sector is 45 days.



Hungarian Credit Management Association
The Hungarian Credit Management Association (HCMA) was founded in 2010 with the objective to unify and support the credit management profession. HCMA's mission is to unite Hungarian credit management professionals and to act as a knowledge-centre for the industry in order to develop and promote the international integration of the Hungarian credit management community. Members can join a community of professionals where networking across businesses, exchange of experiences, best-practices and up-to-date information on industry events is made easy. It is also a forum for debating, both on a domestic and international level, current issues with experts in the respective field. HCMA became a FECMA member in spring 2011. Further information can be found on HCMA's website at http://www.hcma.co.hu/.

Though credit management is quite new in Hungary, the HCMA was really active in its first year. The Hungarian Credit Management Magazine was launched, the International Credit Management Conference was held in Budapest with more than 80 participants and international relationships with professional partners came into existence.

Outlook: "Pan-European FECMA Credit Management Congress" / May 16–17, 2013
The Pan-European FECMA Congress will take place at the Hungarian Academy of Sciences in Budapest, Hungary on 16 and 17 May 2013. The conference language will be English. The programme is very dynamic with lots of interaction, expert speeches, plenary panel discussions and workshops. In the evening, there will be a dinner for all credit managers participating and the "FECMA Lifetime Achievement Award" will be presented to the credit manager who has done the most for the European Credit Management community. The decision will be made by the FECMA Council after receiving recommendations and supporting testimonials. More information on the congress and the award can be found on the FECMA website at www.fecma.eu.

A central credit management reduces international default risks

How to identify potential customers with a high credit rating?

Cross-border trading – nothing unusual ever since Marco Polo. However, companies often face unexpected challenges in a phase of expansion. Credit managers find it increasingly difficult to keep track of all risks as international credit assessments tend to be significantly more complex than those on a national level. Furthermore, companies with an existing network of international subsidiaries often have a variety of credit management systems in place and they are not always capable of communicating with each other, resulting in additional costs and inconsistent data sets. The solution could be a centralised credit management.

Agfa Graphics, world leader in prepress solutions for the printing and publishing industries with manufacturing facilities in Europe, the United States, Asia and South America, is one of the companies already benefiting from the advantages of a central credit management system. "We're a globally active organisation with a large customer portfolio distributed over a number of countries," said Andreas Wenzel, Global Credit Risk Manager at Agfa Graphics. "The highest possible transparency regarding all international default risks – for both new and existing customers – is therefore vital for our operations." To this end, the company has established a professional credit management over the last few years and has already centralised the processes for Europe and North America.

"During the centralisation process, we were basically faced with two challenges," explained Andreas Wenzel. "First we had to do a lot of convincing within the company. People always find it difficult to deal with massive changes, particularly if decision-making competences such as limit decisions are centralised. We therefore tried to position the credit team within the organisation in such a way that the national affiliates see it as added value rather than an unavoidable obstacle. Secondly, the optimisation of the processes turned out to be far more involved than we anticipated."

As the printing plate supplier intends to expand further into other regions such as Latin America, Asia, and Russia, the company has decided to strategically control the credit management processes of all national affiliates by means of a new global credit management software from the parent company in Mortsel, Belgium.

In a first step, a company-wide credit guideline was developed describing all processes and information paths with regard to credit approval and their constant monitoring. In addition, an intelligently controlled credit agency strategy was developed for each country, selecting the appropriate external information such as data from credit agencies for each region and customer demographics. Thus information costs have been reduced and a better data quality is guaranteed.

These processes have mainly been implemented using a specialist credit management software. The tool chosen was GUARDEAN's DebiTEX solution which has enabled many of the credit management processes, such as limit calculation, to be automated. "In my view, credit assessment is a process that should be automated for cost and efficiency reasons. By using a software solution, data from different credit agencies can be processed flexibly," Andreas Wenzel added. The system automatically generates its own credit index worldwide and gives individual credit limit suggestions for each customer. Significant and risk-relevant changes regarding the customer are registered not only at the time a contract is agreed but also for the entire

Andreas Wenzel
Global Credit Risk Manager,
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duration of the business relationship. "For us a high degree of automation has the advantage that the credit manager, being freed from administrative activities, can devote more time to particularly difficult cases and major risks, e.g. also for personal contact on-site."

