THE CFO's SECRET TO GLOBAL BUSINESS EXPANSION: **KEEP COSTS LOW AND EXPANSION FAST**

EMPLOYERS OF RECORD SMOOTH THE PATH TO INTERNATIONAL EXPANSION, ACCORDING TO NEW CFO SURVEY

CFO

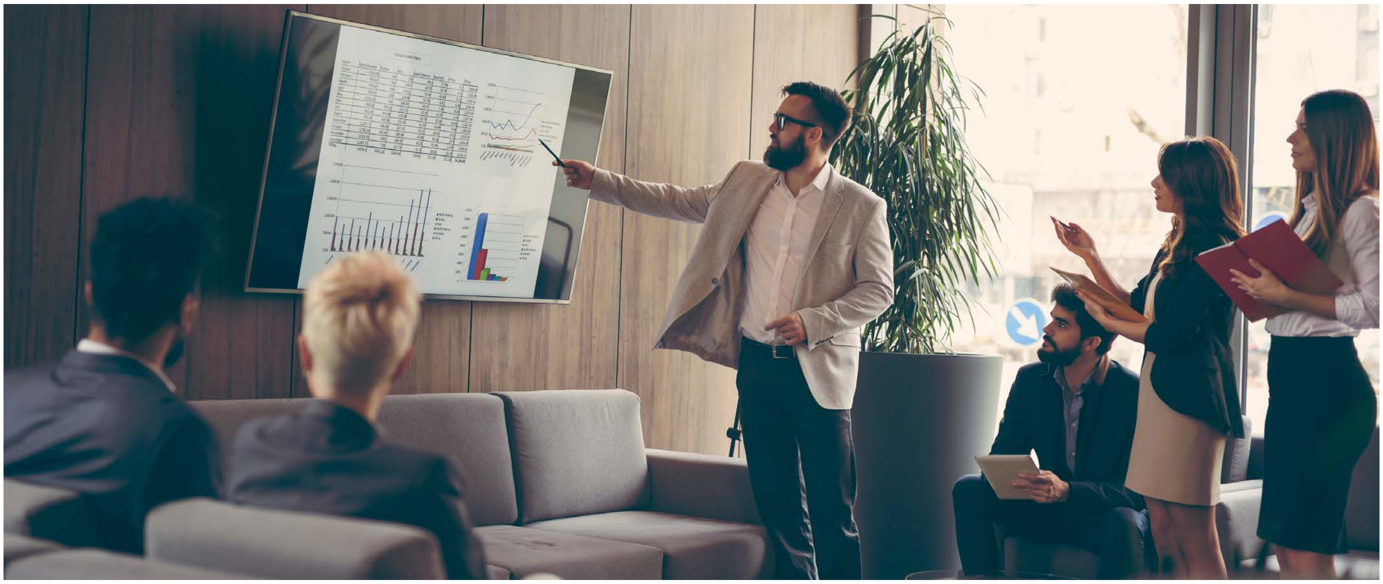
Globalization PARTNERS

For many companies, expanding internationally has become less an option and more an imperative. Moving overseas can open new revenue opportunities for companies bumping up against market share limitations in their home country. It can give new life to mature products that have reached the end of their lifecycle in their home market, but could still be competitive in another. By quickly beating competitors into a new territory, companies may also be able to capture and benefit from first-mover advantages.

Beyond seeking to tap new markets, companies increasingly are looking offshore for talent. Technology now makes it possible to field a workforce every bit as distributed as their supply chain. Employers can now access the best employees they can get, wherever they may be found—and in some cases, no matter where those employees want to work.

Pursuing and achieving these goals can be exhilarating. It also can be fraught with challenges—especially for companies unaccustomed to navigating the legal, regulatory and cultural terrain of an unfamiliar locale. Indeed, in a new survey of senior finance executives working at companies where expansion abroad is part of their long-term strategy, 51% report that legal, HR, or tax compliance challenges have been a substantial barrier to implementing their international strategy. The survey was conducted by CFO Research, in collaboration with Globalization Partners.

