AUXADI

Growing Global:

A Guide to International Expansion

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Introduction

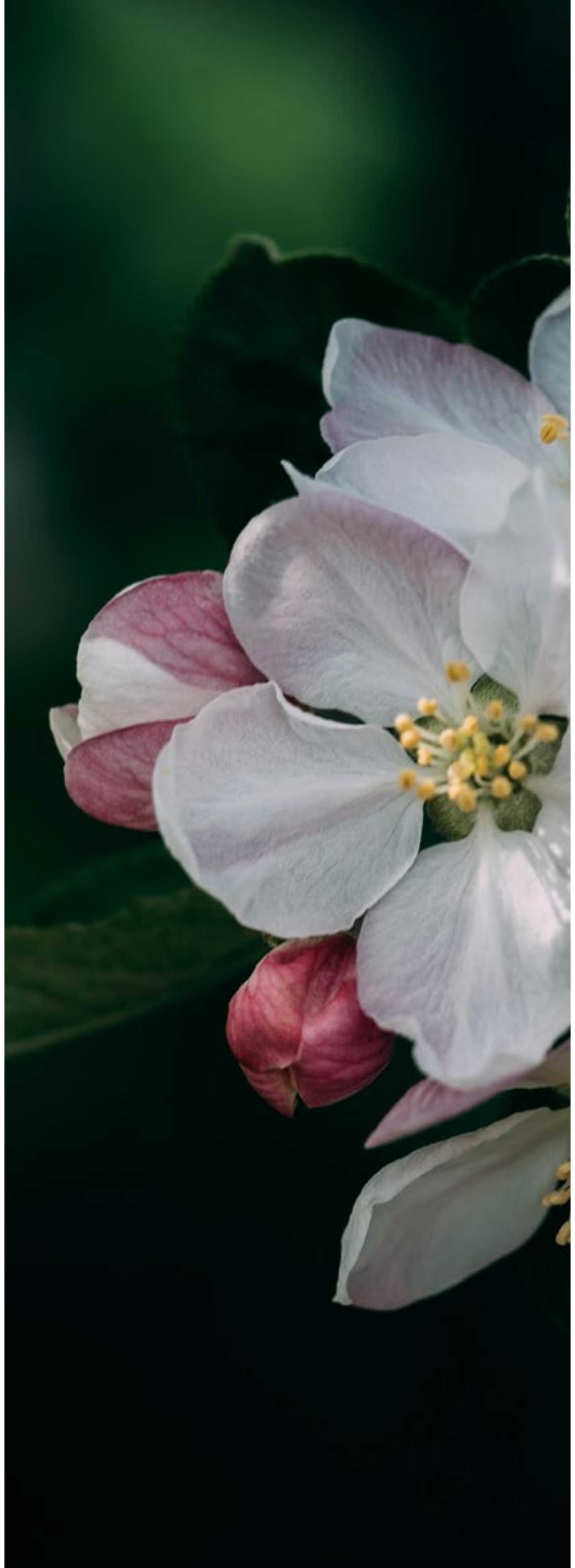
Our recent survey, [Taking the Bull By the Horns: International Expansion Trends for 2022,] clearly showed that corporate appetite for expansion is significant – 97% of respondents stated they plan to expand into at least one new market in the next two years.

This is an extraordinary figure, perhaps reflective of the extraordinary times we're living in, though we've traditionally seen renewed activity after significant events (the 2008 global financial crisis, the 2000 internet crash, etc.). Businesses are always looking for new opportunities, as they should be, and these include ways to expand and grow into new markets.

Though growth in your home country can be relatively easy, expanding internationally brings risks, complexities and a multitude of different challenges. From knowing about the relevant legal, regulatory and tax considerations, to setting up SPVs, to understanding what technologies can aid your growth plans, to having the right talent in place to support you. And, once you've achieved expansion across multiple markets, how do you plan for the future and take your international expansion to the next level?

In most cases, companies look to expand overseas to capture market share – and 53% of **our survey** respondents said that market share has the biggest impact on the choice of country for expansion. But expansion is often costly and requires significant due diligence, market research and extensive risk assessment. Regulatory considerations labour laws and tax frameworks can affect entity type, structure, and even your choice of country. Though substance requirements within that country can cause further headaches.

Awareness of these potential barriers and challenges at the planning stage is essential, and is also why identifying a suitable, expert third-party provider should be high on your list of priorities.



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Today, new technologies have facilitated real-time interaction, communication, and availability of information. They have also removed some barriers to entry, but raised competitiveness. The opportunities have multiplied, but so have the challenges and variables.

This complexity also has consequences on a company's own internal dynamics. International expansion is an interdisciplinary and multi-area project, where various profiles play a decisive role: from the Board of Directors, through the CEO, CFO, CTO, COO, CHRO, and M&A managers, among others. Thus, today's organisational leader who wants to have an active presence in a cross-border project must be a people manager, data expert, skilled in business strategy, have the ability to operate in multicultural environments, have technology skills... The list goes on.

With this in mind, we present **'Growing Global: A Guide to International Expansion'** where we highlight the main areas of consideration for companies looking to undertake international expansion, as well as the key challenges you may face.

Familiarising yourself with all of these key considerations before embarking on an international venture can seem daunting. But with experienced partners at your side, partners who understand the necessary steps and are always focused on your needs, you can begin to lay solid foundations for your success.

Auxadi's mission is to make life easier for our clients. And we're trusted by some of the world's largest corporations.

A significant part of our success as a leading provider to multinational corporations is taking as much administrative 'weight' off your shoulders as possible – so that you can focus on your growth and expansion strategy.

We're fortunate to have input in this guide from other industry leaders. Their contributions provide additional valuable insight on the various stages for achieving international expansion and we're thankful for their participation.

We hope you find this guide useful and insightful – that it'll inspire you to kick start your expansion plans and encourage you to enlist the right partners to help you on your path to international success.

And, as always, if you have any queries on this guide or would like any more information on anything we discuss, just get in touch.

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Kick-starting your multi-country expansion

While international expansion is an exciting and important milestone for your company's journey, it can also be an extremely stressful and daunting prospect – especially if you're expanding into multiple jurisdictions at the same time.

Here are a few common questions to consider for a smooth multi-country expansion:

Establishing in a new country

- Which type of entity is right for my activities?
- Are there regulatory differences between a country's regions/states?
- Any government grants available for certain regions and certain products/ services?
- How long will it take to incorporate my company?
- How long will it take to open a bank account? (Often required before incorporation.)

Tax

- Are there double taxation treaties in place with my home country?
- Are there any specific tax requirements or benefits for my sector?
- How should I manage transfer pricing? Are there specific transfer pricing regulations?
- What do I need to know about customs excise / indirect taxes (VAT/GST, sales tax, etc.)?

Labour

- What's the minimum wage?
- What are the required employee benefits?
- Are there restrictions on how many foreign staff I can have?
- Are there specific labour laws to be aware of (sector/ region, etc.)?

Accounting

- Which accounting standard is used for regulatory filings (IFRS/U.S. GAAP/local GAAP)?
- What's the potential impact of operating in multiple currencies?
- What's the risk of currency devaluation/hyperinflation?
- What are the audit requirements for my company in the country?
- What should I consider when consolidating my reporting?

Culture, compilance and governance

- What's the business language of the country?
- What's the local business etiquette? What cultural differences should I be aware of?
- Any specific privacy regulations that will dictate how we treat data?
- Are there any regulatory requirements that could cause issues?

Remaining on top of all this while still focusing on adding-value and growing your global business can be a real challenge. Here are some top tips to ensure the process of expanding into multiple countries is as seamless and as stress-free as can be:

Seek local advice

Get experts on the ground who know the rules, restrictions and understand the local processes. This can be the difference between a headache and an easy win.

Knowledge is power

Make sure you've done your research so you know what the tax, legal and regulatory requirements are (and source the right providers who can help).

Outsource, outsource, outsource!