In order to be better able to take country-specific conditions into account, Agfa Graphics has decided to continue to manage certain processes locally. "It's important that receivables management is performed on-site in each country because proximity to the local back office, to sales and to the customer itself – through on-the-spot visits – is essential, not least due to different time zones and cultural characteristics. However, it's definitely beneficial to outsource individual sub-processes of receivables management, such as automatic reminders or calls to small customers, to external service providers."

Summing up, Andreas Wenzel said, "We know from experience that such a step pays off. After standardising and centralising our credit management in Europe and North America, we were able to reduce the cost for external information from credit agencies and, above all, days of sales outstanding (DSO) and loss of receivables within a short space of time. Last but not least, a consequence of centralisation is always that a division becomes more cost-effective overall. We now intend to repeat this success in our other national affiliates."

Tips from Agfa Graphics:

1. **Open communication – If you decide to centralise, you should openly communicate motives and added value for the organization company-wide.**

2. **Securing support – Get full support of the senior management in sales and finance; otherwise you might come up against a brick wall.**

3. **Choosing the right partner – When choosing a partner for the implementation, make sure that he takes your specific requirements and circumstances into account.**

4. **Creating flexibility – During the development of processes and implementation of systems you should aim for high flexibility. Especially in the volatile international environment a quick and straightforward realisation of changes is essential.**

5. **Think globally, act locally – Let some processes still be executed locally. Nobody can assess country-specific conditions better than a regional specialist. Keep using these competencies.**

Marc Udink in interview:

Insolvency in Europe

European companies have been hit hard by the economic crisis. Marc Udink, Secretary General of INSOL Europe, gives an overview about the current insolvency situation.

CM: Mr. Udink, please could you give us a short introduction to Insol Europe?

Udink: Insol Europe was founded 27 years ago and is the world's oldest international insolvency organisation. It currently has about 1200 members, but its scope is much bigger as each member organisation is backed by numerous active members who represent and further the interests of Insol Europe.
The organisation aims, through its consultancy services, to advance development and training in Europe, especially Eastern Europe where it offers workshops for judges. In addition, it assists politicians in their efforts to develop legislation and drafts communication and cooperation guidelines. This is done to advance the harmonisation of the, as yet, different systems and to create greater economic stability within Europe.

CM: The amount of insolvencies soared during the economic crisis (22% in West Europe, 44% in East Europe). What do you think caused this development?

Udink: In Eastern Europe, I think it was caused by the general deficiencies. Eastern European countries are more prone to negative economic developments because of these deficiencies and suffer to a higher degree from negative effects stemming from the global economy. The start-ups founded in the region have fewer assets that they can use to offset negative developments in the global economy, and a lot of state organisations have not yet implemented the change in culture. It's why the rise in the number of insolvencies in Eastern Europe was also used to clean up the market and to separate the good from the bad. I also noticed that becoming insolvent doesn't create a stigma. It's seen as more of a learning process, which shows that the entrepreneurial spirit is evolving strongly in Eastern Europe.
The amount of insolvencies in Western Europe is currently sinking. An old phenomenon can be seen here, first, things are cleansed using insolvencies and then the negative development ceases.

CM: Could some of the insolvencies have been prevented? If so, how?

Udink: That depends a lot on the sector. Some insolvencies in the health sector could have been avoided in the Netherlands, France and England if the governments hadn't intervened so strongly. I believe this was a mistake and one that could have been avoided. The main problem in the Western European car industry, mainly in Germany and France, as well as in the building sector, is the low degree of workforce flexibility. There is enormous protection against dismissal; the legal position of employees is too strong. This was caused by the trade unions, which used to be far left politically. Nowadays they don't understand their role anymore, they don't know if they should act on behalf of employers or employees. If they were clear in their minds and dismissal protection was relaxed, then a lot of companies in these sectors would still exist.

CM: Which European country has been hardest hit by the amount of insolvencies? What do you think are the reasons?