FIFTY-ONE PERCENT OF SENIOR FINANCE EXECUTIVES REPORT THAT LEGAL, HR, OR TAX COMPLIANCE CHALLENGES **HAVE BEEN A SUBSTANTIAL BARRIER TO IMPLEMENTING THEIR INTERNATIONAL STRATEGY.**



The list of challenges can be daunting, no matter how high you’re aiming. An organization hiring a lone sales representative in, say, Ireland, must negotiate the same sort of legal and cultural challenges facing an organization that’s staffing a ten-person distribution center in Brazil or a 200-employee production facility in Vietnam. Even past experience and success in one country cannot ensure success or speedy results in another, since laws and cultural norms can vary tremendously from one geography to the next. In the U.S. vacation time is offered at the discretion of the employer. But in many countries, there are statutory agreements that provide employees with paid time off—as well as salary increases, profit-sharing and bonuses. In Mexico, federal law entitles employees to a Christmas bonus equal to 15 days of normal pay, which employers must pay by December 20 or risk fines. Companies that fail to adhere to these norms can find themselves in trouble with both local governments and employee expectations.

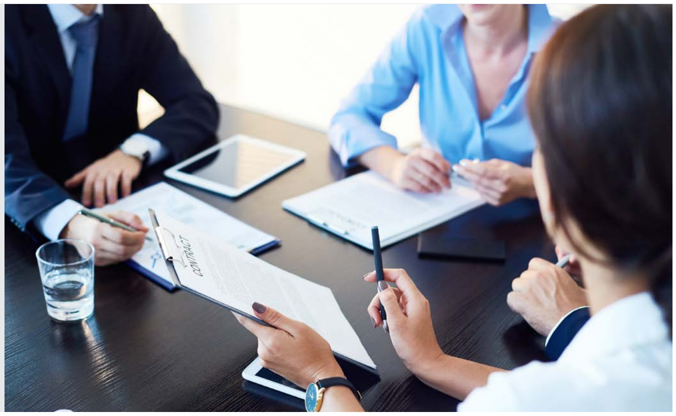
The list of responsibilities companies assume when expanding international is long as well. Just on the legal and regulatory front, hiring even one overseas employee can require setting up a subsidiary or regional presence to act as the employer of record, registering with tax authorities, opening local bank accounts, acquiring local commercial certifications, and administering payroll and employee benefits in accordance with local laws and regulations. Typically, organizations will need to hire local accountants and attorneys to ensure compliance in all these areas. Depending on the country, it could take three to 12 months to establish a foothold.

A PROBLEMATIC ALTERNATIVE: CONTRACTORS

Some companies look to skirt these issues by setting up international employees as contractors rather than employees. But this can be complicated, right from the start. Is the person being "hired" actually the best person for the job, or are they simply the best person willing to work as a contractor? In many countries, true employees are eligible for significant government-sponsored benefits that many good hires would be loath to give up. Japan's public health care system is a good example; it's so well-regarded that private alternatives are scarcely available—a real deterrent to any Japanese citizen contemplating working as a contractor. Australia's highly rated pension system is another employee perk workers would be reluctant to forfeit. It includes a feature known as the Superannuation Guarantee in which employers must make a retirement account contribution for each employee equal to 9.25% of their ordinary earnings.

In some countries, employers also must be careful to ensure that contractors, by virtue of their responsibilities, aren't actually employees entitled to the rights and benefits associated with that status. Misclassifying contractors as employees can lead to fines and other penalties.

THE GLOBAL EOR SOLUTION



Given the HR challenges associated with overseas expansion, it's not surprising that many companies are turning to an alternative model in which they outsource the international employment process to a third party specializing in that work. This third party, known as global employer of record, or EOR, serves as the employer of record for their client's employees in a foreign country. A EOR can handle recruiting (or simply onboarding of the client's chosen candidates), take care of payroll, and offer benefits packages in line with local requirements and expectations. The EOR assumes all responsibility for compliance with legal requirements, and its on-the-ground presence ensures that it's in touch with the local employment culture, too. Top global EORs can handle assignments ranging from a setting up a single employee to staffing an office or facility requiring hundreds or more employees.

In the new survey of senior finance executives conducted by CFO Research, 58% of the respondents said their organizations already engage a global EOR to support their international business strategy or plan to do so in the next three years. This group includes 23% who are working with a global EOR today, and 19% who plan to do so within one year. What's more, nearly all the survey respondents—94%—said a trusted global EOR can do a much better job of overcoming potential barriers to operating in a new country than a typical company can do on its own. And 96% agree that its essential for CFOs to understand the capabilities of a trusted global EOR in order to fully inform enterprise decisions on overseas expansion.