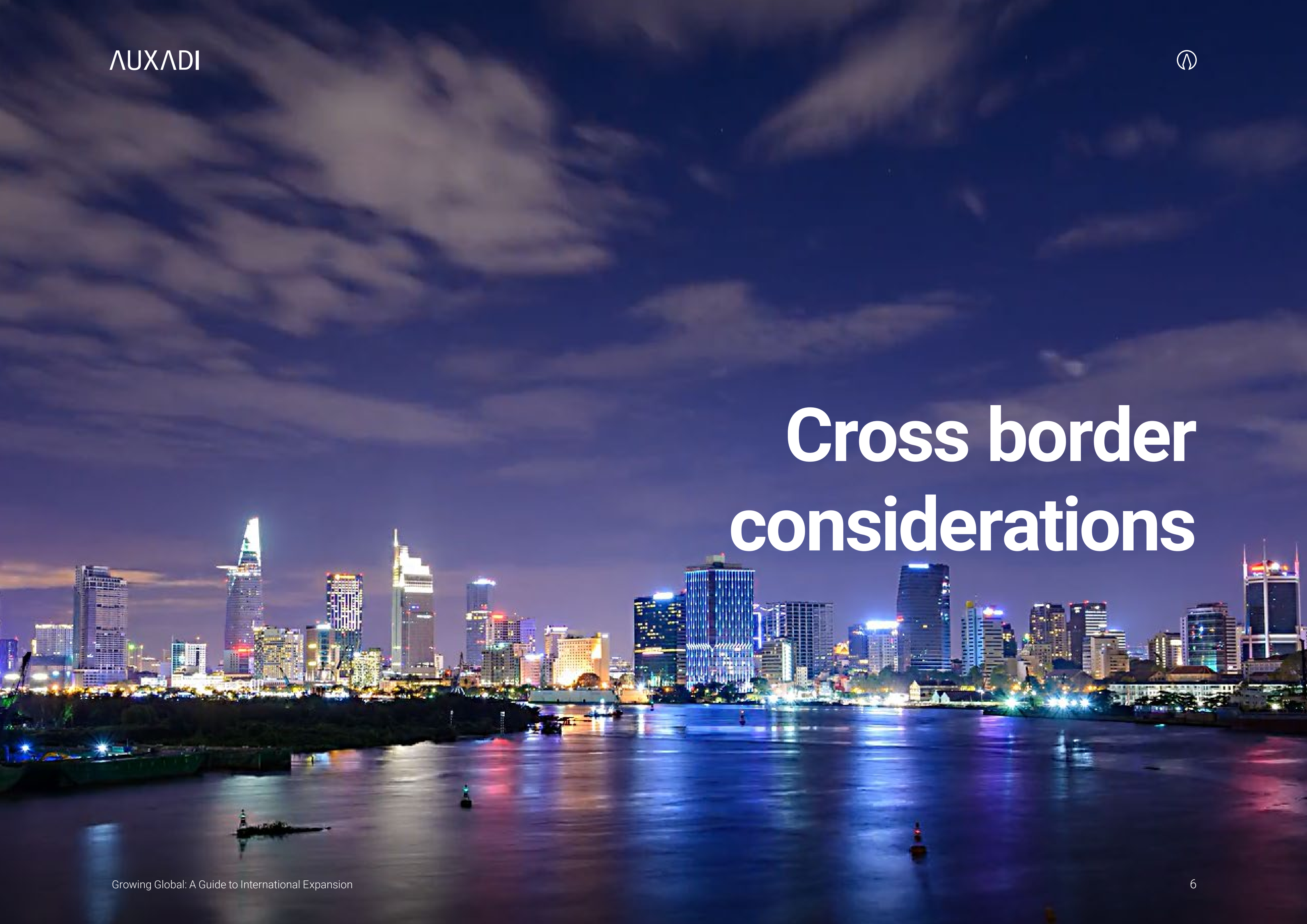
While it's an upfront cost, outsourcing those burdensome back-office tasks will save you time, money, resources and many headaches down the line.

Be prepared

Careful, early planning is crucial to success.

Leave yourself time

As even simple tasks can become difficult when you factor in multiple currencies, coordinating resources across multiple jurisdictions, and ensuring compliance with multiple regulators.



Cross border considerations

Legal and regulatory considerations for global expansion

When growing a business overseas, there are many legal and regulatory issues to consider – from adhering to intricate tax requirements, to understanding local labour laws and customs, to unravelling complex regulatory frameworks and labour codes.

Understanding the hurdles you may face from a legal and regulatory standpoint, and having the right knowledgeable partners in place to help you overcome them, will be crucial to successfully breaking into new markets abroad.

Legalities are involved from the very beginning and you'll need to consider the most appropriate legal structure and business model best suited to your strategy and target market/s. Alongside local entities, options for possible structures include commercial agents, representation office, or joint ventures – and, while all are feasible options, all come with their own levels of risk.

All structure types also come with their own specific tax ramifications (taxation of profits, VAT, withholding tax, etc.), which may have a direct influence on your choice of entity.

In some jurisdictions, a representative office may be sufficient to meet local presence requirements for conducting business activity. However, other countries may require a legal entity to be incorporated, with its own set of compliance, tax and accounting requirements. And appointing a local director is also likely needed, as more and more countries require specific levels of 'substance'. You'll need experienced and knowledgeable directors who can assist with the ongoing governance and oversight of your entities. And they can offer advice and guidance on the new location, how local authorities operate, and the best local practices to adopt going forward.

You'll also need to consider data privacy, intellectual property protection, and potential regulatory restrictions on foreign investment in your target market.

Another element is hiring employees and the subsequent employment laws. Finding the right people for the job is only half the battle – employing staff comes with an array of additional considerations, like social security and pension requirements, tax consequences, and laws around discrimination, health and safety, and specific remuneration.

Engaging local providers who are experts in local tax regimes, local labour codes, local best practice, and can provide qualified and knowledgeable directors will be a distinct asset for your organisation. A good third-party will also have strong relationships with legal partners and, together, can help you navigate local requirements for your international expansion with ease.

International regulations

The number of global regulations governing international business continues to rise, and also increase in scope and complexity. They can be hugely stressful for organisations to navigate, as complying with laws and regulations from multiple countries can be challenging for your in-house teams to deal with, resulting in unwelcome risk.

Organisations need to adhere to an array of global and local regulations, not the least of which being regimes such as AML, FATCA and CRS. Understanding the impact of the regulations applicable to your business operations is crucial. And you may also face other tax-related regulations, such as the EU Anti-Tax Avoidance Directive (ATAD), OECD's base erosion and profit shifting (BEPS) and DAC6, on any cross-border transactions.

These are the most widely recognised, but there are plenty of more local, country-specific regulations to comply with. And failure to meet necessary requirements can result in significant consequences, including large fines, sanctions and reputational damage.

Therefore, outsourcing the administrative accounting, reporting, and payroll work to an expert third-party provider with in-depth knowledge and experience of international regulations can be a game-changer for your global expansion.

At Auxadi, our teams of international regulatory and tax compliance professionals have extensive experience and knowledge of both global and local regimes, and aim to ensure you remain compliant and can operate across multiple jurisdictions with confidence.

Anti-Money Laundering (AML)

AML includes policies, laws, and regulations to prevent financial crimes and terrorist funding. Operating internationally, across different jurisdictions, can make complying with AML a challenge for your in-house teams to manage. Particularly when countries have differing AML policies with strict local rules to adhere to. Keeping track of and managing this complex regulation, which is often changing, is no easy task and having local partners on the ground to support you will be invaluable.

Foreign Account Tax Compliance Act (FATCA)

FATCA primarily targets U.S. residents and corporations who hold assets in other countries, but don't declare them on their U.S. tax returns. This can also impact companies operating outside of the U.S. when interacting financially with a U.S. person or company. The launch of FATCA legislation has inspired similarly purposed laws across the globe. There are multiple reporting requirements to fulfil, and failure to meet these requirements can result in costly consequences. It's also a regulation that is ever-changing – making it very complex to get to grips with.

Common Reporting Standards (CRS)

The Common Reporting Standard, officially known as the Standard for Automatic Exchange Of Information (AEOI), is relevant for financial accounts on a global level. It's designed to strengthen tax transparency and enable a smoother transfer of financial information for tax purposes. Understanding and complying with the rules and obligations of CRS can be extremely complicated, made only more challenging when operating across multiple geographies.

McDermott Will & Emery

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Key legal considerations for international expansion

When a company is expanding overseas or is looking to acquire a business outside of their home country, it's critical that the decision makers and operational experts keep in mind these key points.

