Expanding Beyond Your Borders: Charting a Successful Path for Global Growth

Expanding internationally presents companies with a world of opportunity—as well as a host of questions and risks from an accounting and finance perspective. When companies evaluate the costs and benefits of entering into new countries or regions, they often include tax planning in their financial analysis. But understanding the true cost of doing business in a country requires more than just looking at income tax, sales tax, value-added tax and other tax regimes.

Companies considering overseas expansion need to take a 360-degree view of how operating in a new country will affect their operations and planning, particularly in terms of the impact on their finance and accounting departments.

Here are some of the top accounting, legal, technology and compliance issues companies need to keep in mind when growing internationally.

Give yourself time—and lots of it

There are many variables and unknowns when it comes to expanding overseas, but one thing is certain: **getting up and running in the new country will take much longer than you think.**

Finding the right people to staff your operations in the new country will take time because you will have to learn the recruiting landscape in a new area and connect with a new base of talent. You need to put the structures in place so that those people can actually begin working for you in that country. This involves establishing the legal entity; securing tax ID numbers and, in some cases, work visas; setting up bank accounts; creating employment agreements and a host of other regulatory hurdles that need to be cleared.

It's important to build these tasks into your expansion timeline, or you'll run the risk of finding the right people to staff the expansion efforts—and then have them sitting on the sidelines while they wait for you to get through all of the red tape.

Understand that it's a balancing act

One of the first decisions you need to make is to determine how large and how permanent of a presence you want to have in a new country. Do you want to have people permanently staffed in that country? If so, how many? What sort of facilities will you need to house your operations in the country?

Answering these questions is more complicated than looking at the ROI of the expansion from a pure business perspective. You also need to think about how the way you structure your presence in the country could trigger various taxes and registration requirements. In the Nordic countries, for example, even having one employee located there will require a company to answer a host of questions and go through a lengthy and potentially expensive registration process.

Your cost-benefit analysis needs to account for all of the legal costs and potential tax exposures of expanding into a country. Most importantly, you need to balance your desire for growth with a comprehensive assessment of the full cost of doing business in that country.

Don’t take a high-level view of the map

Companies spend a tremendous amount of energy deciding which countries they want to expand to. But companies also need to think about where they want to expand within those countries. Taxes, employment laws and business licensing requirements can vary significantly across states or provinces—and even from city to city.

Companies that expand into the United States need to realize that doing business there can be like doing business in 50 different countries. In some states, the employment regulators and taxing authorities at the state level are much more aggressive than the federal regulators. And many U.S. cities have minimum wages that are higher than the federal level, as well as separate employment and income taxes. Companies coming to the United States—or even U.S. companies expanding within the country—need to think long and hard about where to set up their headquarters and the nexus of their operations.

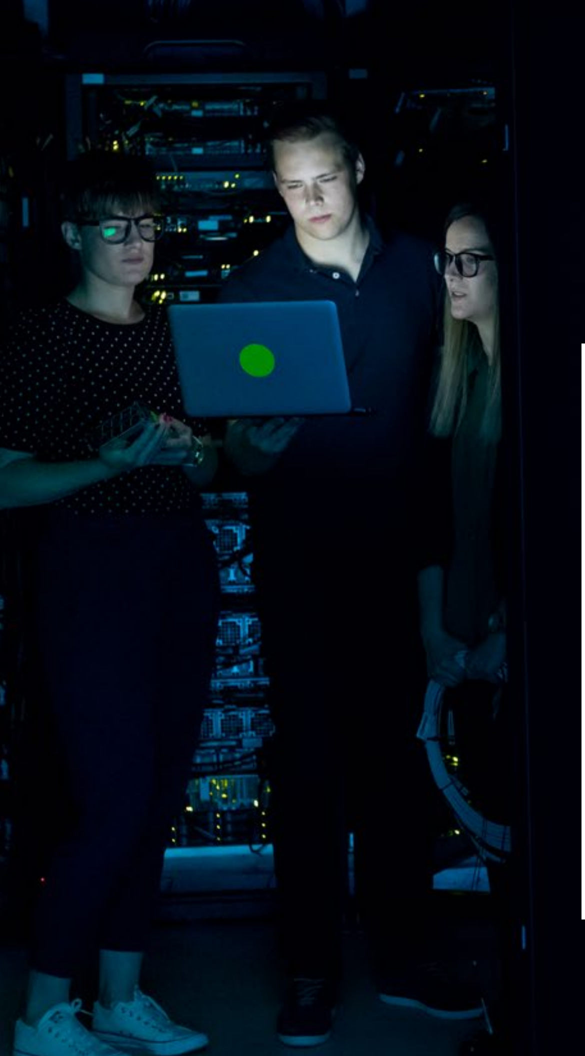
A similar situation exists in Europe. While the United Kingdom’s “Brexit” gets all of the headlines, there are significant differences in the regulatory and tax regimes among the countries within the European Union.

