

From Whether India to Where in India?

Several mid-market US companies and SMEs from Europe in particular are looking to set up manufacturing operations or service operations in India; and often the first step after taking a decision to enter the market is where do I set up operations?



Mumbai's Fort Area houses several multi-national and Indian banks

In a country like India, which is non-homogenous - the business culture, language and customs vary significantly. No amount of desk based research can give insights that experience of actually doing business in various states can. In most countries you can expect things to be consistent, but in India inconsistency is the norm. One road may be paved and the one next to it may not be paved. Most German companies make a beeline to Pune for engineering and automotive businesses; to the extent that Lufthansa has daily business class only flights connecting Pune to Frankfurt! Technology companies have in the past chosen Bangalore as the city to set up their development centres. Mumbai has attracted financial services firms, and Delhi has found favour with several MNCs.

However no one strategy fits all. This is all the more true when it comes to location planning. Each investor has peculiar needs and one has to constantly examine which location could be best as these locations are constantly changing as is most of India.

Recently the Tata incident in Singur in West Bengal highlighted the importance of local governance. Ease and speed of obtaining regulatory approvals is another factor that plays an important role in setting up a project quickly and this can vary from state to state in India. The effectiveness and productivity of trained manpower varies. For instance unpublished reports confirm that Pune and Chennai have a high standard of supervisory engineering talent. Transporting goods within

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Accounting and Compliances for Start-ups in India

Recently, a foreign company with a start up Indian subsidiary approached SKP with the task of setting up its accounting back office on an out-sourced basis. For the Company's relatively small size, the decision to approach a full-fledged accounting firm like SKP had come after a lot of deliberation and the unfortunate event of finding itself on the wrong side of the law.

Unintentional as it was, this client firm is not alone in its predicament. Most start-up companies face enormous challenges in their attempts to remain compliant on the accounting and regulatory fronts. The Indian regulatory environment can be especially taxing regardless of the size of the company. It is mandatory for even small companies to have a statutory audit under the Companies Act, besides mandatory filing of Income Tax Return and a plethora of



other regulations to comply with. Typically start-up companies face the following challenges in setting up the accounting back office:

Hiring and Retaining Quality Staff

Getting the right person(s) for the in-house accounting team can be rather difficult. Typically, an average Indian accounting graduate does not know all the applicable regulations. More importantly s/he may not be process oriented in his/her approach. In case of a disorganised employee getting work done on time and of desired quality may be quite a task.

In the event of finding the right employee- retaining the person, and giving him a growth path, is also a challenge. Unless the business grows substantially the growth path is non-existent.

In most cases start-ups can only afford a book-keeper as opposed to an accountant. The reporting standard can be dismal due to the above reasons. Moreover English language and communication skills of bookkeepers can be a constraint in communication with parent company finance staff.

Multitude of Consultants

Because the Indian regulatory environment is so complex and stringent even for start-ups, in spite of having an in-house accountant, the company will need consultants for regulations such as, Income Tax, Service Tax, VAT, Foreign Exchange Management Act, Provident Fund, Labour laws (with respect to payroll), Transfer Pricing, etc. If multiple consultants are appointed for these, coordinating with the consultants itself can be a huge task. Also because the consultants

may look only at their own areas of expertise, there is every chance that the advice given is not holistic. Hence the company may remain compliant with one regulation, but non-compliant with another.

Lack of Assurance

The most important thing that the start-ups need in India is an "Assurance" that they are complying with all the applicable regulations in India. It is almost impossible to get this assurance with a combination of an in-house book-keeper and multiple consultants, unless a senior resource from within the company (or parent company) is dedicated to ensuring compliance with all the regulations. If a senior resource is so engaged, the cost can be high.

Cost

The cost for an internal team cannot be measured only in terms of the payroll costs. It is difficult to quantify the hidden costs of issues like non-compliance, poor quality jobs, repeat jobs, non-holistic advice, etc.

The SKP Approach to addressing these challenges

SKP realised that once international clients set up in India they were often clueless on the accounting and regulatory compliance requirements. They did not have the time and resources to keep track of the complex and ever changing requirements the country.

Moreover, most clients were looking for someone, who would not only guide them through this maze, but also walk the distance with them in helping them become compliant. The value clearly was in becoming a single point solution for all the accounting and regulatory compliance needs of the clients and to help them significantly reduce their time on these affairs.

SKP therefore set up a corporate services department, which today services more than 50 foreign companies with bookkeeping, accounting and regulatory support. However, while discipline in going about the compliance was very important, the value lay in SKP's "ownership" of the client's back office operation. This view is reflected in SKP's Value Proposition – **"Taking the pain out of compliance by becoming a single point solution for all the accounting and regulatory needs of the client, by rendering the services with a Discipline of a Vendor but Commitment of a Partner"** ■



This article is the first in a series that speak of our constant endeavour to improve and energise ourselves. The current article recounts

In Pursuit of Excellence

How the implementation of a QMS has changed the way SKP works?