1. You're not in Kansas anymore

The number one issue our clients deal with when expanding or managing operations outside their own border is the adjustment to the different business culture in the other country. Customs and practices that are commonplace in America may not be so outside the U.S.

For example, in America, people seldom conduct business over a meal. In places like Latin America, business lunches and dinners are an essential part of the culture and failure to properly appreciate the host can be seen as a major insult. Also, it isn't uncommon for local businesspeople to open their homes for these meals. Turning down an invitation to someone's home can be seen as a huge insult.

Before venturing outside America, make sure to become acquainted with the local business culture and, when in Rome, well… you know.

"Foreign tax systems and the U.S. tax system rarely interplay well and proper appreciation for both is required".

2. There are no signs at the gate to the plane that say, "Check your common sense at the door."

For some reason, some businesspeople, when doing business outside the U.S., are willing to take risks or do certain things that they would never even consider doing in America. Most commonly, some companies or investors are willing to undertake risks that they'd otherwise never take, under the assumption that "things are different here." Well, they're not. In a lot of ways, things that may not pose a significant risk in the U.S., can cause significant exposure overseas.

For example, the U.S. doesn't have strict AML, thus, extensive due diligence on business partners is not required, however, most every other major country in the EU, Asia, and Latin America does have these regulations in place and failure to comply with them can result in significant exposure to the company and the executive team. It's important to understand the legal and regulatory landscape of the host country and make sure you're fully compliant. Remember, you're not in Kansas anymore and common sense still applies.

"Having proper policies and procedures to ensure the integrity and safety of your personnel is critical."

3. Death and taxes are also certainties overseas

One of the most difficult issues to navigate in cross-border business is the tax environment of the host country and its interplay with the U.S. system. While the U.S. has a very broad network of tax treaties around the world and these properly address the issue of double taxation, reality is that the foreign tax systems and the U.S. tax system rarely interplay well and proper appreciation for both is required.

Before venturing out overseas, and, if already there, as part of the management process, companies should always make sure that the operational structure is kept up to date with the current tax environment in both countries. Having a good cross-border tax lawyer on speed dial is a good idea.

Additionally, some countries can create additional political or safety risk to your management team. Having proper policies and procedures to ensure the integrity and safety of your personnel is critical.

4. Strong local management is critical

Now that we've established that your operations outside the U.S. are subject to different laws and regulations, that undue risks should be avoided under the same scope that you should avoid them in the U.S., and that proper tax and risk planning and management is of utmost importance, it's imperative to note that a strong, integrated and capable local management team is mission critical for success.

Hiring the best management team and, most importantly, immersing them unto your corporate culture as to making them feel an intricate part of the global organization, is an issue that should be addressed from the outset of your venture. Also, hiring competent cross-border legal, accounting, tax and HR advisors is paramount. This team will make sure you're successful and stay out of trouble.

McDermott Will & Emery are a global, full-service law firm with unique expertise in the private equity, health care, tax, and private client sectors. They have offices in the major U.S. markets, as well as London, Paris, Frankfurt, Milan, and Singapore. If you'd like to discuss cross-border tax and transactional matters relating to U.S. and non-U.S. multinational entities, get in touch for more information.

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Tax

Tax is one of the areas that can have the biggest implications on international expansion. 47% of respondents to our International Expansion survey noted tax to be their greatest concern. While the OECD's agreed Global Tax Rate for Multinational Enterprises will make things a little simpler, there are always country-specific regulations to consider.

As we know, tax regimes and regulations differ country by country. And when undertaking a global expansion, the ramifications can extend further than you expect – tax can affect everything from your entity structure to chosen business location. On top of all this, ensuring your ongoing operations remain compliant can be even more challenging.

Any new business needs an entity and, thanks to tax regimes, an entity type perfectly valid in one country may not be the most suitable in another.

In fact, one of the very first things you should do once you've identified your intended new location is to **take early advice from local experts** to ensure your structure is best suited to both your local operation and your global business, and be prepared to adjust your business model if local regulations require it. Tax regimes are constantly changing, constantly being updated, and local knowledge is key to navigating the minefield.

> **"There are often also tax breaks and benefits available in specific regions of each country, aimed at encouraging regional growth."**

Another consideration is **the impact of various tax leakages** on the international journey of the money from the customer to the relevant vendor – which can jeopardise the profitability of a given project. For instance, suffering a withholding tax (WHT) of 30% on the gross receipts may simply create a huge loss where profits were expected.

Accurate and effective project finance is essential, as is identification of any hidden tax leakage – like non-permissible expenses, ineligible deductions, and WHT. Keep in mind that your international services, goods and invoicing will be subject to potential leakage for both WHT and sales taxes (VAT/GST), which you may not be able to recover in full.

On the other side, during your decision-making process, you will have checked out **options available for grants, enterprise assistance or tax benefits** that each country offers to encourage international business. Many countries offer sector-specific perks to attract specific businesses, like for Research & Development, technology or renewable energies.

There are often also **tax breaks and benefits available in specific regions of each country,** aimed at encouraging regional growth. These can vary greatly and can be important to take into account. You should be mindful that the resident population of the region with the best perks may not be big enough to provide the workforce you need. Carefully consider all the options in all the regions of your chosen country, including Free Zones or Freeports.

You should also be aware that, depending on the country, there may be **sector-specific taxation** in place. This is becoming more common, particularly for those sectors viewed as 'destructive' or 'not climate-friendly', and there are always additional taxes for property. And, given the global focus on climate change, your operation may be subject to additional 'green levies' or 'carbon taxes'.

Consider, too, **how the tax system works** in your chosen destination – how are payments made? Is the process time-consuming? How about digitisation? – and, from there, carefully evaluate how you can ensure tax compliance.

> **"The last thing your fledgeling cross border enterprise needs is censure, fines, or reputational damage that can affect both your local operations and your global business."**

Be aware that Tax Authorities can be aggressive with inspections, audits and requests for information, and often work hand in hand with regulatory bodies. The last thing your fledgeling cross-border enterprise needs is censure, fines or reputational damage that can affect both your local operations and your global business.

And you shouldn't forget to check out any exit taxes or dissolution costs. You don't want to be stung if things go wrong.

Finally, having the right technology and processes in place can be costly, but vital to managing risk, maintain governance and oversight, and ensure data security.

There are various models to ensure tax compliance, generally combining internal and external resources by **outsourcing local functions to third party providers.** But you should ensure these partners have the most robust IT controls to ensure deliverables are accurate and timely, and data security paramount.

The most effective way to manage your tax compliance is by integrating the tax functions with the strategy of the company, clearly defining associated risks, and procuring adequate levels of resources (both internal and outsourced), all powered by intelligent IT solutions.

Intensive use of integrated technology can manage data integrity through all your multinational tax compliance processes, from the accounting to the production and audit of your final tax return.

Tax is inevitable, but can be successfully navigated. Be aware and be diligent. Partnering with a local tax expert to assist with all your tax compliance challenges means you can expand your business across borders with a minimum of hurdles.

Auxadi are highly experienced when it comes to navigating the specifics of local tax regimes, executing and implementing various tax structures and taking care of any tax compliance requirements. In 2021, we submitted over 28,000 client tax returns across 50 different jurisdictions.

Our experts have deep local knowledge of their country's regulations and legislation, across all different sectors. They understand their country's tax system; they know where the pitfalls and traps are, and they know how to stay compliant.

Our mission is to make life easier for our clients. Our tax team does exactly that, every day.

Local guidance

Having local knowledge and expertise is essential when looking to cross business borders.

Local partners are on the ground in the same time zone, allowing for greater responsiveness, and they speak the local language, meaning communication is seamless. They know their country, they know how it works and what's required. Further, your local partner will be able to quickly identify and solve any potential barriers to your expansion, and may even be able to provide or recommend trustworthy and knowledgeable local directors or agents.

42% of respondents in our International Expansion survey said that connecting with the most suitable lawyers, accountants, and advisors may be causing companies to delay their international expansion.

Not only can local third-party providers extend guidance and advice to help you through the complexities that come with international business, but they can also provide valuable introductions that bring you (and your business) instant credibility, helping during launch and also with your ongoing business. Your local expert will have relationships with creditors, suppliers, banks, governmental authorities, even regulators. Take advantage.