Don't view employment costs through a narrow lens

Understanding the prevailing wages in a new country is a big factor in deciding how expensive it will be to staff overseas expansion, but it's only half the battle—if that. Companies need to understand the total cost of employment in each jurisdiction.

Benefits and employment taxes vary significantly from country to country and can add up to 50%, or more in some areas, when determining the "fully loaded cost" of an employee.

In addition to thinking about what it costs an employee to work for you, companies also need to think about how much it would cost to get that employee to stop working for you. Many countries outside the United States don't have "employment at will," so it can be very difficult and expensive to lay off employees or fire them for performance reasons.



Get to know your friends in the IT department

The implementation of Europe's [General Data Protection Regulation] (GDPR) in 2018 highlighted the need for countries to examine their cybersecurity and data privacy policies—both in terms of complying with the new regulations and protecting against the growing cyber threat.

While GDPR certainly grabbed the attention of companies around the world, the European Union is hardly alone in increasing its technology compliance requirements. The United States has implemented the Privacy Shield Framework, and China presents a host of other data protection and censoring-related concerns.

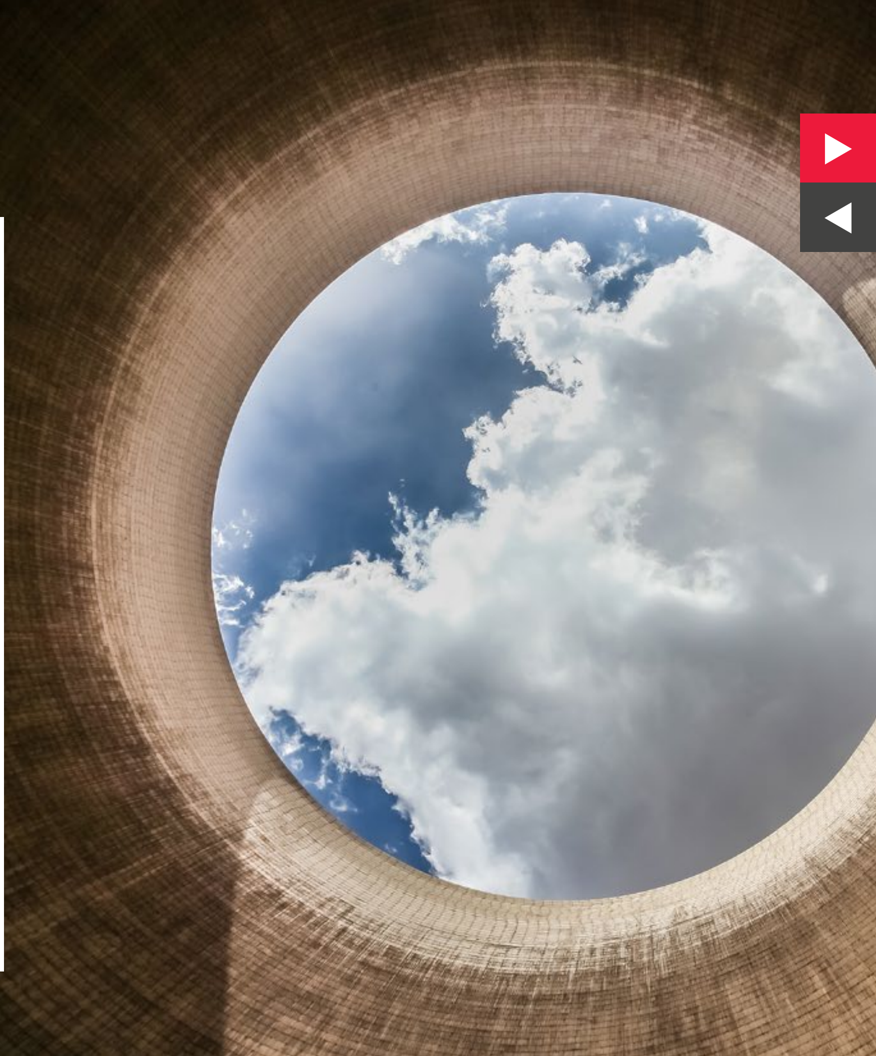
When a company is considering expanding into a new country—even if that means simply selling to customers in that country without setting up operations there, as is covered by GDPR—the IT team needs to be part of the discussion. This can't be a static, one-time discussion, either. The threats and policy responses to those threats are constantly evolving—and at different rates around the world.