Udink: Germany, as it's the largest economy in terms of absolute numbers. In relation to population however, Great Britain and the Netherlands were harder hit.

CM: What measures can a company resort to if a European partner files for insolvency in order to receive its outstanding demands?

Udink: You should get a good lawyer (laughs). One problem is that Germany is the only country where it's a criminal offence to delay the filing for insolvency. There would be negative effects for a creditor if the creditor approaches a bank. This is why I recommend creditors to be more proactive and to use their rights. For instance, they should regularly demand information from their customers. Qualms should be brushed aside, money itself is not indiscrete.

I imagine it isn't as easy in Germany, as the legal system is a bit more formal over there.

CM: What role das Insol Europe play in the Europe-wide fight against insolvency?

Udink: We strive for economic stability in Europe. It's why the continuity of companies should be secured with our petitions. For instance, we believe banks should continue financing. They should try to prevent insolvencies as far as possible and if it can't be done, then liquidate as best as possible.

CM: What would you recommend companies do to protect themselves from an impending insolvency?

Udink: First off, companies should be very active and not trust their business partners because of their blue eyes, as we say in the Netherlands. In the sense of "trust is good, control is better". In addition, it always pays to work with a good lawyer.

CM: What expectations do you have in view of insolvency developments in Europe?

Udink: The amount of insolvencies will fall this year and in the coming one. Insolvencies will become more complicated as Basel I and II will have a major effect on credit management. Banks will not over-finance anymore and this will place a stronger burden on companies.
In my opinion, a boom in economic growth will not take place. In fact I fear interest rates will soar. This however depends on the outcome of the trade balance dispute between the USA and China.
Europe is currently exporting less to China than would be possible, as it is mainly concerned with the new interaction between the old and new European states.
I believe a lot of smaller businesses will file for insolvency in the coming years. The larger companies will become leaner and get rid of unprofitable divisions. What's more, the risks of debtors will grow. Credit debtors need more security, the laws have to be redesigned accordingly.

CM: Where there are losers, there are also winners. Who do you think profited from the rise in insolvencies? Has Insol Europe benefitted from it or was it to your disadvantage? Have your concerns for instance found more attention?

Udink: In my opinion, banks have profited from the rise in insolvencies. They can use them to improve their insurances and dress their balance sheets. From a macroeconomic point of view, banks are the winners in this development, as well as auctioneers. I see creditors and the public as being the losers. However, in my opinion, the governments are the biggest losers as they lose out on tax revenues on a large scale. For example, all Europeans now also pay taxes for Greece.
There was no measurable improvement for Insol Europe as an organisation, at most for its individual members. One positive development for Insol Europe however has been the rising international interest for the organisation in the last three years.

CM: In what way does the financial crisis influence the development of Insol Europe?

Udink: The financial crisis has led us to becoming especially active in Eastern Europe; we can get started there immediately.

CM: Which European country has the most modern insolvency law? For what reason?

Udink: Generally the new systems in the east are the most modern. One of them is Serbia, the youngest member country, yet the strength and mobility

INSOL Europe is a European organisation which consists of professionals who specialise in insolvency, bankruptcy and business reconstruction & recovery. Since 1981 the organisation has been a leader in the study and evaluation of insolvency bankruptcy, and business recovery law and practice in Europe. Furthermore, Insol Europe spreads technical and topical information on insolvency bankruptcy and business recovery matters, discussing these themes with officials from European national and international bodies.

of the institutions shouldering the system are decisive. The Western European systems have proven themselves, it remains to be seen if the others will do the same. On paper, the law of the new states always looks good – but how is it put into practice?

CM: Could, in your opinion, a unified European insolvency procedure or law improve the situation? Do you believe such a unification would make sense? Do you try to influence policy?

Udink: Yes, the situation could naturally benefit from it. But the cultural differences make Europe what it is and that's why they have to stay. This also includes differences in law. Germany's property and labour laws are for example very different from those of other European countries.
In my opinion, the good thing about unification is that borders would dissolve and for example lawyers would be able to work anywhere in Europe. We naturally try to influence this, especially the European principles of insolvency. We try to develop general ideas from these and pass them on to civil servants. The rule of law as a principle should be rooted in law.

