

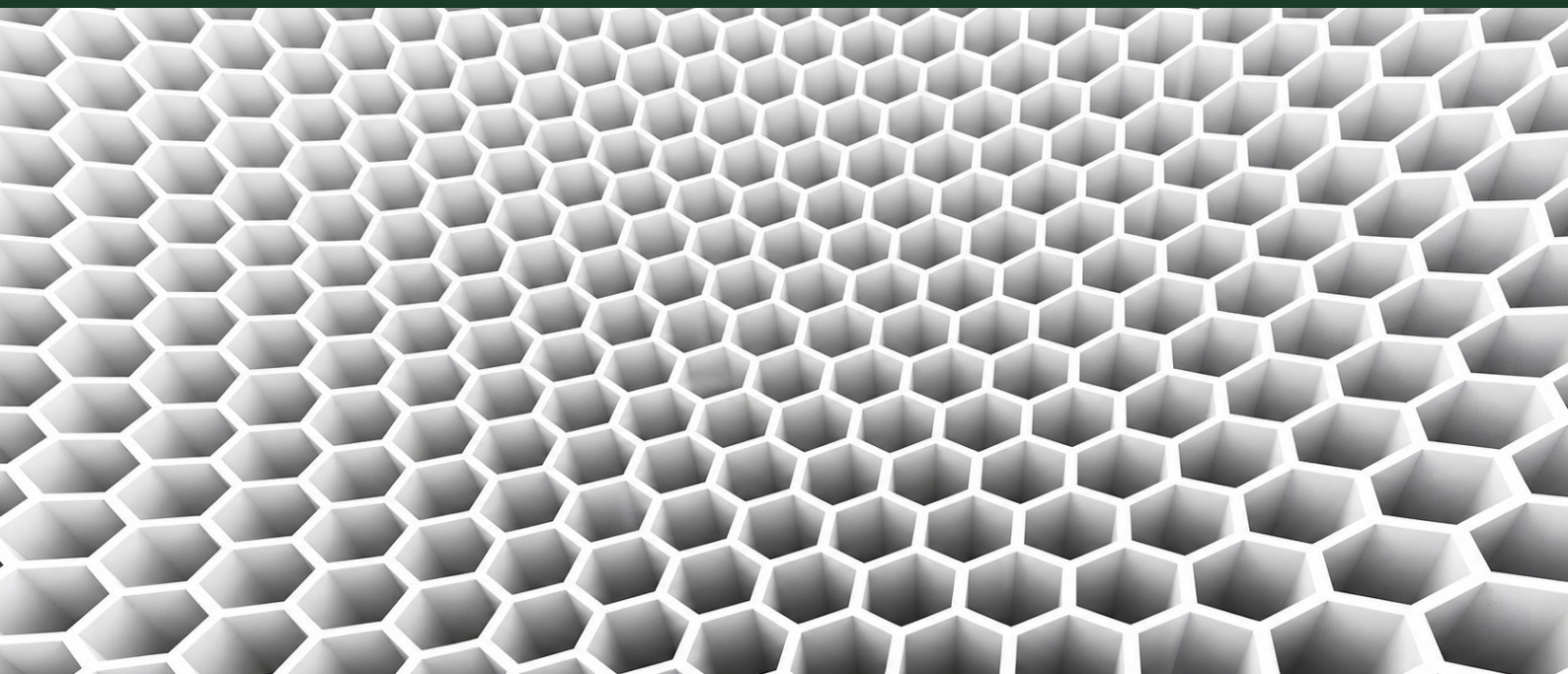
BEYOND HOUSEKEEPING

Legal Entity Simplification — The Least Glamorous Transformation That Unlocks All the Others

Why the Inherited Entity Structure Is Quietly Vetoing Your Target Operating Model

Giovanni Leonardi

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The Entity Problem Nobody Wants to Own

The transformation programme has a clear mandate: one operating model, one ERP instance, shared services across the group. The business case is approved, the integrator is mobilised, and the executive sponsor is presenting a clean target-state diagram to the board. Somewhere in the lower-right corner of that diagram, in a font size nobody chose deliberately, sit the words "legal entity rationalisation — to be confirmed."

That parenthetical will quietly veto the rest of the programme.

We have all sat in steering committees where entity structure is treated as a downstream administrative task — something for Legal and Tax to sort out once the "real" transformation decisions have been made. The assumption is understandable: legal entities feel like plumbing, not architecture. They are the inherited residue of acquisitions completed years ago, of market entries structured for a tax regime that has since changed, of joint ventures whose commercial purpose expired but whose corporate shells persist. Nobody's career was built on entity rationalisation, and nobody's transformation case study will feature it. And so it is deferred.

The deferral is the problem. Because every ambition the programme carries — a single ERP instance, a shared-services centre in a chosen location, standardised processes across the group — will at some point collide with the fact that the group is not one organisation. It is thirty-seven legal entities across fourteen jurisdictions, each with its own statutory obligations, employment contracts, tax registrations, and — in the jurisdictions that matter most — works councils whose consultation rights are triggered by exactly the kind of changes the programme intends to make.

Why Entity Simplification Is the Enabling Programme

The pattern that recurs across multi-country transformations is consistent: the operating model is designed as though it will be implemented into a single corporate container, and the entity structure is expected to accommodate it. In practice, the accommodation runs the other way. The entity structure dictates what is actually possible, and it does so through constraints that surface late, one jurisdiction at a time, each requiring its own resolution.

