Three More Cs: A Trio of Practices to Consider for International Business Dealings

Most credit professionals are well aware of NACM's vaunted "Five Cs of Credit:" (character, capacity, capital, conditions and collateral). These guiding tenants have long provided a base-level guide to drive credit professionals toward best practices in their daily business dealings. A group of veteran credit professionals, while attending NACM's Graduate School of Credit and Financial Management, argued that differences in doing business outside of US borders perhaps necessitates adding three additional Cs to the list for anyone extending credit internationally. They are: country, currency and culture.

Country

Where a US business exports its goods is a major factor in how smoothly credit and collections transactions can be conducted. Depending on the country in question, credit and collections professionals can run into a myriad of business problems: regime instability and citizen uprisings (the Middle East, Ukraine), sanctions lists that ban certain sales and fine those who don't comply (Iran, North Korea), high public corruption levels (Russia, Sub-Saharan Africa), laws that are considered highly debtor-friendly (Brazil), to name a few.

Currency

The ability to extract payment from businesses in a given country, preferably in a major currency like US dollars, is not always easy. Sometimes a customer has the resources and desire to pay a creditor, but access to hard currency can be an obstacle. Low, inadequate foreign exchange (FX) reserves continue to be a problem in many nations. These currency issues are often exacerbated in places where high or growing anti-Western (US) sentiment is in play—Venezuela may be the national poster child for this. In short, even a well-capitalized and highly regarded company can be a high-risk customer depending on where it is based.

Culture

Culture may be the new C that affects business in many countries. In many domestic circles, business was long conducted with a strong handshake and eye-to-eye contact. In some spheres, it still is. However, doing so in other countries can be seen as an insult, one likely to derail a relationship with a customer. Business etiquette expectations can vary greatly around the world, so it is critical to perform a little research in order to avoid a faux pas. One place NACM members can do this is in FCIB's *A-Z World Trade Reference.*

Culture can also come into play based on what are acceptable credit and collections instruments. Many credit professionals are likely familiar with US customers' typical hesitance to employ Letters of Credit (LC) in any transaction—finding it cumbersome to deal with or even insulting to be asked about establishing one. However, the LC is still widely used, usually without pushback, when doing business with clients in many Middle Eastern areas. But remember, just because many businesses in one region like something, doesn't mean that all will. In essence, be careful of broad-brushing and do a little homework.

Culture can also impact how quickly businesses pay. Credit professionals selling in Europe have long used Germany as an example of where companies usually pay on time, if not early—a creditor can almost set their watch by it. However, another popular payment stereotype is that Italian-based companies rarely pay on time, as a matter of common and acceptable practice. Something like this doesn't have to be a deal-breaker or catastrophic problem as long as payment tardiness is not a shock to the creditor. In credit, seemingly nobody likes surprises.