SAFEGUARD GLOBAL

DIY global expansion

5 key preparations for international success

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INTRO

A recent survey of 2,900 IT decision-makers found that 72% of respondents indicated their organization is planning to expand in the next 12 months, into either a new city (31%), a new country (33%), or a new region entirely (38%).[1] Although this data was collected specifically for the tech industry, it highlights a common theme for many industries. Whether to acquire talent, reach new markets, or reduce costs, companies are expanding globally.

For some organizations, particularly those experimenting with expansion for the first time, it can be tempting to DIY. But like any do it yourself project, there are always hidden costs or unforeseen challenges that can delay or derail the project. Global expansion complexities will always exist for companies growing into new foreign markets. The only way to avoid it is to work with experts that understand the local laws and regulations for each jurisdiction of operation.

To illustrate this point, a client recently contacted Safeguard Global for support as they were preparing for their own growth initiatives. As we discussed their situation, they mentioned they had begun the hiring process for an individual in Switzerland. They mentioned that during negotiations, the candidate was willing to waive a pension in order to be paid a higher salary.

From a U.S. perspective, this may have sounded like a good opportunity for cost savings. However, Switzerland mandates a minimum 50% pension contribution for employers. Violation of this law would entitle the employee to receive the amount they would have been paid as salary plus matching contributions throughout the duration of their employment. In some cases, you cannot process payroll at all until you have the pension set up with the employee.

This was a very expensive and difficult legal issue to resolve if they hadn't reached out to experts first. Some candidates might take advantage of U.S. businesses that lack global expertise. With that being said, we've listed out a few more reasons to consider consulting with experts during your global expansion.

1 https://www.equinix.com/newsroom/press-releases/2022/07/72-of-global-businesses-forge-ahead-with-expansions-despite-economic-concerns-and-supply-chain-challenges#:~:text=Of%20the%202%2C900%20IT%20decision,new%20region%20entirely%20(38%25).

1. Establishing a legal entity

Many companies trust their team of lawyers to handle the incorporation and setup of their businesses overseas. But lawyers can only do so much. Usually, lawyers can only incorporate a business but are unable to register the newly formed business for various taxes, etc. and are surely unable to set up the payroll and HR side of things. Think of it as getting a car without an engine; if it doesn't turn on, it is useless.

Without global experience and expertise, businesses will have to hope their lawyers set up their entity correctly. If they make any errors with entity classifications, it could take an additional three to six months to correct those mistakes. If the company was hoping to hire employees and start operations, this would set them back significantly.

Many businesses forget what comes after the setup process. They don't realize how difficult it is to maintain compliance.

Incorporation and registration

- Registration documents
- Articles of incorporation
- Corporate governance structure
- Business license / entity registration Approval
- Tax ID
- Register to be a local employer

Post-incorporation

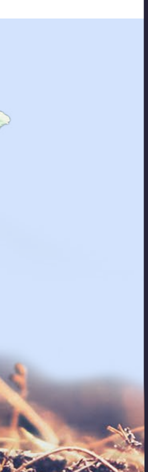
- Payroll setup
- Statutory benefits and social security registration
- Data protection registration
- Accounting setup, bookkeeping and reporting
- Local bank account setup
- Local indirect tax VAT | GST | HST

Corporate annual compliance

- Preparation of group consolidated accounts
- IFRS, US, GAAP, or other local GAAP financial statements
- Statutory audit support
- Tax, payroll, and statutory returns
- Correspondence and administration

Ongoing governance

- Single point of contact (SPOC)
- Status reports
- Key performance metrics



WHAT CAN GO WRONG?

In 2018, we worked with a $7 billion private equity firm that acquired an elite global training provider in an asset purchase. The acquisition was a competitive and complicated process.

Originally, it was set up incorrectly as a non-resident employer. This meant it couldn't set up a bank account in their country of operation. Unfortunately, without a bank account, you can't set up a pension because those funds are required to come from a local bank account.

We were able to make these corrections, but it took several months. This caused some employee frustration within the company because the employer's mistake was costing them money. If a workforce is disgruntled enough, it could seriously disrupt a company's operations and tarnish their reputation as an employer.

2. Global human resources

Hiring complexity can vary from country to country. But extensive employment contracts or negotiations with collective bargaining agreements are typical in many countries. The employer must include all required provisions within the contract when hiring candidates, which means you can't just use a generic contract template you find online.