Transfer pricing

Transfer pricing is a lot more involved than you may think, and you definitely can't use the same rates for Head Office services across your global operations. There's a lot to consider: the 'arm's length' principle, comparability analysis, intangible property, intra-group services, cost contribution agreements, safe harbours, and administrative approaches to avoiding and resolving disputes.

The tax rules related to transfer pricing are as complicated as they are varied, and tax authorities are increasingly proactive in scrutinising organisations operating in multiple jurisdictions. This is to avoid Base Erosions or Profit Shifting (BEPS) from higher-taxed regions to tax haven jurisdictions. Auditing transfer pricing activities can be time consuming and stressful, and the penalties for breaching the strict tax rules can be significant.

Reviewing the OECD's transfer pricing country profiles is a good place to start (and they're being updated during 2021/2022) but we always recommend expert local advice.

Working with experienced partners like Auxadi, who know how to minimise the risks of falling foul of tax changes and penalties, will be hugely beneficial to your burgeoning cross-border business. Not only do we have the knowledge of local regulations and legislation, but we're uniquely positioned to advise on best practice when it comes to setting up your transfer pricing policies.

Contact us for solid transfer pricing support and you, like our clients, can avoid headaches with the local tax authorities.

Cultural differences

One of the most important considerations when looking to expand across borders is the specific culture of your chosen location. In our increasingly global business landscape, every country is unique, with its own distinct culture, business fabric, and specificities.

And it's not just the nationality-based cultural differences you'll be dealing with. Every organisation within that country has its own culture; its own specific way of working and its own set of rules governing its interactions and behaviour. Cultural differences include more than just a change of language.

There are a few key points of consideration when navigating cultural differences: understanding your chosen location and its offering, knowing your decision maker and specific nuances of local business operations, communication, being aware of regional timelines, and the importance of building long term relationships. Seeking local guidance from trusted partners on the ground can give you a great advantage, and will help ensure you adhere to local laws, regimes, customs and cultural behaviours.

These are our top tips to navigating cultural differences.

Understand the country you're investing in, including what it's offering

One of the most critical aspects of cross-border investment is the attractiveness of the country for the business, particularly when it comes to overcoming complexities in regulation or tax. You're going to spend a lot of time looking at your shortlist of locations, going through pros and cons, cost and regulatory comparisons, tax regimes, labour codes and more.

And you shouldn't forget to check out any investment incentives, like free zone regimes, monetary grants or other available perks which might be available (like grants for offering local employment in certain regions, or support for sectors that the country wishes to grow, etc.). These grants usually sit alongside tax exemptions and can be one of a country's most powerful attractors.

Being well-informed on various complexities and challenges and evaluating them alongside any legal, regulatory or monetary benefits is of the utmost importance.

Know your decision maker

Countries vary greatly in their business practices, and local companies will probably have a respected organisational hierarchy in place, particularly when it comes to decision making. Sometimes your initial meetings will be held with the decision maker and sometimes you'll have to go through several levels of leadership, who'll then pitch to those above before a decision is made.

Being aware of culture and business etiquette is also a big consideration; steps to identifying and addressing decision makers will differ from country to country. It's important to understand who the decision makers are when engaging in cross-border deals and how best to get in front of them, be it officially or socially. It might be through a third-party introduction jumping you straight in, or you might just have to work through the steps.

Either way, you should be aware that these decision makers can drastically affect your expansion project time frame.

Communication

Communication is a vital part of any business, and never more important than when growing your business across borders.

For non-English speaking countries, partnering a local third-party on the ground can assist with any language barriers and ensure your message comes across correctly. They can help when it comes to operating in different time zones. Engaging a local provider can also provide additional benefits like relationship building, openness and proving credibility.

And don't forget your internal communications. Getting your existing team enthusiastic about a cross-border expansion can go a long way to smoothing the process. It will help them grow more involved in the business, benefit their own professional development, and provide new challenges. You might even uncover your future leaders or identify progressive thinkers – you never know where that game-changing idea will come from.

Be aware of time and building relationships

International negotiations take time and a speedy resolution is rarely possible. Some stages may move relatively quickly, but regulatory approvals can take months. Plan for delays and difficulties; your timelines will be constantly changing.

Building long-standing relationships is key to business, no matter the country or business you're in. It's well worth taking the time to develop and nurture those relationships to foster trust and loyalty.

Every country has their own way of working, their own specific business fabric and practices. Every country is different, and – if you build good local relationships – every contact you make within a country can help you through the local challenges.

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Expansion and FX

When planning or executing international expansion, foreign exchange can have a significant impact. FX market volatility can severely affect currency rates, potentially threatening budgets, operational expenditure costs, and profit projections.

Exchange rates move constantly, and while some are influenced by more factors than others, there are some universal elements that initiate movement:

- Economic data from each country shows how different areas of the economy are performing. Some of the most influential figures include growth, inflation, and labour market data.
- Political events can create significant market movement as uncertainty increases. When the Brexit referendum occurred, GBP fell by 20% against other currency majors.
- Natural disasters and unprecedented events can change risk appetite should an event occur. The Covid-19 pandemic is a recent example where there was a movement of flows into safe-haven assets as the global economy came under pressure and uncertainty rose.

When businesses are looking to expand into a country with a currency different to their headquarters, there needs to be consideration of how FX movements and currency volatility can impact those plans, and what tools they have at their disposal to mitigate or eliminate the impact of those movements.

> ***"When planning or executing international expansion, foreign exchange can have a significant impact."***

Challenges for businesses

If a company domiciled in the UK, which has GBP as their home currency, decides to expand into Mexico—where most of the expansion expenses and the potential revenues are denominated in MXN—planning for possible currency movements is crucial.

For example, the UK company may have budgeted a total of £5m for the execution of the expansion plan, which on the date the budget was approved accounted for MXN 140MM at a GBP/MXN rate of 28.00. If during the year MXN begins to strengthen causing GBP/MXN to soften to 26.00, the budgeted £5m now equates to MXN 130MM, reducing almost 8% of their available cash and potentially threatening the success of the expansion or dramatically increasing its cost.

Similarly, the same company might have estimated a potential turnover of MXN 100MM in their first year, which at a rate of GBP/MXN 28.00 equalled roughly £3.5m profit. If the MXN depreciated to GBP/MXN 30.00, that would result in a reduction of the estimated revenues of over 7%.

The above examples are just the simplest version of how currency movements can affect budgets or estimated revenues. FX market movements are usually more complex and often unforeseeable, making potential consequences more substantial.

> ***"FX market movements are usually more complex and often unforeseeable, making potential consequences more substantial."***

Solutions to strategically manage foreign exchange

It's crucial to always work with professionals with the appropriate knowledge, experience, and expertise to guide businesses through the FX risks associated with international expansion.

Some of the potential solutions are:

- **Timing trades:** The FX market is the largest and most liquid financial market in the world. With dramatic intraday movements, the difference between booking a trade today or tomorrow can be substantial. Knowing in advance the events that might move the markets is the best option to optimise the execution of a trade where there is flexibility in timing.
- **Forward Contracts:** Through FX Forwards, companies can fix a rate in place for up to three years, offering protection against unfavourable currency movements. A Fixed Forward allows a business to secure an exchange rate on the day, for up to three years into the future. Window Forwards can give more flexibility around cash flow timings, allowing the ability to drawdown before the value date, in a specified window. While the market can move in both directions, Forward Contracts give a business certainty on exactly how much their currency will cost.
- **Derivatives:** These products can play an important role in foreign exchange hedging, complementing Spot transactions and Forward Contracts as part of a blended hedging strategy with more flexibility and complexity. Option products carry a higher level of risk that might not be suitable for all businesses.

Using a currency specialist

FX markets are highly volatile, and the consequences of that volatility on a company's international expansion plans can be profound. It's essential to have the correct insight and knowledge and understand the different products and services suitable for each company. While no one can predict the markets with absolute certainty, it's possible to minimise or mitigate currency risk with the appropriate expertise.

If you'd like to discuss your FX requirements with a currency specialist, contact Global Reach Group.

"It's essential to have the correct insight and knowledge and understand the different products and services suitable for each company."