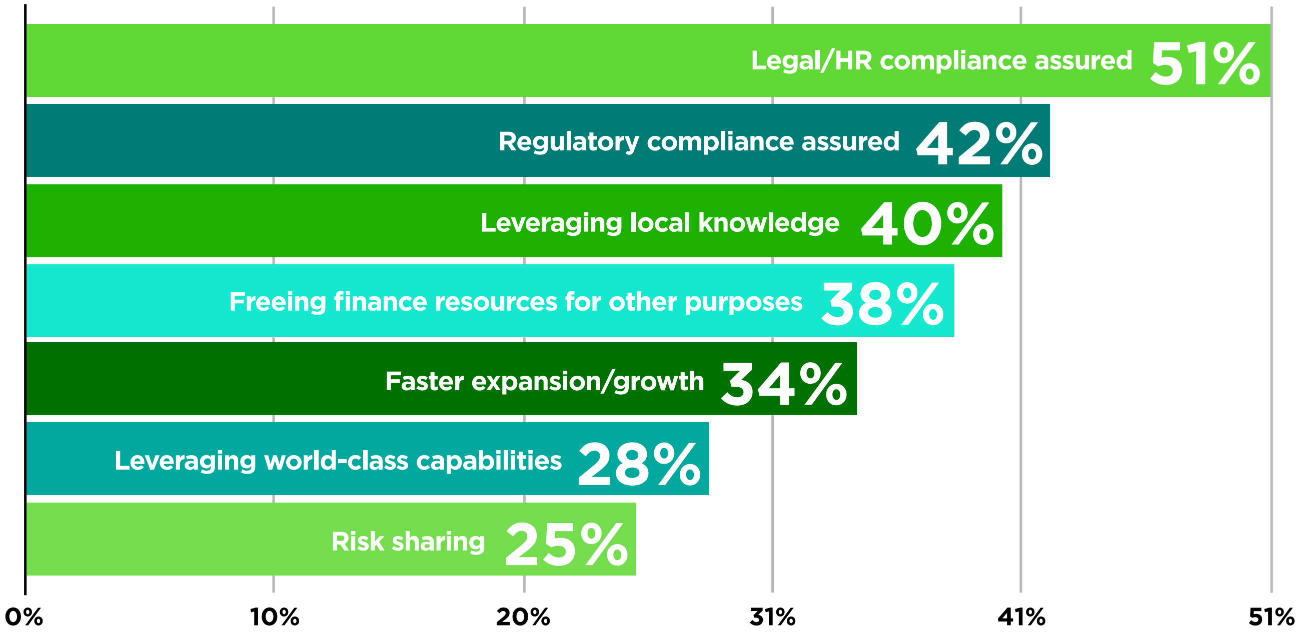
FIFTY-EIGHT PERCENT OF SURVEY RESPONDENTS SAY **THEY ALREADY USE A GLOBAL EOR OR PLAN TO DO SO WITHIN THE NEXT THREE YEARS.**

Working with a global EOR can make extra sense for companies that haven't yet settled on a long-term global strategy and are moving into a new country simply to test the waters. In that scenario, it could be hard to justify spending the time and money required to set up an offshore subsidiary. With a EOR, many of those expenses are eliminated. Companies can hit the ground running, fast—and pull out fast if the new venture proves ill-advised.

A BROAD RANGE OF BENEFITS

The top perceived benefit of working with a global EOR is the assurance of legal and HR compliance, cited by 51% of survey respondents, followed by the assurance of being in regulatory compliance (42%) and the ability to leverage the global EOR's local knowledge (40%). (See Figure 1.)

Figure 1. **Legal and HR compliance seen as top benefit of working with a global EOR**
What do you perceive as the biggest potential benefits organizations can realize from using a global EOR?



In fact, many finance executives see using a trusted global EOR as a best practice. Eighty-three percent agree, for example, that working with a global EOR is a best practice for relieving the management and administrative burdens of overseas business expansion.

