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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