CM: Did or does the widely cited credit crunch really exist? Is the restrictive lending of banks also to blame for the rise in insolvencies?

Udink: Yes, the credit crunch does exist and Basel II contributed strongly to it. In addition, over-financing on the side of the banks has also contributed to it. Banks have abandoned their traditional role and meanwhile offer so-called "fancy products", which have a further impact on balance sheets. The current hesitancy of banks however is partly also due to the demands of governments, which have forced them to such a course of action.
This restrictive lending is partly responsible for the rise in insolvencies, yet the credit enforcers are mainly responsible.

CM: How can the European insolvency figures be compared internationally? Can Europe hold its ground internationally, despite weak countries such as Greece?

Udink: The danger of insolvencies is not entirely over in Europe, especially small and medium businesses are often having a very hard time. For the coming years, I have confidence more in Latin American countries like Brazil than in the USA and Europe. Europe is namely also paying the price for the weak dollar.
Europe can hold its ground internationally despite weak member states if southern European states such as Italy stick to budgetary discipline. I believe the tragedy in Greece could have been averted. Politicians knew how serious the situation was as a result of reports send to the World Bank, yet they did not take action to prevent the disaster.

CM: How do you think things will develop in the next few years?

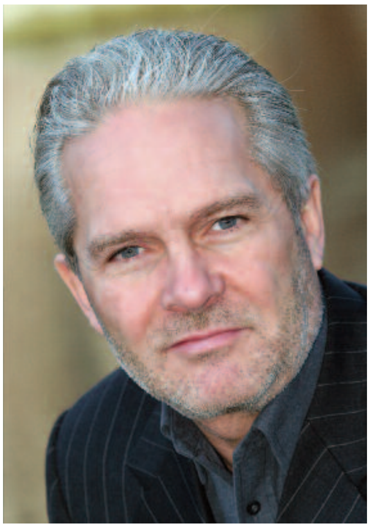
Udink: Insol Europe will experience even stronger growth in the coming years and become more professional. Our organisation will be more important for Europe than ever before, as we can assist and advise, without remuneration, objectively and altruistically.
In terms of the European economy, I expect the Euro will stay a strong currency, even if it won't be on the same level as the Gulden. I think the German economy is in general far too cautious and not expansive enough. The European economy could use its clout even more and, for example, become increasingly active in Eastern Europe. If this finally were to change, then Europe would become the leading economy worldwide. And if we maintain our qualities in the area of the knowledge economy, then I can optimistically look forward to Europe's economical future.

CM: Thank you for the interview.

Marc Udink was interviewed by Kerstin Dartmann, Jan Schneider-Maessen.

Optimizing working capital

Improving working capital has become a focus for every CFO and is crucial to business growth and profitability. Yet current strategies often fail to recognize the role accounts receivable can play in reducing the cost of working capital, while also having a positive impact on customer relationships and even the wider economy.



Dave Taylor
Chairman & CEO OnGuard

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Sustainable working capital provides a company with the flexibility to expand and enhance its operations, improve liquidity, maintain or increase profitability and respond to challenging economic conditions. Yet all too often money can become tied up in the accounts receivable entry on the balance sheet; something that firms looking to optimize working capital have often overlooked as part of their financial strategy.

The importance of unlocking funds in the accounts receivable entry is exacerbated by the economic climate and the continued reluctance of banks to lend. Indeed, innovative firms are looking internally to raise funds by taking a customer-centric approach to improve accounts receivable and therefore optimize working capital.

Historically, firms have looked to optimize on three key aspects of working capital – namely cost cutting, inventory management and by obtaining best possible returns on cash reserves while prolonging the accounts payables process. These functions are already considered strategic, yet accounts receivable, often the largest entry on a balance sheet, has traditionally been more of an administrative concern. However, as the fourth key factor of working capital, accounts receivable is where untapped opportunity for innovation in optimizing working capital lies.