MANAGING RISK AND COMPLIANCE

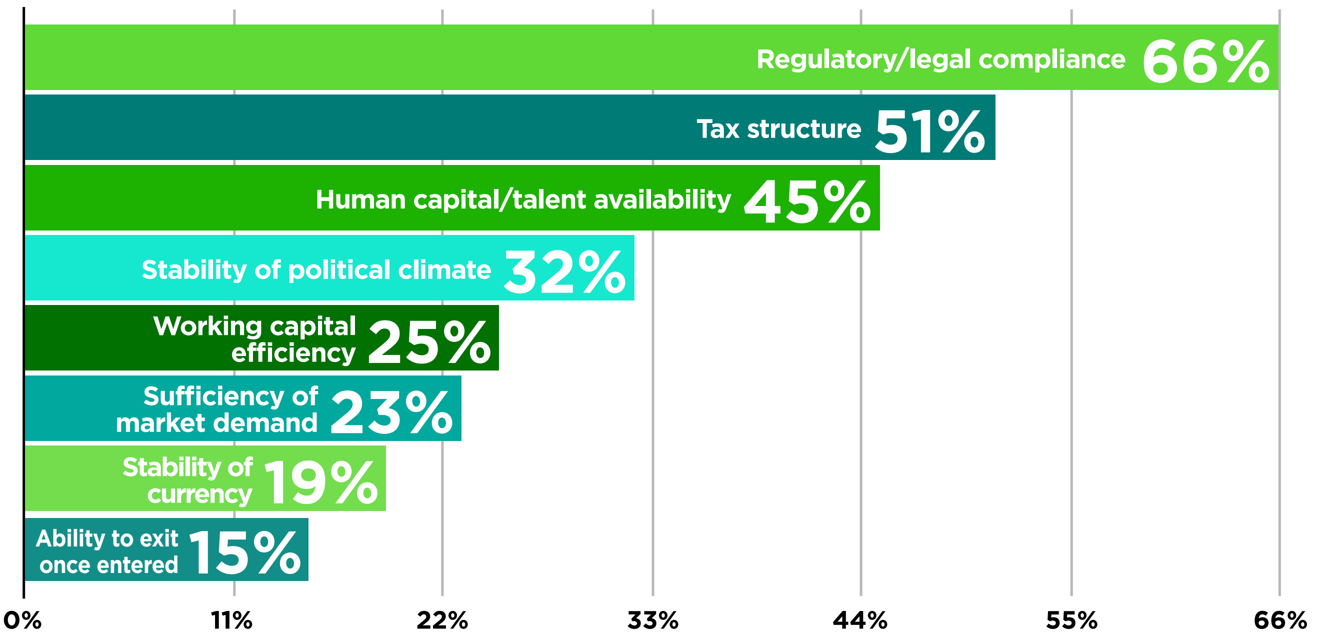
Even more finance executives—85% of those surveyed—agree that using a trusted global EOR is a best practice for addressing the enterprise risk that accompanies overseas business expansion.

These executives identify a wide range of risks companies assume when they expand beyond their own country’s borders. At the top—and deemed most critical for EORs to successfully address—are regulatory and legal compliance risks, cited by 66% percent of survey respondents. Notably, that figure is up a full 10 percentage points from a similar survey last year, when it was still the top risk but cited by only 56% of survey respondents. The uptick may reflect an appreciation for how quickly laws and regulations relating to employment can change around the globe.

Other top risks relating to overseas expansion revolve around tax structure challenges, cited by 51% of survey respondents (up from 46% a year earlier), and human capital/talent availability, cited by 45% (up from 38% a year ago). Roughly a third of survey respondents also worry about political stability impacting their international business operations. (See Figure 2.)

Figure 2. **Compliance, tax and talent issues are top risks in overseas expansion**