About two years ago, SKP decided to implement a Quality Management System (QMS) at SKP e-Solutions (SKP's F&A outsourcing arm), the objective being to build quality into the DNA of the organisation rather than have it as an overlay, a garnish.

The Need for Quality Management System (QMS)

While SKP was always good intentioned and worked hard at client service, the Company desired to implement a Quality management System in an attempt to build a process driven organisation as against a person dependant one.

Towards this end SKP settled on the ISO 9001:2000 Standard. Adopting such a widely accepted framework meant not having to reinvent the wheel.

The ISO framework brought in structure, method and discipline to SKP's processes, thereby increasing confidence in its ability to deliver quality consistently and predictably.

Implementation of ISO 9001:2000 Standards

The Standard required SKP to formally and clearly articulate its quality policy, its objectives and more importantly- the process by which it would achieve these. This exercise has helped the Company remain focussed and serves as a beacon that guides its actions.

SKP opted for a broad based implementation of the QMS that included every aspect of the Company's business in its scope, involving its managers, team leaders and controllers in the implementation. This put the onus of the QMS with the entire team rather than with a few individuals. Thus, slowly but surely, building a culture of quality and excellence into the DNA of the organisation.

SKP's use of measurements and metrics to systematically track quality also improved significantly. 'We have learnt to analyse the numbers

so that they now "talk" to us,' commented Mehul Shah, Head of Processes and Delivery at SKP.

Under the Standard, monitoring and review has now become integral to the way SKP manages its processes. Quarterly internal audits monitor compliance with defined processes. SKP takes the quarterly customer feedbacks very seriously, as it is the pulse of the clients' perception of its service levels. Monthly and quarterly management reviews ensure that there is systematic management oversight and accountability.

There is now objectivity in the way SKP approaches deviations from targeted performance levels, service defects and customer complaints. The Company now focuses more on the 'why' (why it happened) rather than the 'who' (who was responsible). Thereby it now directs its energies to the 'root cause' and its elimination rather than fixing blame or deflecting it.

SKP QUALITY POLICY

We are committed to error free and timely delivery of the work entrusted to us by our clients. We shall execute with the commitment of a partner and discipline of a vendor.

We are committed to continual improvement. By establishing robust processes to take care of 'straight through processing', we shall free our time, energy and creativity to innovate and improve the way we work.

We are committed to the growth of our people. By nurturing a healthy work environment, providing operational freedom and enhancing their skills through continuous training we shall provide them with the opportunity to realise their true potential.

In April 2008, SKP's QMS was certified as ISO 9001:2000 compliant. The Company has thereby achieved a baseline for quality. The QMS now serves as a reliable platform for SKP to move to the next level of business management and process maturity in its pursuit of excellence.

More importantly, the lessons learnt at SKP e-Solutions are now being applied in all practices of the SKP Group. ■

F&A Outsourcing - Contract Extension

with a Fortune 500 Healthcare

Christians have a unique custom in their married lives. After some years, the couple goes back to the church to renew their vows to reconfirm the trust they have in each other and their commitment. SKP recently had the opportunity to extend a four year F&A

Not that this marriage was without its problems... With each issue came learning and insight and the process was further strengthened.

outsourcing contract with a major healthcare company by another three years. The contract extension was of particular significance because the company decided to move its Asia Pacific related processes to a shared service centre while the India operation opted to continue with SKP.

Two major reasons for the success of this project were:

1. Clarity of expectation and com-

mitment to the project by the client

2. Discipline in execution, partnering approach, and continual improvement from SKP

The courtship between the two companies started with the client's requirement to have its finance related transaction processes studied. SKP was tasked with this study and eventually given the contract for centralisation, and standardisation of the processes. It was an uphill task for SKP, this being the first outsourcing project that it undertook. The team took over the task with conviction and absolute faith in its ability and over a period of one year completed step by step migration of over ten processes.

The first fruits of this marriage came in with stabilisation of the processes, consistent policy implementation, and process changes brought about by SKP. This resulted in stricter controls to ensure gaps in the processes were adequately filled in and over the next couple of years, the improvement initiatives continued to bring

about very strong process flows and results.

Not that this marriage was without its problems. Communication between various parties did sometimes get strained and with changing times, expectations changed and SKP had to remain on top of these changes to ensure that client satisfaction did not dip. There were some problems in deliverables but the consistent manner in which the SKP team approached all the issues ensured that the client never lost trust or faith in SKP. It was as clear from their language that even when problems surfaced, the team never shied away from recognising slip-ups and oversights and made an effort to ensure that they were not repeated. With each issue came learning and insight and the process was further strengthened.