A re-think is required to ensure that the credit, collections and complaints functions unlock the true value tied up in accounts receivable and therefore become a strategic concern. If done successfully, this will not only keep cash flowing through a business, but will free up funds for investment in future growth.

Turning from tradition

Throughout the economic crisis, cost cutting has been at the heart of most strategies, meaning that the majority of firms are now as lean as they can be without affecting performance. Moreover, long-term inventory management strategies are well supported by logistics theories and systems, meaning that the potential for further improvement is minimal.

The same can be said for cash management, with larger corporations applying sophisticated strategies to manage and utilize their daily international cash reserves.

However, in the short-term there is a ceiling to the potential returns realized from cash and money market instruments. Lessons learned over the last few years have shown that relying on these liquid asset classes or stable interest rates is no longer a safe bet. Meanwhile, accounts payable is often the subject of short-sighted policies. Granted, firms can improve liquidity by withholding payment of invoices to protect cash, but this is not a sustainable strategy since monies owed will ultimately be collected. Furthermore, such an approach has contributed to an increasingly noxious business climate in which cynicism has replaced trust as companies withhold payment for their own short term benefit.

Such short-sightedness has had a detrimental impact across the wider economy because whether by accident or design, late payment limits liquidity and has a knock-on effect throughout the supply chain. Figures released last year by Bacs, the UK electronic payments scheme, revealed that SMEs were owed £24.6 billion and were waiting 39.4 days beyond the agreed terms for payment. Moreover, research commissioned by business finance specialist Bibby Financial Services suggests that chasing late payment costs the small business community as much as £1.9 billion a year.

And it's not just smaller firms that are affected. Analysis by working capital consulting firm REL concluded that the fallout from the economic crisis has made it dramatically harder for companies to collect from customers and manage inventory. According to REL, with firms holding back payments to suppliers, rises in Days Sales Outstanding (DSO) and Days Inventory Outstanding (DIO) during 2009 resulted in up to $740 billion in cash being unnecessarily tied up in working capital at the 1,000 largest public companies in the US.

Whether legislation, such as the European Commission's amended Late Payments Directive, can be enforced effectively to address this issue remains to be seen. The fact is that while an organization might perceive itself as a valued partner in the supply chain, the supplier-customer relationship is perilously fragile and under pressure like never before.

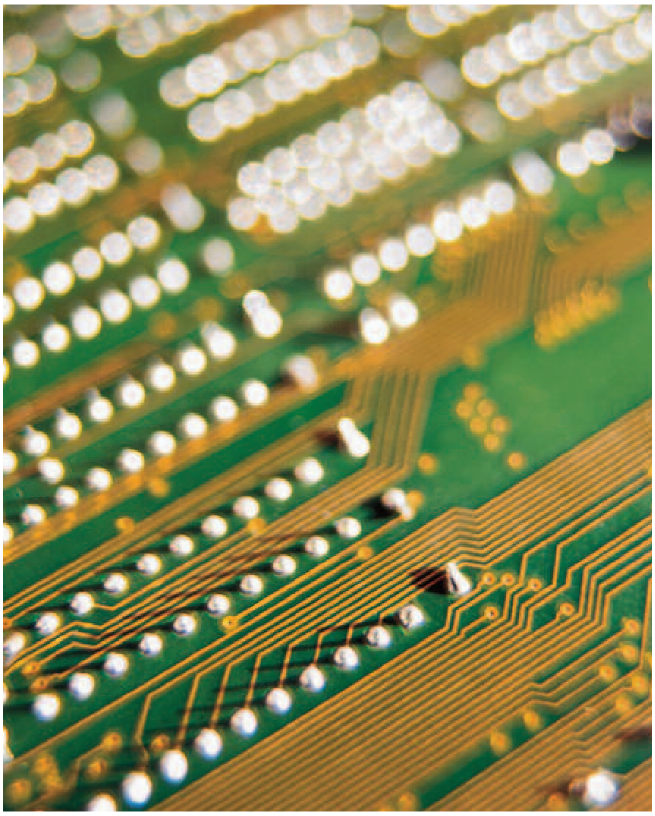
Winning the late payment war

In a perfect world, invoices flow from supplier to customer and money from customer to supplier in the most seamless fashion possible. Yet in today's business environment the payment of invoices is a battleground. Adopting a strategic and customer-centric approach to credit, collections and complaints management not only allows firms to counter this war of attrition and unlock the value of their accounts receivable, but will directly improve their profitability by reducing the financial risks posed by write-offs and late payment. This model also promotes a decent way of doing business, in which all companies are able to fulfill their duty to pay in a responsible manner.

