Growth is the lifeblood of business, so the notion of entering untapped foreign markets is an exciting one for many companies. New markets provide opportunities to increase market share, keep ahead of competitors and amplify global brand credentials.

U.S. businesses are viewing international expansion as critical to revenue growth. This sentiment comes against a backdrop of global economic growth, with the International Monetary Fund projecting worldwide growth to rise by 3.7 percent in 2018.

Yet despite the very real incentives businesses have for considering expansion into new markets, it should be noted that challenges do exist. Language and cultural differences, governance, risk and compliance issues, and poor execution are all common stumbling blocks that businesses must navigate. By performing due diligence, companies can anticipate these issues, mitigate risk and help ensure a smooth transition.

GLOBAL EXPANSION CHALLENGES EXPLAINED

When setting up a new entity, it is beneficial for companies to understand the country requirements, what they want to do in that country, and to get the right advice about what type of entity to set up. Here are a few challenges that companies frequently encounter.

Complying with laws and regulations

Perhaps the best place to begin examining expansion challenges is with jurisdictional issues. Rules, regulations, and laws often vary considerably between locales, so it’s imperative to conduct a full review of all relevant local statutes, tax regulations, and trading requirements. Failure to comply can lead to significant financial penalties and lost goodwill.

Some businesses may also discover a need to receive local accreditation, trading approval or the assent of a regulatory body before moving forward. Failure to secure the required permits and approvals beforehand could result in hefty fines and a ban on trade. Expanding companies are expected to have knowledge of local regulatory regimes before beginning operations. GDPR, FATCA, and MiFID II are three examples of evolving jurisdictional legislation and regulations that need to be taken into account.

Understanding cultural differences

World cultures are a rich and diverse tapestry, yet the potential for good faith miscommunication is ever-present. Effective communication with clients, customers, and partners is essential for international business success, and this is true for both verbal and non-verbal forms. Always be cognizant of how wires may be crossed or signals missed.
Markets, too, must be understood and approached on their own terms. Using a strategy that worked well domestically may not work within international markets. Businesses should carefully consider the culture of new markets, and calibrate their pitch accordingly. Local expertise helps to make this transition.

Navigating political risks

As political landscapes are perpetually evolving, risk tolerance should remain a key consideration for businesses eyeing global expansion. Are there risks to cross-border trade in the markets under consideration? (Brexit, for example.) Are such risks likely to develop? How significant would such impediments be to success?

Answering these questions—and understanding other key issues such as the level of corruption or complexity within a new market—should be a priority for businesses.

Managing the Process

Managing compliance across multiple jurisdictions is no small task. Entering a new market means contending with an entirely new slate of laws, regulations, rules and so on. Additionally, some jurisdictions are more complex than others, and there is a continuing need to stay on top of updates and new statutes.

Corporate compliance services typically include legal entity creation and registration, legal document preparation and filing and the vetting of internal records. Most traditional process outsourcers for IT and HR do not cover compliance services.

OVERCOMING THE CHALLENGES

Start pre-launch research and planning early

At least a year before establishing a physical presence, carefully research the specifics of the territory’s political, legal and cultural environments, in addition to business factors such as competitive landscape, target markets, and workforce. Pay attention to how the local specifics and nuances could impact your operations, and potentially expose you to financial, legal, and reputational risks. Errors and omissions in your research phase can be exponentially costly to correct later.

Get local help from third parties

The role of local advisors and service providers is crucial, particularly in creating the new legal entity, recruiting and training senior management and operational workers, and supporting day to day administrative functions such as payroll processing, cash management, regulatory reporting and the like. Local knowledge and experience are essential for these critical tasks that add little value to the organization. Thus they are often best handled by local specialist organizations.

“Language and cultural differences, governance, risk and compliance issues, and poor execution are all common stumbling blocks that businesses must navigate.”

Use outsourcing pragmatically

Using local outsourcers, professional services firms and consultancies is an important time-saver in the early phases of expansion. However, keep in mind that the engagement has to be fluid. An organization should regularly assess what functions can be taken back in-house, and which to further outsource. Pick a provider who can keep their services flexible, and can customize them to your needs as they evolve.

Consider joint ventures and acquisitions.

One way to avoid some of the effort and cost (and risk) involved in setting up a subsidiary in a new territory is to buy or create a joint venture or an existing operation. But even when considering an acquisition or joint venture, an organization must still acquire a deep understanding of the local political, economic, and social conditions of their target territory, as well as understanding the commercial and operational capabilities of the target organization. That means seeking advice from local business and political advisers and local business services providers.

Consider strategic, multi-territory relationships with key service providers

One of the critical issues involved in managing territorial expansion is gathering, processing, and reconciling operational, financial, and legal data across multiple territories. It’s a given that local reporting and regulatory requirements in each territory are country-specific. One of the major advantages of using an outsourcer or service provider to manage functions such as payroll, cash management, HR, legal compliance, and financial reporting is that the provider will be expert at reconciling the data.

This information is not intended to provide legal advice or serve as a substitute for legal research to address specific situations.

continued on page 3
between the enterprises’ corporate formats and standards and those demanded by the local regulatory authorities. Managing multiple subsidiaries involves even more complications and management overhead. That’s why using a single strategic supplier to handle these outsourced functions in multiple territories can remove most if not all of the pain from this process. At the very least, it will ensure consistency across processes and standards.

**Conclusion**

The pace of U.S. companies that are expanding internationally is rapidly increasing. Companies that are venturing overseas for the first time can learn important lessons from companies that have already done so. One of the top challenges companies will face is not having a good grasp of local legislation and business regulations. Without this, a company is at risk of inadvertently alienating local stakeholders, or even breaking the law. As in the U.S., consequences of non-compliance can include fines, suspension of trade, and sometimes even criminal prosecution.

By outsourcing transactional, administrative services, businesses can focus on establishing their core business mission. To learn more about how CT can help you better manage your global compliance needs, contact a CT representative at 844-318-1457 (toll-free US).