Company set up

Setting up an SPV

When expanding and operating internationally you may find it useful to set up an SPV or temporary entity for the purpose of acquiring and/or financing specific assets.

A Special Purpose Vehicle (SPV) is a separate legal entity created for a specific business reason – such as isolating financial risk from parent company/s or creating a temporary company to manage a specific asset. Each SPV has its own legal status and its own assets and liabilities, so can continue operating even if the parent company has issues.

SPVs are used for a number of reasons (including risk sharing, securitisation of loans/debt, transferring assets or for property sales, ease sale of assets included in the SPV, liability protection), and their typical legal forms are partnerships, limited partnerships, trusts or joint ventures.

Over the years there's been a distinct rise in the use of SPVs and it's easy to understand why. They not only provide legal and financial protection for the parent company, but they're (relatively) easy to set up, they have direct ownership of specific assets, and can provide tax savings.

The SPV launch process varies by jurisdiction, making some locations much more difficult to launch in than others. Implementing an SPV, in your home country or abroad, can be more complex than you think – each country has its own rigid rules and processes to follow. Further, country-specific regulations and compliance can vary greatly, and many countries will expect strong governance and transparent reporting around SPVs.

It's also important to bear in mind, regardless of the jurisdiction you're considering, that complying with customer due diligence, Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations can be a lengthy, time-consuming process and you may need to source all kinds of documentation and information upfront.

Alongside the benefits of SPVs, though, are some risks to be aware of:

Regulatory changes can cause significant headaches for companies using SPVs.

SPVs don't share the reputation of the parent company, therefore financing can be more challenging.

SPVs generally have lower access to capital as they don't have the same capital flow as the parent company.

SPVs can be used for unlawful activity so need to be managed expertly and diligently to ensure strict compliance.

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Ongoing Administration

Multiple international SPVs means an exponential increase in the required accounting, administration, and simply managing ongoing operations; managing multiple SPVs will become increasingly difficult to juggle on a daily basis. When focusing on your international expansion, you also need to address regulatory and compliance needs, and ensure strong due diligence. This can very quickly become complex, particularly when there's more than one jurisdiction involved.

Working with a trusted global third-party partner can be hugely advantageous. You need a team who are familiar with your chosen jurisdiction/s, have strong expertise in SPV administration across various different sectors, and know how to get them set up as efficiently and effectively as possible. You'll also need experienced and knowledgeable local directors for both guidance and substance, and your global partner should be able to help source trusted director candidates.

Find a provider that'll not only help you decide the best type of structure to suit your needs, but is knowledgeable on local tax requirements, has strong relationships with other vendors to help coordinate (i.e. law firms, regulators, banks, etc.) and can produce timely reports and documentation that you need to make the launch process (and the ongoing administration of your SPV) as efficient and seamless as possible.

Auxadi are experts when it comes to SPV administration. We offer an end-to-end approach for the launch and ongoing management of your SPV/s across a wide variety of sectors and jurisdictions, and you can access the data on all your SPVs, in real time, through our unique, purpose-built MySPV technology platform.

We're on hand to take care of the time consuming regulatory, tax, and administrative tasks that your SPV requires, and we'll provide timely and accurate consolidated reporting on all your entities. And, no matter the country you're looking to enter, we guarantee the same quality of output and the same excellence of service. We guarantee to make your life easier.

Technology

AUXADI

Technology for visibility and oversight

Financial situations can change rapidly and you need up-to-date information to be able to properly strategise. You need to be able to access your data quickly while keeping control of payment and payroll approvals. The importance of data access and control increases tenfold when you have data from multiple locations.

When expanding into a new country, there are options to manage your financial data, accounting, tax compliance and payroll requirements. Here, we take a brief look at the pros and cons.

> "The importance of data access and control increases tenfold when you have data from multiple locations."

Investigations will be required to ensure you're getting the most from the provider, so you should think about everything you'll need (accounting, reporting, tax compliance, and payroll management at the least). Take the time to research available providers and meet with them. Can the provider do everything you need them to?

Local recruitment – hiring staff in the new location to supplement your current team

Pros

- They'll be on the ground in the new location, should know the local regulations and be able to guide you through HR compliance and tax issues.
- They may also be able to manage local payroll and registrations, and ensure local tax compliance.
- You'll be able to access real-time data and maintain visibility and control.

Cons

- Time zones may affect the smooth operation of your finance and HR teams.
- Direct oversight may be difficult and skill levels / management might not be at the same standard as in the headquarter country.
- You'll need to have desk space for the staff, possibly boosting your real estate requirements, and your systems strength will need to be able to manage remote working (though data access may be poor or limited in certain locations).
- You'll have to train them on your systems, which means initial downtime – the benefits of more staff aren't immediately felt.
- You may possibly even have to upgrade your IT systems to be able to manage the large volumes of data they'll need to access.

Outsource to a third-party provider

Pros

- No financial outlay for staff or IT systems and no training downtime.
- No need to hire, train or provide desk space – as a third-party provider, they'll operate independently.
- No need for your finance or HR teams to learn new labour codes or tax laws – the provider will have all the knowledge you need.
- No need to worry about your local accounting or reporting, except final checks.
- For future growth, your provider should be able to grow with you, providing services in locations as and when you need; no need for local recruitment.
- Your provider will often make the investment in relevant technology you need, so that you don't have to.

Cons

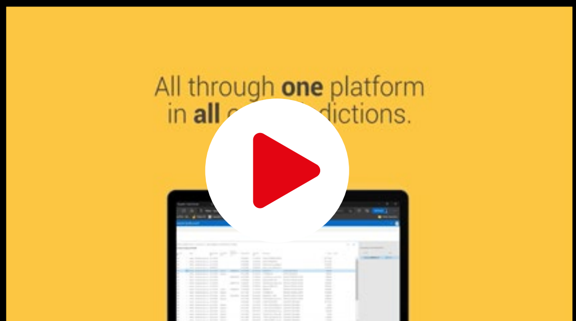
- No access to real-time data; you'll probably have to ask and then wait for a response (which may also be affected by time zones). You won't have full control of your data, and you won't have full visibility. Careful monitoring will be required.
- The reporting produced may not match your own – data consolidation and consolidated reporting may be complicated.
- Time zones may affect the smooth operation of your teams.
- Data security may be a concern.
- No direct oversight.
- You may be dealing with several people on your account, possibly leading to communication issues.