So what does a customer-centric and strategic approach to credit, collections and complaints management entail exactly? First, it is about recognizing how accounts receivable management operates at the very heart of the supplier-customer interface. By understanding and analyzing customer behavioral information using qualitative analysis, detailed reporting and KPIs, it is possible to segment the customer base and apply appropriate action profiles to minimize payment times. This reduces DSO, while identifying and targeting the weakest customers to enable informed decisions on the terms and conditions to be applied to future transactions.

Second, the ability to segment customers also allows firms to define a tailored collections strategy per group to reduce risk and improve customer relationships. Collection terms should be discussed and agreed from the very outset of a relationship and then applied consistently throughout. A disciplined and structured approach to collections again reduces DSO and improves cash flow, whilst at the same time nurturing a much closer customer relationship. Naturally, this also provides more scope for flexibility in the collections process if required.

Lastly, by combining multiple sources of external and internal credit information, it is possible to predict the bad debtor of tomorrow. Every customer should be evaluated regularly for risk and analysis of their payment history and behavior provides the key risk indicators. For example, if every complaint raised by a customer is spurious, this is a sure sign that something is wrong. Using historical data to analyze root causes for complaints allows a firm to both identify and counter illegitimate complaints at an earlier stage. More importantly, it allows a firm to modify internal processes and procedures. Long-term structured complaint analysis leads to improvements in logistics, services, and administrative processes. The result is fewer complaints, improved payment times, and reduced write-offs.



A transparent and customer-centric strategy

For many businesses, credit, complaints and collections management are still functions considered to be outside the focus of senior management. But at a time when there is much greater scrutiny of a firm's accounts receivable and its true value in respect of how much is actually tied up in high-risk customers, a good credit, collections and complaints policy is no longer a luxury and is certainly not a burden for companies looking to reduce the cost of their working capital. It is a valuable aspect of doing business that provides tangible financial and operational benefits.

It means that supplying the customer no longer ends when the product or service has been delivered. Rather, it means maintaining a 360-degree view of customer relationships, allowing businesses to benefit directly from the level and type of customer engagement these functions provide. A customer-intimate credit manager not only clears the path to payment and improves accounts receivables, but can form the strongest of bonds by understanding and analyzing customer behavioral information to ensure the relationship is sustained.

Elevating accounts receivable to a strategic level also means that there is transparency throughout the company – from the collections department, through finance and account management, to the CFO and MD. This ensures that all business functions can apply a consistent approach to managing the customer relationship with the ability to identify early on exactly why payments are being delayed, and allow an informed and timely response in accordance with the customer's profile.
Transparency is just as important externally because lending by banks has fallen faster and further than ever before. Banks may still be happy to lend to a well managed and growing business but they are not prepared to lend money simply to plug holes in a firm's balance sheet. A much better way to balance the books, optimize working capital and boost profitability is in unlocking the funds tied up in accounts receivable by adopting a strategic and customer-centric approach to credit, collections and complaints management.

Doing business in China: an opportunity not to be missed?

Emerging markets

In this column we will present new emerging markets, formally known as BRIC (Brazil, Russia, India and China). We will not only describe the markets, but also show an interest in cultural characteristics and how they influence doing business with these markets. This issue we have focused on China.

You sometimes hear business people say that China is a market you cannot afford not to be there. Whether this is true or not is debatable. Of course China holds many business opportunities, but the threats and obstacles are significant as well. In 2011 I have conducted an extensive market research on credit management developments and doing business in the Asia Pacific region. Among others, China was one of the major countries of this research. We all know the success stories about economic growth and the rapid development of China over the past 30 years. At the same time we also associate China with environmental problems, political and legal issues (such as IPR, piracy) that came along this economic development. Based on my personal experience, my research and many discussions with local business people (mostly from Hong Kong), I will address and explain some of the main but sometimes not so obvious issues that relate to doing business inside China.