Consider the mechanics. A shared-services migration requires employees to transfer between entities — which in France triggers a *procédure d'information-consultation* with the *comité social et économique*, carrying a timeline set by labour law, not by the programme plan. A single ERP instance requires intercompany transactions to be redesigned, which means transfer-pricing arrangements must be renegotiated and, under the Pillar Two rules now taking effect across the EU, documented to a standard that treats every entity as a taxable presence with real substance requirements. Process standardisation assumes that the same function is performed by the same entity in every country — but in the Benelux, a holding entity established for dividend-routing purposes fifteen years ago may still employ a handful of staff whose contracts sit under a collective labour agreement that constrains restructuring options the programme has not considered.

None of this is exotic. It is the ordinary complexity of a multi-entity group, and it is invisible to the programme until it becomes a blocker. The reason it becomes a blocker rather than a managed dependency is that nobody owns it as a programme in its own right.

Entity simplification is not legal housekeeping. It is the enabling programme for the target operating model — the one that determines whether the ERP can be consolidated, whether shared services can be staffed from the intended location, and whether process standardisation can be enforced without running into statutory divergence at every border.

When it is treated as housekeeping, it surfaces as a series of late-breaking objections from local counsel. When it is treated as a programme, it can be sequenced, governed, and — critically — aligned with the transformation roadmap so that the two stop discovering each other by accident.

The Scenario-and-Checkpoint Method

The delivery craft for entity simplification is scenario-based, and it operates at the country level. The reason is straightforward: every jurisdiction presents a different combination of constraints — corporate law governing mergers and liquidations, tax consequences of asset transfers, employment law governing consultation and transfer of undertakings, and regulatory requirements specific to the sector. A single group-wide simplification plan is an abstraction; what exists in practice is a set of per-country scenarios, each evaluated against the same criteria but resolved on its own terms.

The method that works — and by "works" I mean the one that survives contact with the legal calendar and the works council timetable — operates on three levels.

Country scenarios. For each jurisdiction, develop two to four options for the target entity structure: full merger, asset transfer with entity liquidation, dormant-entity retention with functional migration, or status quo with intercompany redesign. Each option carries a different profile across four dimensions:

Dimension	What it measures
Integration completeness	How close the option gets to the target operating model
Statutory feasibility	Whether corporate and employment law permits it within the programme timeline
Tax cost	One-off transfer costs and ongoing structural efficiency
Reversibility	What the fallback position looks like if the option stalls

In practice, the full-merger route scores highest on integration completeness but lowest on feasibility and speed — a cross-border merger under the EU directive can take six to nine months even when uncontested, and in jurisdictions with strong employee-representation rights the consultation process adds further time. The dormant-entity option scores lowest on completeness but highest on speed and reversibility. The right answer is rarely uniform across the group; a jurisdiction with three entities and cooperative works councils will take a different path from one with a single entity carrying complex regulatory licences.

Checkpoint governance. Each country scenario passes through a sequence of gates aligned to the transformation roadmap: a feasibility gate (can we do this at all?), a commitment gate (are we doing this, and by when?), and an execution gate (have the statutory steps been completed?). The gates are not ceremonial — they are the mechanism by which entity simplification and the broader programme synchronise. A country that cannot pass its commitment gate by the date the ERP migration requires entity readiness gets escalated, not deferred — because deferral is how the problem arrived in the first place.

Calendar integration. The single most underestimated dependency is the legal calendar. Corporate mergers in most European jurisdictions require creditor-notification periods, filing deadlines with commercial registers, and — for cross-border mergers — a prescribed sequence of national and cross-border steps. Works council consultations in France follow their own procedural rhythm, one that is set by the Code du travail and cannot be compressed by a programme milestone. In the Netherlands, the ondernemingsraad has an advisory right on major restructurings whose timeline is similarly non-negotiable. These calendars are not flexible. The programme plan must flex around them, which means entity simplification must start twelve to eighteen months before the transformation milestone it enables — earlier than any programme office instinctively plans for.

The compound effect is that entity simplification stops being a dependency the programme discovers and starts being a workstream the programme governs. The

scenario structure gives decision-makers real options rather than a binary choice between comprehensive restructuring and indefinite deferral. The checkpoint governance creates a forcing function that prevents the comfortable default of delay. And the calendar integration ensures that the one timeline no steering committee can override — the statutory one — is built into the plan from the outset.

The Cost of Continued Deferral

Organisations that defer entity simplification pay for it in ways that rarely appear on a risk register. They pay in programme delay, as ERP milestones slip because the receiving entity is not yet legally constituted or its works council consultation has not concluded. They pay in operating cost, as intercompany arrangements proliferate to work around a structure that was never rationalised. They pay in compliance exposure, as Pillar Two substance requirements and transfer-pricing documentation accumulate for entities whose only remaining purpose is that nobody has done the work to close them.

And they pay in opportunity cost — because every subsequent transformation, every future acquisition integration, every operating model refresh will encounter the same thicket of inherited entities and face the same choice: rationalise now, or work around it again.

The argument is not complicated. Entity simplification is not the sequel to transformation. It is the prerequisite. And the organisations that treat it as such — that fund it, staff it, and govern it as a programme with its own scenarios, checkpoints, and calendar — are the ones whose target operating models have a chance of becoming real.