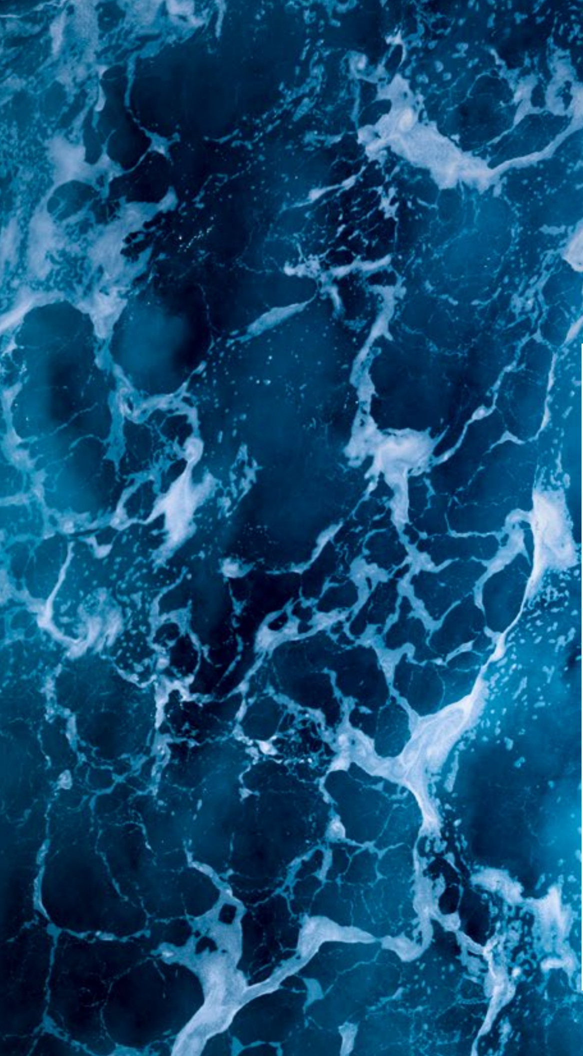
Learn the ABCs of ESG

Consumers, investors and regulators around the world are paying closer attention to the impact that companies have on the environment and on society. Whether it's the carbon footprint of the company's operations, the diversity represented on a company's board of directors or the working conditions for employees, companies need to prepare for higher scrutiny from a host of stakeholders.

The degree and form of this scrutiny will vary significantly from country to country, and even within those countries. The central banks of many European countries and other European regulators are pressuring companies to reduce the carbon emissions of their operations and their investment portfolios. California became the first U.S. state to require public companies headquartered or incorporated there to have at least one woman on its board of directors.

These trends have led to massive growth in the number of investors who are incorporating environmental, social and governance (ESG) factors into how they evaluate a company's long-term prospects.