Additionally, companies can't just fire an employee, either. You have to follow a lengthy process and ensure extensive documentation is kept. In many Latin American countries, businesses have to follow a strict hiring process that includes:

- Both parties have to sign an offer letter
- The employer must run a background check on the candidate
- The employee must complete a medical exam
- Both parties must sign an employment contract
- The employment contract must be registered with the local government

A lot of European countries now require time attendance, even for salaried employees. In some countries, you may even have to pay overtime if they work more than their agreed upon hours. These are the little things that can start to add up if a company is not compliant. Here is a list of regulation considerations for each country of operation:

- Onboarding and offboarding
- Leave management
- Administration of medical exams
- Statutory and supplemental benefits
- Union and CBA registration
- Pension setup

- Corporate and payroll tax filings
- Life insurance
- Employee trainings
- Compliance
- Company policy and handbook documentation

WHAT CAN GO WRONG?

Did you know that France has two sets of leave calendars, and they both expire at different times? These time-off requirements can be very complicated and easily overlooked if companies aren't working with an in-country expert.

Do you know the difference between mandatory hiring requirements and supplemental or customary offerings? If you're hiring a country manager in India, it is customary to provide a vehicle or education funding. Although not required by law, if you're not offering these things, you may not be considered by top talent.

Lack of compliance puts your local director at risk. Often the local director is the CEO or other executive of the company. If a local government finds out a company hasn't been compliant, the local director could be arrested.

3. Payroll and accounting

Payroll and accounting become even more complicated in the international marketplace. Some companies may think that because they have limited employees or expenses in a country, they can consolidate their accounting. Here are some international payroll considerations to maintain compliance:

- Payroll funding
- Corporate and payroll tax filings
- Employer payroll registration
- Registered office and resident director
- Bank account setup

4. Global tax and compliance

Managing tax and compliance is complex, especially when dealing with multiple jurisdictions where keeping track of changing laws, deadlines, and requirements can often require a small army of specialists.

When looking for a partner to support with global tax and compliance, here are a few areas to consider:

- Providing visibility into the regulatory landscape and fulfilling requirements within each of your locations worldwide, including deadlines
- Striking a balance between risk mitigation and capitalizing on opportunities
- Creating global compliance and reporting processes that are integrated across finance and tax and managed under a clear and centralized governance model
- Assistance with period close, trial balance compilation, reconciliations, and data gathering and analysis
- Delivering statutory reporting services
- Annual company law compliance
- Compliance advisory services
- Group-to-local GAAP conversion

WHAT CAN GO WRONG?

The last thing businesses want to do is pay more taxes than necessary. When companies don't set up their entities correctly, it could result in multiple countries competing for your taxes. If a company has already paid taxes to their home government, they may need to pay additional taxes to the country of operation, in addition to possible penalties and fines.

5. Using country partners

Many companies decide to hire a local partner within the country they are expanding to. Although this is often a cheaper option, companies get what they pay for. These companies almost always experience issues with:

- Language barriers
- Time zone differences, making it difficult to coordinate and collaborate
- Currency challenges
- No desire to develop a long-term relationship
- Overall opportunity cost

Companies also need to understand that if they operate in multiple countries, they will need to hire multiple vendors (anywhere from five to 15 vendors per country). As they continue to expand into new countries, it becomes cumbersome to manage multiple vendors across the world. This makes it much harder for a business to coordinate and make informed decisions.

Centralizing or consolidating vendors will eliminate the management stress and free up time to focus on other important growth initiatives.

WHAT CAN GO WRONG?

A company with global operations was struggling to achieve profitability in a certain country. They hired Safeguard Global to conduct a fraud audit for one of the vendors they were using as a country manager.

Our investigation uncovered that this country manager was using company funds to finance her own company without the client's knowledge. Due to the client's lack of expertise, the Country Manager was able to use the money from the client to pay the employees to continue building her own business.

Many of the charges and fees were unnecessary and unethical. We were able to clean up this situation, which resulted in the client becoming profitable in that area soon thereafter.

SAFEGUARD GLOBAL

Trusted support for your DIY expansion

Safeguard Global helps public, private and nonprofit organizations of all sizes with integrated international growth solutions. Our experienced global teams understand the complexities of operating across multiple countries and help our clients effectively navigate the nuances of local laws and regulations. We help simplify day-to-day operations for our clients, freeing up your time and resources to focus on your core competencies.

We provide comprehensive global expansion support in 170+ countries. Learn more about:

Recruiting internationally

Processing multinational payroll

Hiring and onboarding with GEO, our employer of record

Setting up your own legal entity

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Safeguard Global is a future of work company that helps workers and companies thrive in the global economy. Backed by a data-rich technology platform, local expertise and industry-leading experience, Safeguard Global provides end-to-end solutions to manage people and scale operations. With Safeguard Global, organizations can recruit, hire, manage, pay and analyze anywhere in the world, no matter where they are in their growth journey.