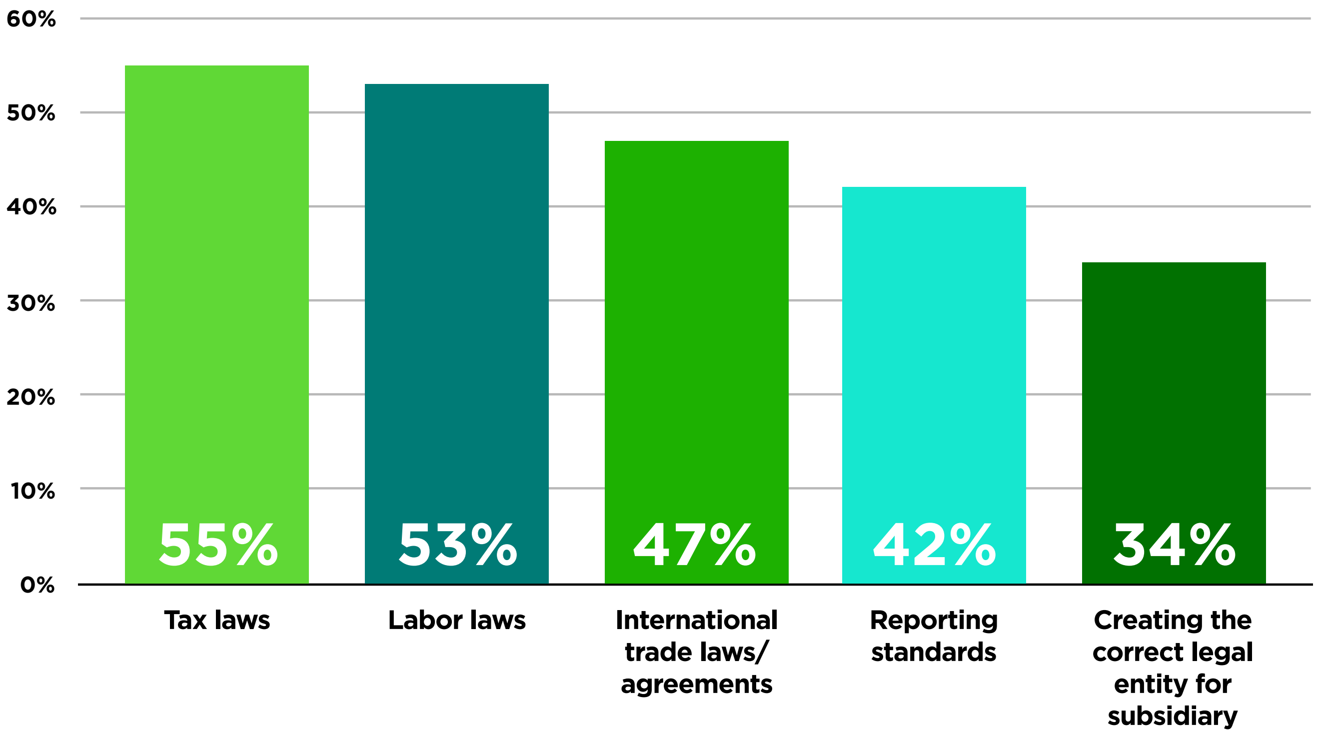
Which of the following enterprise risk issues related to overseas expansion are most critical for EORs to successfully address?



As Figure 2 shows, finance executives see managing the risks related to regulatory and compliance issues as the most important risk-management task for global EORs. But they have a long list of other compliance-related issues they consider critical for EORs to manage, too. The most common is ensuring compliance with tax laws, cited by 55% of survey respondents, followed by ensuring compliance with labor laws (53%) and international trade laws and agreements (47%). (See Figure 3)

Figure 3. **Tax and labor laws are key compliance challenges in overseas expansion**

Which of the following regulatory and legal compliance issues related to overseas expansion are most critical for EORs to successfully address?



MANAGING TALENT

A global EOR can be helpful in finding and onboarding talent when staffing an office or operation in a new country. But according to senior finance executives, the most important thing a global EOR can do—cited by 59% of survey respondents—is manage that talent.

The reasons aren’t hard to fathom. No matter how good new employees may be or how committed they are to making the new partnership a success, their enthusiasm will inevitably wane if their employer isn’t able to manage the fundamental nuts and bolts of setting up shop in the new country. The employees not only need the tools necessary to succeed, but also want to know their position is legally secure and stable and that their employer understands their specific needs and expectations, which can vary substantially from one country to the next. A global EOR’s boots-on-the-ground presence and in-country experience help to ensure success on all these fronts.

Employees working in a distant country also have a natural desire to feel connected to and engaged with their employer. Even simple things that a global EOR can offer—like onboarding videos in the local language—can be important in building a long-distance employer-employee relationship.