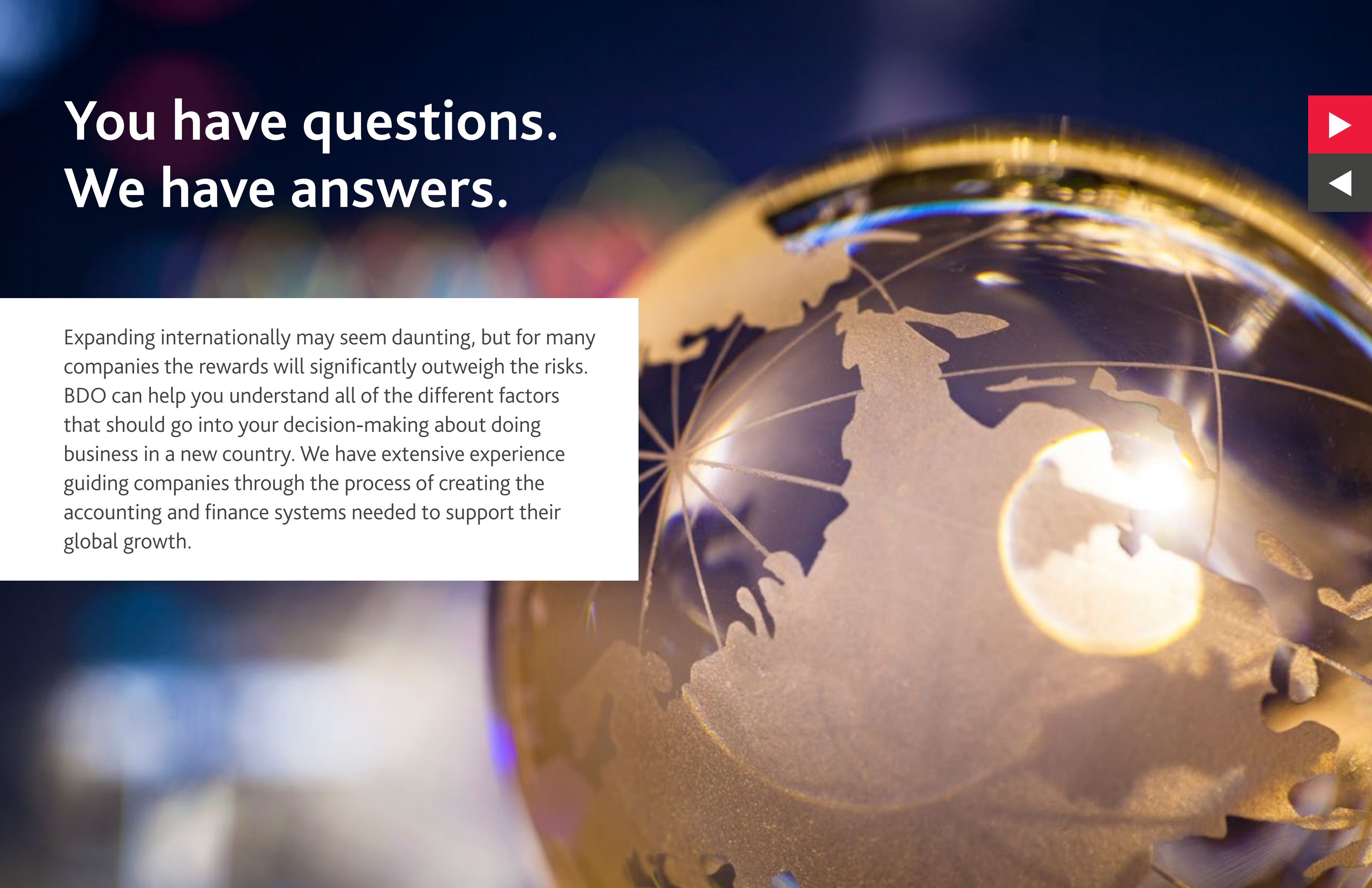
Build an accounting infrastructure that spans oceans

While many of the considerations related to overseas expansion have to do with decisions that are made on the front end, it's equally important to think about how you will support the operations from an accounting and finance perspective once you're up and running in the new country. Each country has its own set of deadlines for tax filing and requirements for financial statements, so you need to think about how you will manage this growing complexity.

Companies that are expanding internationally for the first time may want to consider creating the position of international controller. These companies also will want to think about how they will structure their accounting departments to support the international expansion and whether using in-country accounting teams makes more sense than keeping the bulk of the accounting team centralized in the home country.

Another option to consider is using outsourced accounting services to help manage the transition from purely domestic financial systems to truly international ones.

You have questions. We have answers.



Expanding internationally may seem daunting, but for many companies the rewards will significantly outweigh the risks. BDO can help you understand all of the different factors that should go into your decision-making about doing business in a new country. We have extensive experience guiding companies through the process of creating the accounting and finance systems needed to support their global growth.

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