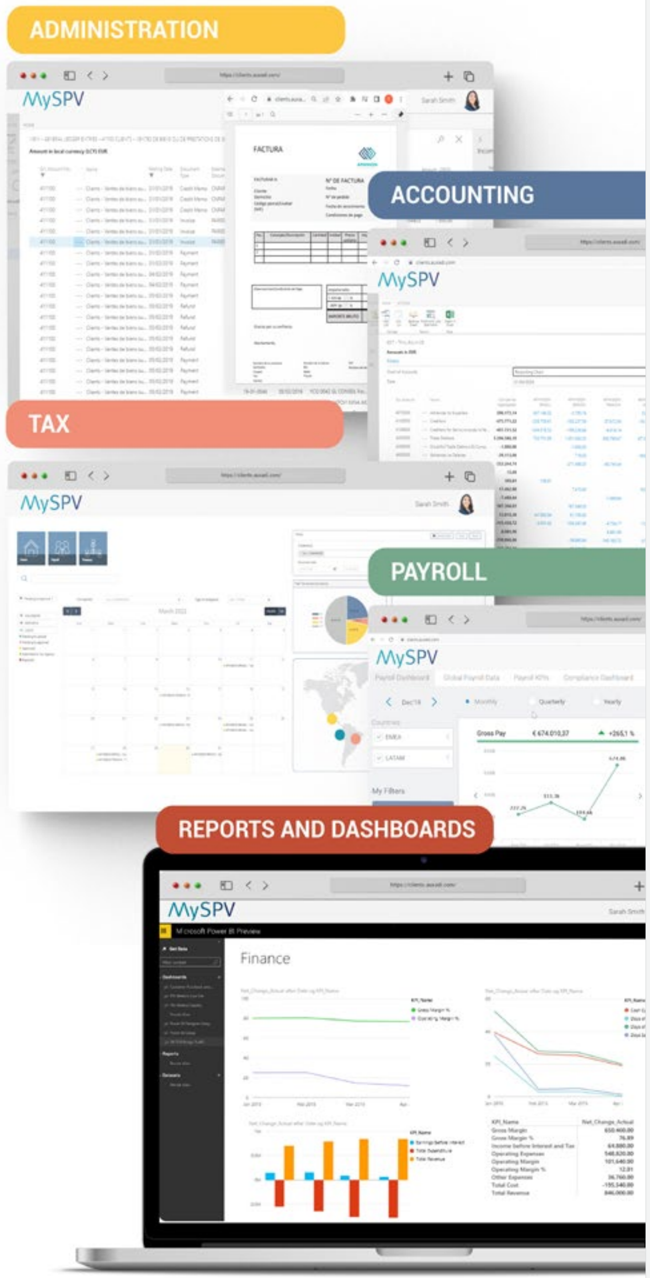
ΛUXΛDI

Outsource to a professional partner – like Auxadi

Here at Auxadi, we've used our 40+ years' experience in what multinational companies need to design systems and processes to make your life easier. We've designed and developed a unique IT platform, built in partnership with Microsoft using NAV and Azure technologies. Our MultiCountry platform offers our clients data security, ease of access, homogenisation of country-specific terms, and real-time visibility.

With Auxadi managing your accounting, tax and payroll functions, there's:





Pros

- No need to hire, train or provide space – as a third-party provider, we'll operate independently.
- No financial outlay for staff or IT systems and no training downtime.
- No need for your finance or HR teams to learn new labour codes or tax laws – our local teams in 22 countries have all the expertise you need.
- No need to worry about your local accounting or reporting, bar a final check.
- We can grow with you in the future, providing services in locations as and when you need them, with no local recruitment headaches.
- With our industry-leading MySPV technology platform, you'll have real-time cloud-based access to all your local accounts, tax and payroll, wherever and whenever you need it.
- Direct oversight – you will have real-time access to your data and real-time approvals.
- Single point of contact – you'll have one person managing the team working on your account.
- No time zone issues: our International Desks are hard at work in the same hours you work.

Robotics, AI and Automation: R&CA – drivers to boost your international expansion

New technologies are changing the way we relate to each other, the way we behave and, therefore, the way business is conducted. This is particularly relevant when it comes to international expansion.

New technologies make it possible to overcome the challenges and difficulties inherent in these processes, like geographic distance and different time zones. Technology also offers strategic opportunities for efficiency and productivity. And, more specifically, the application of Robotics and Cognitive Automation (R&CA) technologies can provide a competitive advantage when it comes to internationalisation. Let's look at how.

A brief explanation to start. By robotics we mean the automation of tasks without any human rationality or cognition involved in the process – like step-by-step tasks. Cognitive Automation means automation of tasks that involve a certain rationality or replication of human intelligence.

Contrary to popular belief, the application of R&CA technologies will have more impact the further we advance up the organisation chart and through the complexity of different functions. As McKinsey states, "while less than five per cent of all occupations can be fully automated using technologies, about 60 percent of all occupations have at least 30 per cent of constituent activities that could be automated."

What uses, applications and benefits can R&CA technologies bring to your internationalisation process?

- Standardisation of processes.
- Execution of step-by-step tasks.
- Automated decision making based on exponential volumes of information.
- Support in the phases of documentation, research, admin processes and due diligence.
- Obtaining insights – analysing collated data can prove invaluable.
- Adaptability to peaks in transaction activity.

These technologies have a transformational impact on organisations, including:

- Re-engineering processes – turning professionals into transformation leaders.
- Promotion of analytical skills and new competencies, adding more value and contributing to the personal development of your teams.
- Leveraging inter-generational diversity to promote learning.
- Creating fast-growing experiences and/or career paths.
- Using technology to transform job descriptions (complex judgements, soft skills).
- Transforms the vertical hierarchy into a system of self-managed teams.

And, what should you consider when applying R&CA technologies to your international expansion process?

- Collaboration between Finance and IT departments is essential, particularly between the CFO and CTO. Therefore, it is a process in which organisational leaders and C-Suite profiles specifically must be involved.
- These technologies don't negate the need for human capital, but rather ensure that the talent you have is in a better position to apply strategic and added value.
- Foster a culture of continuous improvement – the application is just the beginning. Having R&CA technologies also implies a culture of constant improvement, learning and innovation.
- Technology is an ally of the international expansion process, bringing cybersecurity, efficiency, productivity, talent development, and many more benefits.

Disruptive technologies like R&CA, AI, and machine-learning present significant opportunities for businesses looking to expand internationally, and will only present even more in the future – as they will not only automate certain tasks and activities but will provide greater operational resilience and help position your business for scalability and growth.

While significant opportunities are afforded by new technologies, it's worth considering outsourcing any non-core activities to a third-party partner. External providers, like Auxadi, are investing heavily in technology and many have best-in-class systems in place to tackle your pain points and strategically enhance your operations so that you can focus on your global expansion, without significant financial outlay or training downtime.

Data privacy and security

Data is everything and must be fiercely protected. 54% of respondents in our International Expansion survey noted data protection and privacy to be the greatest concern for international expansion – while 38% of respondents noted that implementing data protection and privacy controls is their biggest concern.

Everyone is aware that there are data privacy and security laws and regulations in place to manage and control data storage, data use and data access. But, as everyone in international business knows, transferring data from your subsidiaries to your Head Office is also essential – so navigating and applying data privacy and security regulations is a key part of any international organisation.

Every country in the world has specific data handling laws which cover everything from registrations and specifications on the role of Data Protection Officer, to how data is collected and processed, electronic marketing, online security and – what we'll be looking at here – transferring data to other jurisdictions.

In this section, we'll give an oversight of some of these data privacy and security regulations, how they're enforced and the consequences of breaking them.