Using technology to improve performance and accuracy, training its employees in a process oriented approach and creating an environ-



SKP F&A Outsourcing team at work , at the facility in Pune

ment of continual improvement helped SKP to weather all the storms and emerge as a trusted partner for the client's outsourcing requirement.

SKP today is on the verge of becoming not only an outsourcing partner but a knowledge partner. When the client's Asia Pacific operations decided to shift all their processes to a shared service environment, it was no surprise that the Indian operation decided to continue with SKP. The client believes that over a period of time, SKP through their in-depth understanding of the clients varied processes, has brought standardisation, improvements and efficiency, and is an equal partner in success of their Finance Department. ■

New at SKP?



Raman Jokhakar
Partner - Audit & Accounting

Raman joined the SKP team as Audit Partner in October this year. A Chartered Accountant by profession Raman also has to his credit a Masters Diploma in Global Strategic Management. He is also a certified Internal Auditor and Information Systems Auditor.

Before joining SKP, Raman was a partner at B. D. Jokhakar & Co., where he amassed considerable experience in conducting statutory and internal audits of local and as well as multi-national corporations. He also has over 10 years of

business advisory experience in Corporate Law, Taxation, Valuation, Mergers, Transfer Pricing and Management related matters.

Besides, Raman is also a Member of the Bombay Chartered Accountants Society (BCAS), and has been on the Managing Committee, Indirect Tax Committee and Accounting and Auditing Committee since 2003.

Raman has also co-authored books on Audit of Companies and Service tax and regularly writes for

several professional magazines.

One might wonder how he makes time for so much. Interestingly, he does and much more. Raman is an active environment conservationist and enjoys travelling and trekking. When asked about his answer to work related stress, he clearly admits to his love for Indian Classical Music. However nothing apparently works as well as spending time with his wife Rashmi and 3-year-old daughter Sangeeta. ■



Sudhir Nayak
Partner - International Tax & Transfer Pricing

Sudhir may be considered an old face at SKP, having closely worked with the firm as a Consultant since 1993. He now joins SKP as Partner-International Tax and Transfer Pricing.

Sudhir has been in practice since 1995 and his experience in Income Tax matters spans assessments, appeals, Tribunal hearings, etc.

He has also conducted Internal Audits of software companies - across various functions like payroll, fixed assets, intercompany billings, security audits of outsourced payroll agencies.

He has on several occasions contributed to leading financial magazines, drawing from his wide experience and understanding of taxation issues.

When it comes to relaxing though, Sudhir admits to being more an indoor person. He enjoys playing carom and watching cricket, badminton, tennis and hockey- with his kids. He also enjoys listening to music and occasionally likes to spend some quiet time surrounded by nature. ■



Plan employee Secondments to India with Care!

Several foreign companies, who have seconded employees to their Indian subsidiaries, have recently been hauled up by the Indian tax authorities.

employees of the foreign company, exceeding threshold period specified in the tax treaty, may create a PE in India. If the PE were to be constituted in India, there could be a potential tax exposure for the foreign company in India.

fringe benefit taxes. At the same time retaining the employee on home country payroll in cases of short deputation i.e. generally less than 6 months could help the employee mitigate his / her personal tax liability.

The foreign company may be regarded as having a Permanent Establishment (PE) in India and are hence

Foreign companies are often agreeable to the expatriate's preference of being retained on the home country payroll, on account of social security and other considerations. However, the pitfall here is that the foreign company may be regarded as having a Permanent Establishment (PE) in India and are hence liable to pay taxes in India. Most Indian tax treaties provide for a Service PE clause, based on which the presence of

There is also a possibility of withholding taxes and service tax on recharge of expatriate's salary costs to the Indian entity / operations. Moreover, the foreign company may be saddled with a host of compliances with respect to employee withholding taxes and

To conclude, it would be wise for the foreign company planning to relocate its employee to India to guard against the above pitfalls. One must also bear in mind there are no fixed rules in India and one needs to take care of practical aspects and ground realities. ■

SKP has been assisting several foreign clients in framing their expatriate tax policy for India. For more details on risks and issues please contact our international tax practice.

SKP is a full fledged professional services group in India, with 5 offices and a client base of over 250 clients from 35 countries. SKP provides a wide range of services - crossborder business set-up, corporate services, international tax and transfer pricing, assurance and risk management, and outsourcing services. You can find out more about us at www.skpgroup.com

From Whether India to Where in India



BANGALORE-IT hub, Rocking nightlife, Traffic Nightmare

India can sometimes be as expensive as shipping from India to Europe, due to poor roads, multiplicity of taxes, etc.

SKP's location planning team is currently working with several mid market US companies, assisting the decision making process by bringing an awareness of on the ground experiences of other companies operating in India. A variety of factors are considered including finance, tax, labour productivity, regulatory, government, transportation, etc. These are followed with on-site visits to determine actual availability of land and assess business conditions. ■

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