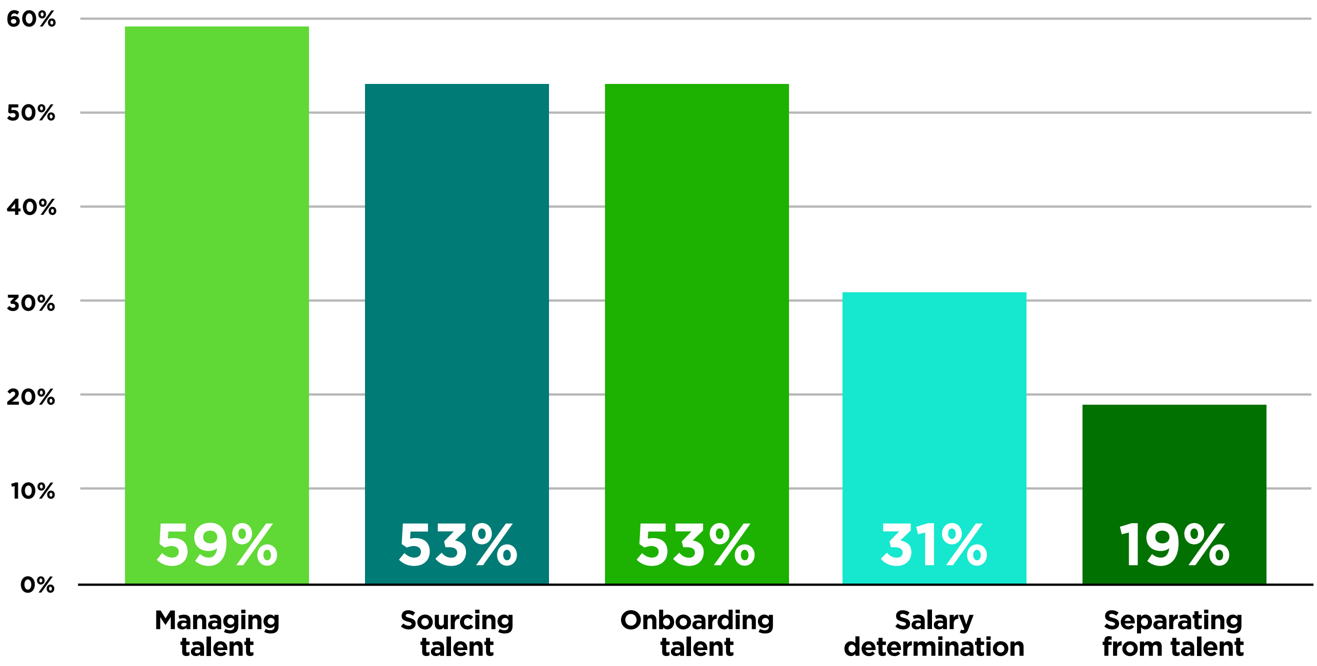
In addition to managing human capital and talent, senior finance executives say it's also critical for global EORs to address the challenges of sourcing and onboarding talent. (See Figure 4.)

Interestingly, nearly one in five senior finance executives believes global EORs also have an important role to play when it's time to separate international employees from the company. Just as each country has laws and regulations defining what rights and benefits workers are entitled to as employees, so each country has its own rules for terminating employees.

In Mexico, just to cite one example, an employee's right to work is protected by that country's constitution, which can make firing an employee expensive and complicated. A global EOR, familiar with local laws and culture, can help its clients sidestep potentially costly mistakes.

Figure 4. **Managing, sourcing and onboarding talent are key roles for global EORs**

Which of the following human capital/talent issues related to overseas expansion are most critical for EORs to successfully address?



CONCLUSION

Expanding into another country, whether that means hiring a single sales representative or building out a large distribution or manufacturing facility, presents numerous challenges for employers. Beyond getting their international strategy right, they have to make sure they comply with a vast and time-consuming array legal and regulatory requirements when hiring, compensating and terminating employees. And they must be sensitive to local employment customs if they're going to ensure the goodwill of their new employees. Finally, they must be prepared to repeat this process over and over again as they move into still more countries, since employment law and norms can vary greatly from one to the next.

For growing numbers of businesses, the solution is to offload these responsibilities onto a trusted EOR whose global reach and local presence in countries around the world allows them to navigate employment challenges on their clients' behalf. Businesses who opt for this solution are able to enter new markets more confidently, and in many cases faster, than they could on their own.