EU

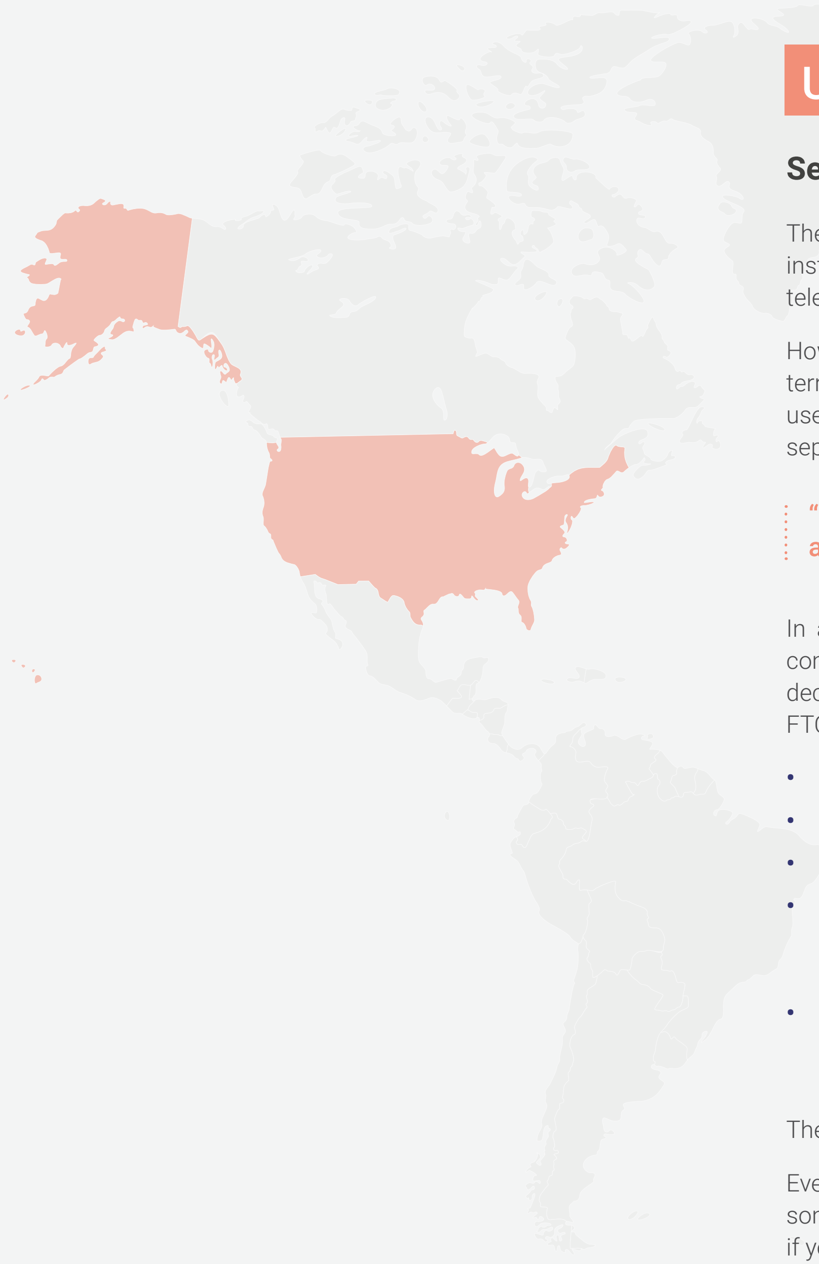
GDPR

When it comes to transferring data, GDPR states in Article 44 that transfers of personal data by a controller or processor to third countries outside the EU are permitted where GDPR conditions are met. Meaning, the third country recipient must have 'adequate' levels of data protection, as decided by the European Commission. The only countries/territories currently enjoying this approved adequacy: Andorra, Argentina, Canada (with exceptions), Faroe Islands, Guernsey, Israel, Isle of Man, Japan, Jersey, New Zealand, Switzerland, the United Kingdom and the Eastern Republic of Uruguay (EU added the UK to its list of 'adequate' countries in June 2021).

However, data transfers are also permitted where appropriate safeguards have been provided, and on the condition that there are enforceable data subject rights and effectively legal remedies available – and the list of appropriate safeguards includes (among others) binding corporate rules and standard contractual clauses. [It's important to note that the EU-US Privacy Shield Framework is NOT considered an appropriate safeguard, as it was invalidated in 2020 (Case C311/18 of the European Court of Justice, 16 July 2020).]

The GDPR also includes a list of context-specific reasons for permitted transfers to third countries, though rules for Data Protection Officers, Data Supervisors, Data Controllers and Data Processors must be met or you risk fines.

All in all, GDPR and its Member State derivatives are intricate and technical. It's recommended all businesses check with their lawyer as to the legality of data transfers.



USA

Sector and state specific

The U.S. has several sector-specific national privacy or data security laws, applicable to financial institutions, telecoms companies, personal health information, credit report information, telemarketing and direct marketing.

However, the U.S. also has hundreds of relevant privacy or data security laws among its states and territories. These include requirements for: safeguarding, disposal, privacy policies, appropriate use of Social Security numbers, and data breach notifications. California alone has more than 25 separate privacy and data security laws.

> **"The U.S. has hundreds of relevant privacy or data security laws among its states and territories."**

In addition, the U.S. Federal Trade Commission (FTC) has jurisdiction over a wide range of commercial sectors through its authority to prevent and protect consumers from unfair or deceptive trade practices, which include materially unfair privacy and data security practices. The FTC issues regulations enforces certain privacy laws, and takes action against companies who:

- Fail to implement reasonable data security measures
- Make materially inaccurate privacy and security representations, including in privacy policies
- Fail to abide by applicable industry self-regulatory principles
- Transfer (or attempt to transfer) personal information to an acquiring entity in a bankruptcy or M&A transaction, in a manner not expressly disclosed on the applicable consumer privacy policy
- Violate consumer privacy rights by collecting, using, sharing or failing to adequately protect consumer information, in violation of the FTC's consumer privacy framework or certain national privacy laws and regulations.en la política de privacidad del consumidor aplicable.

The Attorneys General of many states have similar enforcement authority to the FTC.

Even though no geographic transfer restrictions apply in the U.S., except with regard to storing some governmental records and information – we recommend you definitely seek local guidance if you're importing or exporting data to the U.S.

Brazil

LGPD

The Brazilian General Data Protection Law (LGPD) [Federal Law no. 13,709/2018] has been in force since September 2020, but penalties were not enforceable until August 2021, giving businesses a grace period to improve their procedures and systems. The LGPD is Brazil's first comprehensive data protection regulation and it's generally aligned to GDPR.

The LGPD applies to any processing operation carried out by a natural person or a legal entity, of public or private law – irrespective of the means used for the processing, the country in which its headquarters is located, or the country where the data are located – provided that:

- The processing operation is carried out in Brazil;
- The purpose of the processing activity is to offer or provide goods or services, or the processing of data of individuals located in Brazil;
- The personal data was collected in Brazil.

When it comes to data transfers, like GDPR, Brazil requires that the LGPD is complied with and prior specific and informed consent gained, unless:

- The transfer is to countries or international organisations with an adequate level of protection of personal data;
- There are adequate guarantees of compliance with the principles and rights of data subject provided by LGPD, in the form of:
  - Specific contractual clauses for a given transfer
  - Standard contractual clauses
  - Global corporate norms
  - Regularly issued stamps, certificates and codes of conduct;
- The transfer is necessary for international legal cooperation between public intelligence, investigative, and prosecutorial agencies;
- The transfer is necessary to protect life or physical safety of the data subject, or of a third party;
- Authorisation has been provided by the National Data Protection Authority (ANPD);
- The transfer is subject to a commitment undertaken through international cooperation;
- The transfer is necessary for the execution of a public policy or legal attribution of public service;
- The transfer is necessary for compliance with a legal or regulatory obligation, execution of a contract or preliminary procedures related to a contract, or the regular exercise of rights in judicial, administrative or arbitration procedures.

As with GDPR, it's recommended you get legal advice before transferring data to or from Brazil.

Mexico

Federal Law on protection of personal data

The Federal Law on the Protection of Personal Data held by Private Parties (Ley Federal de Protección de Datos Personales en Posesión de los Particulares) ("the Law") entered into force on 6 July 2010. This regulation was followed by seven other directives from 2011 to 2018, all of which delve further into Data Protection specificities.

Essentially, regulations apply to all processing of personal data when:

- Processed in a facility of the data controller located in Mexican territory;
- Processed by a data processor, regardless of location, if the processing is performed on behalf of a Mexican data controller;
- Where Mexican legislation is applicable as a consequence of Mexico's adherence to an international convention or the execution of a contract (even where the data controller is not located in Mexico);
- Where the data controller is not located in Mexican territory, but uses means located in Mexico to process personal data, unless such means are used only for transit purposes.

The Law only applies to private individuals or legal entities that process personal data, and not to the government, credit reporting companies governed by the Law Regulating Credit Reporting Companies, or persons carrying out the collection and storage of personal data exclusively for personal use (and not disclosed for commercial use).

Regarding data transfers, where the data controller intends to transfer personal data to domestic or foreign third parties other than the data processor, it must provide the third parties with the Privacy Notice provided to the data subject and detail the purposes to which the data subject has limited and specified. Processing by the third-party must be consistent with what was agreed in the Privacy Notice, which shall contain a clause indicating whether or not the data subject agrees to the transfer of their data. The third-party recipient assumes the same obligations as the data controller who has transferred the data.

However, domestic or international transfers of personal data may be carried out without the consent of the data subject where the transfer is:

- Pursuant to a law or treaty to which Mexico is party;
- Necessary for medical diagnosis or prevention, health care delivery, medical treatment or health services management;
- Made to the holding company, subsidiaries, or affiliates under the common control of the data controller, or to a parent company (or any company of the same group) of the data controller, operating under the same internal processes and policies as the data controller;
- Necessary by virtue of an executed contract between the data controller and a third party in the interest of the data subject;
- Necessary or legally required to safeguard public interest or for the administration of justice;
- Necessary for the recognition, exercise or defence of a right in a judicial proceeding;
- Necessary to maintain or comply with an obligation resulting from a legal relationship between the data controller and the data subject.

The Regulations state that the data subject doesn't need to be informed or consent to communications or transmissions of personal data to data processors. However, the data processor must do all of the following:

- Process personal data only according to the instructions of the data controller;
- Not process personal data for a purpose other than as instructed by the data controller;
- Implement the security measures required by the Law, the Regulations and other applicable laws and regulations;
- Maintain the confidentiality of the personal data subject to processing;
- Delete personal data processed after the legal relationship with the data controller ends or when instructed by the data controller, unless there is a legal requirement for the preservation of the personal data;
- Not transfer personal data unless instructed by the data controller, the communication arises from subcontracting, or if required by a competent authority.

