Blogs

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Don't Allow New Subsidiaries to be Formed Without Your Approval

Following up on my series of blogs about subsidiaries, to be proficient when managing subsidiaries, you need to be organized. You want things to run smoothly once an entity is formed – and to help guide you when you're deciding whether to approve a new entity. The linchpin of this is to set up an enterprise – a uniform – way of working. That's why I recommend a "How & Why" guide to running your subsidiaries. Something that you update every few years. Maybe every five years. A good rule to include in that guide is to bar anyone in operations from forming a new entity unless they first get clearance from you. This should be a cardinal rule. In many cases, you should fight tooth and nail to stop a new entity from being formed. Only give the blessing if it's absolutely necessary. And there may be very legitimate reasons for forming new entities – sometimes due to industry-specific regulatory requirements, sometimes for tax reasons, sometimes for corporate structural reasons. People used to argue that you need a bunch of entities so that the corporate veil wouldn't be pierced. Many practitioners with real-life experience view that as hogwash. Simply creating a separate entity to hold risky operations is typically not enough to isolate those liabilities. Don't let that be the reason why a new entity is being formed. Bear in mind that every time you open a subsidiary in a new country, there's a bit of a learning curve – and some associated costs – with doing that. So this general reluctance to form new subsidiaries goes double for approving a subsidiary in a new country unless there are compelling reasons.

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