China and business opportunities

With a market of about 1,3 billion people many (business) people may (too) easily assume there must be huge opportunities out there. If it were that easy, then many more companies would have already started their business operations in China a long time ago. Apart from typical aspects such as the language, the legal system, the (business) culture and the influence of the Chinese government, being successful in China can be a long and difficult road for Westerners, with

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potentially many (unexpected) pitfalls. As a Dutch – German business / cultural mediator once told me, understanding a country and its people, the culture and the mentality or morality actually starts with reading about the history of a country. What are the people's believes, social and economic values, political ideas and historical background? By understanding where people historically, socially and economically came from, you will also be better able to understand why people behave or act the way they do. What we consider as business as usual, through Chinese eyes that may be seen a bit different. These differences are especially relevant for China, where in recent history developments such as the cultural revolution, the one child policy and many other developments had or will have a significant impact on social, cultural and economic developments and the mindset or mentality of the Chinese. So before you start thinking about doing business in China, you best learn where the current Chinese generations came from, what their perception of the world is based upon and how that may have an impact on your China business strategy. Furthermore, you should spend enough time to understand the importance of the role of the Chinese government and related issues (such as IPR, taxation, regulations, legislation, enforcement of law) and how this may have an impact on (future) business opportunities. Of course every foreign market has its own typical socio-economic characteristics, but in the West the cultural differences between countries are (much) easier to overcome than in China. If you are really interested in setting up a business in China or the Asia Pacific region then first spend time on understanding what you may / may not expect by making yourself familiar with social, business and cultural aspects. Once the decision is make to set up a business in China, always hire experts with both local and international / Western experience who can think both (cultural) ways and as such better help you to cross the cultural bridges and to avoid making costly mistakes.

China and Face

The expression 'face' is one of the most important elements in the Chinese culture. Much more than in the West, face plays an important role in almost all aspects of Chinese life. Face does not only apply to relationships, but also to negotiations, doing business and personal branding. Face might be translated with words like respect, honor, winning, reputation and perception. As such face can be given, gained, saved and lost. In China letting a Chinese business partner lose face is one of the things that should be avoided at all times as it will usually have a very negative impact on the business relationship. There are many small subtleties related to face. Inappropriate behavior, unprofessional acting or bad timing can make you lose face, not only for yourself but for your Chinese business partner as well. The Chinese will understand that you are a foreigner, however showing that you have an understanding of the concept of face tells your Chinese business partner that you made an effort to learn more about Chinese (business) culture. So try to understand face from a Chinese perspective, which is of course difficult and can obviously be learned best from the Chinese themselves and by doing some thorough reading on the subject. As some articles on this subject indicate, the interpretation of face is changing a bit with younger generations, especially Chinese who have worked or studied abroad and therefore are more familiar with or influenced by Western culture.

Face and negotiations

Before you start doing any negotiation with a Chinese (potential) business partner, it is essential to understand how 'face' may have an impact on the negotiation style. In the West many – not all - business people prefer to negotiate with 'win win' in mind. In China, generally speaking, there is no such thing as 'win win', but instead many Chinese business people seem to apply a strategy that can be seen or interpreted as a ' win lose ' strategy. In

short it means that the Chinese win and you lose. This strategy obviously relates to face, as for the Chinese winning is good for gaining face. That doesn't mean that a foreign company cannot win, but it is important to realize how 'lose' from a Chinese perspective can be turned into win from a Western or foreign perspective. Therefore it is essential to study Chinese negotiation techniques and negotiation processes before you enter the negotiation room.

