
INTERNATIONAL ADVICE FROM THE SMALLER FIRM

by

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INTRODUCTION

This paper addresses the problems faced by a small or medium-sized consulting actuarial firm which wishes to provide an international service to its clients and which currently has, within its own organisation, little experience of foreign conditions and no overseas affiliates.

The principal reason for any firm, even one located in the U.K. or the European Community, needing to provide an international service to its clients should not necessarily be because of the impact of "1992", though this is an important consideration. Another reason is that the majority of large consultants now offer their clients varying degrees of expertise and different services within the international business community. The smaller firm must now recognise that it too has to provide such a service in order to remain competitive, and to avoid the risk of losing to established international consultants its clients of long standing. At the same time a major problem facing the domestic firm without international experience is how to make a judgement of the best way to proceed.

INITIAL DIRECTION

If possible, it will be important for the firm to appoint at least one partner or senior member of staff, through either recruitment or training, who can take full responsibility for developing the international service to the clients and co-ordinating this service within the organisation.

This raises an immediate problem. Training an existing member of the firm from scratch, while it may seem the more desirable way, since the person will already know the way the firm works, is really not a useful option, partly because it would take far too long. It is therefore better to retain the services of an experienced international professional, although one must accept that hiring an international professional is costly. Also, there are comparatively few real professionals, and far fewer than those who may claim to be experts. They are not unavailable, but a careful search may be necessary.

PROVISION OF INTERNATIONAL ADVICE

Having cleared that hurdle, there is then a number of options open as to the method by which the service can be developed. The ideal solution would perhaps be to have overseas offices owned and controlled from the centre, but this would be rejected as a first step by most smaller firms. It is an expensive way of starting, especially since at the beginning there is no guarantee of obtaining enough work to justify the outlay. A less risky alternative is to form affiliations with recognised and independent overseas professional firms. While this alternative is favoured by many in the early days of international development, without great care it can pose problems of communication and lack of control over the affiliate.

A third alternative is to purchase small or medium-sized overseas firms with a recognised professional reputation and a respected portfolio of clients. This alternative has been used by many of the larger firms in the past. However, the main practical problem in attempting to follow this course is that the number of available firms in some countries is few, especially in those countries where offering pension advice is a recent development, and there is again the question of cost.

This paper now focuses on the second alternative, and highlights some of the items which will, in the opinion of the author, be of paramount importance for any arrangement to succeed.

AFFILIATIONS

If the decision is taken to seek overseas affiliations it will be imperative for the firm itself to establish within its own offices not only the personnel capable of enabling the new department to function successfully, but also other necessary resources. It is no use hiring an expensive professional, and then not budgeting for the essential support. Of prime importance will be a resource for international information in order to answer questions from the headquarters of a company. This will not be cheap. As the world of business becomes more international, the amount of information needed and the complexity of the questions asked is increasing.

Given that the firm has made a decision to provide the international service, and has retained the services of a recognised international professional, it then has to develop a policy to form affiliations overseas.

The first step is to look at the firm's own portfolio of clients, and to establish in which countries those clients have overseas branches or subsidiaries. It is in those countries that the international service will be of immediate concern and interest to existing clients. It will also be important to consider affiliations in the major pension countries - the United States, Canada, Western Europe, Australia, New Zealand, and certain countries in the Far East - if not already included at the first stage.

The basic criteria for choosing an affiliate must always be its total independence, and an excellent professional record. The partners of the firm concerned have to be entirely sure that the standard of professional expertise offered by the chosen affiliate is at the same level as their own.

At this point it is worth mentioning that the fundamental principle for providing professional advice overseas is never to provide that advice without visiting the country concerned. This is vital. Research from documents provides background information, but the prevailing atmosphere of industrial relations in a foreign territory can never truly be understood from documentation, only by visiting it. The same fundamental principle also applies in choosing an overseas affiliate. A suitable affiliate will also have a similar fundamental aim, so it is important that there should be meetings in both countries between personnel of both firms.

CLIENT/AFFILIATE RELATIONS

Once an affiliate has been chosen, the next step that has to be considered for the affiliation to work properly is the relationship between the home-based firm's client and the overseas firm. A direct relationship between a client's overseas subsidiary and the overseas affiliate is the most efficient and professional answer, and one that should be most satisfactory to the affiliate.

This factor must be taken into account right at the beginning of any relationship with an overseas professional firm. When work is initiated between a professional firm and its client in the home country, the overseas professional affiliate and the overseas subsidiary will each need to accept clearly-defined guidelines which may restrict its freedom in some areas.

This leads to the question of control: what is the relationship of the headquarters of the client with its overseas subsidiaries in relation to the employee benefits that are arranged for it? There is a wide variety of policies here, even among long-established multi-nationals. Some prefer a "hands-off" approach, leaving each subsidiary to decide on its own policies, while others administer a worldwide programme on principles set from corporate headquarters. Since this will affect the relationship of the consultancy with its

overseas affiliate, it is vital to know what the client's policy is and to communicate it to the affiliate.

The combination of control determined by the client holding company and its adviser, with direct contact between the overseas professional affiliate and the client's subsidiary, establishes an arrangement that gives advantages to all parties. The holding company and its adviser know what is being done in all its territories round the world, and that it is being done well. At the same time, it provides the overseas subsidiary with the certainty that they are being advised by their own countrymen who understand the local situation. This is far better than having imposed on them what they may consider to be foreign advice about a domestic situation.

It follows from this that, wherever possible, fees in respect of professional services should be paid direct to the overseas affiliate by the overseas subsidiary, and not to the home-based professional firm. When money starts to be transferred through a network of affiliations it becomes an extremely complicated exercise, and creates administrative burdens which far and away outweigh any benefits. It is inherent also in making these remarks that there should never at time be any suggestion of any introductory fees passing between the affiliate and the home-based firm.

When two-way affiliations are established with good communications and recognition of respective responsibility, the home-based consultancy will quite quickly recognise that there are different ways of doing business. If, for example, they are U.K.-based they will discover that the methods of undertaking actuarial investigations can be very different overseas. These are mainly due to State Regulations and other Standards which may prescribe particular methods, and even specific assumptions, for a variety of purposes. This further underlines the necessity for professionals within the home-based firm to visit overseas countries and their affiliates so

as fully to understand the differences of approach, prevalent not only in the narrow actuarial field but also in designing benefit packages and in the important area of industrial relations.

Despite these differences and the difficulties they cause, more and more major client companies with overseas subsidiaries are establishing an international policy for benefit levels and cost control. It is important therefore that the home-based professional firm develops, as part of its international services, a capability to assist headquarters in formulating this policy.

CONCLUSION

In summary, small or medium-sized firms which wish to expand to provide international advice to their clients should seriously consider, at a very early stage, setting up overseas affiliations. This seems to the author to be the preferred route, even though there are problems to be faced. Should it prove successful, however, such affiliations may eventually lead to stronger ties, and thus the small or medium-sized firm could even become something of a multi-national firm in its own right!

Lastly, it should be noted that a number of professional firms who have followed this route have done so as a defensive action. I would suggest that, whilst this may well be the initial trigger, affiliations with overseas firms should be viewed as an opportunity to expand the number and variety of the firm's clients, and to enter into new areas of advice - e.g. the obvious extension from employee benefits to overall compensation - so that the international part of the firm's practice contributes positively to its professional standing in the market place and to its financial strength.