Face and branding
Generally speaking, people in China don't buy quality, but they buy face. Therefore marketing and branding are so important in China. For instance in consumer products you may have a product that is actually of average quality, but as long as the brand name is associated with or perceived as high status and/or wealth, the quality actually doesn't matter that much anymore. That's for instance why you see (mainland) Chinese people visit Hong Kong to buy expensive luxury goods (paid in cash). Not because the Chinese really have to like the product, but mostly because the status of a certain brand will give them face. As a company or as an individual, it is therefore important to establish a sound brand image and/or personal reputation, so doing business with you actually gives the Chinese face. Most products can be easily copied, but a brand image or reputation is much more difficult to copy, if at all.

Guanxi ("relationships")
Guanxi is a word with many dimensions. Westerners often translate the word guanxi with relationships, but in China it goes much further than that. One of the best and shortest interpretations of guanxi is given by Mr. Greg Gabissky, an experienced writer, trainer and consultant on Chinese business culture. In a video presentation he says *quote+ "What guanxi means to the Chinese is mutually shared obligation. That now once I have received a favor from Mr. Chen, Mr. Wong, who is Mr. Chen's friend, can come to me now and I am now obligated to help him. Even if I don't want to and even if it is against my interests. Because I now owe him because of the favor that Mr. Chen did, I now have to help Mr. Wong. That means that, a month later, I can now go to Mr. Tong, who is Mr. Wong's friend, and now I can ask for something from him, a cheap price on a printing job say. That's the way guanxi works. It's not relationships as Westerners define it, it's more of an obligation ".

However, that's for the Chinese. As a foreigner you should realize that you will never reach the guanxi level as if you were a native Chinese. Guanxi is a social system, which has its roots in family, close friends, the communist party and of course work or business. The reason why guanxi was so important in the past also relates to the lack of reliable legal systems in China. As such guanxi also has negative connotations with topics like corruption, bribery and personal gain via the (Chinese) guanxi network. However, some articles indicate that with the improvement of the legal system and China gradually becoming a more "open" society, the role of guanxi is diminishing among younger generations. Nevertheless, guanxi is still an important aspect of the Chinese culture. For foreigners it is probably best to focus on developing long term reliable business relationships and sound business practices.

This article will be continued in the next issue.

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Greetings from the casino

Bursting speculative bubbles, economic global fires, state rescue operations with the help of vast sums of (lent) money – the memories of the scenario are by no means paled. How could they be? The consequences of the crisis are still omnipresent and will remain so for a long while. But the crisis does seem to have its good points – namely worldwide union. After the near collapse of the world's financial system and the subsequent economic crisis, a large choir launched into song and the lyrics had a clear message: never again!

High-ranking spokespersons from politics, economics and science all around the world pledged to create a new, common "coordinating system" to secure greater economic stability. Profound shocks should once and for all be a thing of the past. A renaissance of, in the meantime, forgotten values like fair play and economic sustainability appeared within reach – both on the big stage and in daily business life. Bye-bye avarice, hello common sense. Everything appeared plausible but also almost a bit too good to be true.

Well, it wasn't. The reality makes one doubt the sincerity of the avowals. Old sins are repeating themselves in business life and the temptations are to a certain degree still strong. It appears that, at the same time, the complex international relations do not permit the creation of a long-lasting, stable regulatory framework. Politics does not seem to be coping. One is waiting together for Godot. EU members are obviously not able to sanction the necessary stability agreements. Instead they agree upon the lowest common denominator. Internationally, countries are only able to agree on one thing, namely that something has to happen. Things get more difficult when it comes down to the nitty-gritty of what has to be done exactly and above all how. National differences and interests are too strong. One only has to take a look at the G 20 negotiations in Seoul, where the conflicts between the world's most powerful economic nations were very evident.

All that remains is the knowledge that bitter medicine just doesn't taste nice and if one has doubts then it's better not take it and simply carry on as before. A prominent example is the USA. The "patient America" has – and even if it's out of sheer desperation – once again turned to printing money to bolster its national economy. The FED is trying rev up the US economic motor with fresh billions. Cheap loans for everybody is the motto, credit-induced growth or put another way: high risks

for the vague hope of recovery. It's the wrong signal, at the wrong time. Gambling is allowed again, the roulette wheel is spinning again. The casino will stay open. But one thing has to be clear: when you play, you lose. Guaranteed. Easy money just doesn't exist.

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