It's recommended you seek advice from legal partners before transferring data to or from Mexico.

United Kingdom

UK GDPR

As part of the EU, the UK originally enforced the EU's GDPR laws. Post-Brexit, the UK Government has transposed GDPR into UK national law – creating UK GDPR in early 2021. Though the law has a number of technical differences to the original, the material obligations of data controllers and processors are essentially the same as Europe's version.

Supplementing UK GDPR is the Data Protection Act 2018 (DPA), which deals with some matters exempt from EU GDPR, and merging some other EU regulations into UK law. For example, Part 3 of the DPA covers EU Law Enforcement Directive (EU2016/680), creating a regime specifically for personal data processing by law enforcement.

UK GDPR, like its cousin, applies to any organisation that processes personal data of data subjects within the United Kingdom, including "offering goods and services" and "monitoring of their behaviour".

When it comes to data transfers, the UK Government has the power to make an adequacy decision – involving the UK Secretary of State determining that the third country provides an adequate level of data protection and personal data may be freely transferred. The countries currently on the list have been rolled directly from the EU version, and the UK treats all EU and European Economic Area Member States as adequate – at least for the moment. All these adequacy decisions will be reassessed before the end of 2024.

There's also a list of appropriate safeguards to permit data transfers to third countries, just like EU GDPR, and DPA Schedule 21 allows EU Commission approved standard contractual clauses to continue to be used for transfers under the UK GDPR, until they replaced by clauses issued by the UK Government.

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Blockchain

Gaining popularity thanks to crypto-currencies, a blockchain is defined as a decentralised database logging an unlimited number of data assets and transactions through a peer-to-peer network. It's essentially a registry maintained by a consensus algorithm and stored in a network of "nodes" – computers that allow data to be included in "blocks" that are connected (chained) one to another.

Blockchain databases may be deployed in many circumstances and scenarios, including within the financial services and insurance sectors for money transfers, securities transfers and lending.

The advantages of blockchain include, amongst others; transparent and tamper-proof processes, disintermediation and cost reductions, security (because of the chaining process), and an additional layer of trust due to the fact that each transaction is verified by a wider audience of "nodes".

Regulators are setting up legal frameworks for operating a blockchains, but many are yet to be finalised. The relationship between blockchain (and other distributed ledger technologies, or DLTs) and personal data protection has yet to be fully addressed.

The decentralised nature of blockchains (where data is held on a series of nodes instead of in a single location), means that it doesn't generally adhere to regulations which focus on a 'centralised' approach to data processing, like GDPR. This decentralisation makes it difficult to identify the data controllers, i.e. the entity determining the means and purposes of data processing.

In addition to the practical difficulties in effectively identifying the nodes to which to submit the data request, certain rights of the data subject can be affected. For example, under GDPR, the principle of data minimisation provides that data must be processed for specified and explicit purposes and only for the time strictly necessary for the processing. In most cases, however, data added to a blockchain will remain stored in perpetuity as part of an append-only database.

This also affects other GDPR rights, like the right of amendment and rectification, and the right to be forgotten – as it's almost impossible to erase or adjust the data after it's entered due to blockchain's essential decentralised nature. While this security feature of blockchains may seem appealing, it does essentially go against many data protection regulations.

Regulators are, therefore, facing the challenge of protecting the fundamental rights of the individual, while not affecting the technology and innovation.

As regulators operate on their own timetables, we advise careful assessment and legal advice when using blockchain-based technologies and databases.

Seek guidance from knowledgeable partners

It's highly recommended that all businesses take a firm stance on data privacy and security. It's a serious subject and requires serious protections for both client and company data. In our hyper-connected world, and at a time when more and more businesses and individuals are entrusting personal data to cloud services, data breaches are an unfortunate regular occurrence and must be contained.

Knowing the right local experts and advisers on the ground is crucial to ensuring you have the right data privacy and security measures in place, ensuring your international compliance, so you won't fall foul of any potential reputational and/or regulatory consequences.

Digital transformation and taxation

Looking closer at the digitisation of business, the functions of tax management and regulatory compliance are probably most exposed to (and, to a great extent, receive the most benefits from) digital transformation, particularly for international companies. Though digital transformations are underway in many countries, the COVID-19 pandemic catalysed administrations and underlined the importance of having a digitised tax system – particularly in relation to internationalisation and cross-border operations.

Digital transformation has special implications when it comes to companies in the process of international expansion or managing activity in multiple jurisdictions. This trend for digitisation has already seen special relevance in everything related to transfer pricing – the intense activity shown by different international regulators is forcing finance directors and tax departments to automate and harmonise transfer pricing management at the group level, guaranteeing cross-border compliance.

But innovation doesn't end here. Tax administrations are also advancing their use of Big Data and analytics to automate their financial functions, grow in efficiency, and be able to automatically detect possible breaches or areas of improvement.

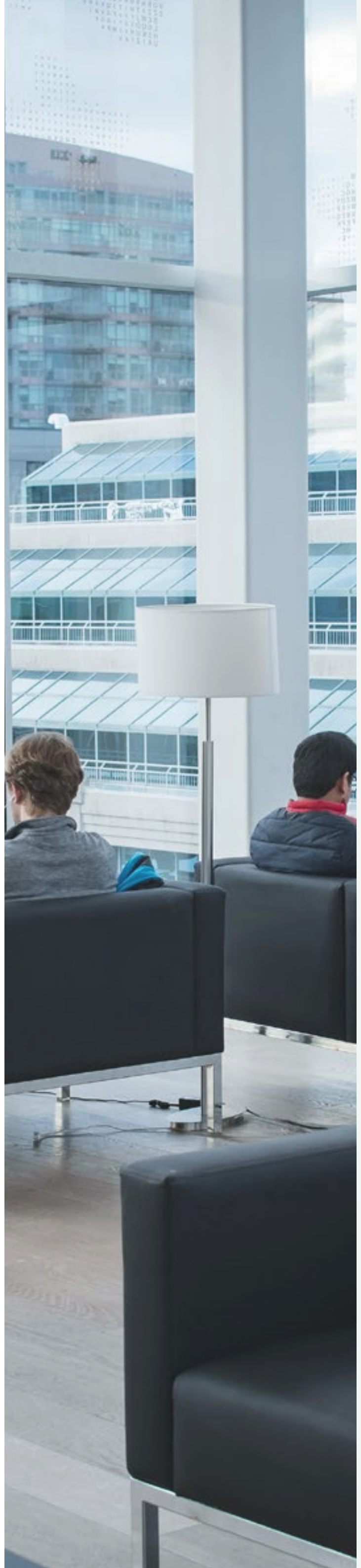
Many different countries (with difference economic classifications) have already launched initiatives for taxation and digital transformation. As stated by CIAT, the **United Kingdom** has launched the **Connect** system that facilitates data mining to detect fraudulent activities; **Australia** is developing **ANGIE**, which will automatically identify relationships between taxpayers; while the Canadian **CRA** uses *data analysis* to combat tax evasion abroad.

What's the response of organisations and CFOs?

New technologies are presenting solutions which, just a short while ago, seemed unthinkable. For example, the application of ***data analytics*** and ***machine learning*** are allowing CFOs to obtain and analyse large amounts of information (both vertically and transversally throughout the organisation) to establish predictions and implement strategic decisions. The implementation of Robotic & Cognitive Automation (R&CA) technologies offers distinct advantages, like process automation, resource scalability, and an improvement in ROI in strategic management. Blockchain technology is simplifying all those processes which, until now, had their basis in trust, such as due diligence or the signing of contracts, among many others.

This situation, and the very context of digital transformation, presents challenges for the CFO. You should consider:

- **Aligning the company with the purpose** of digital transformation, to ensure that the digitalisation process is global and coordinated, and not only applied to the tax function.
- **Responding to the technological and regulatory compliance needs** resulting from operating in an international context; providing a solution to the needs of each country or jurisdiction in which you operate, in a coordinated and homogeneous manner.
- Evolving your role from leader of the finance function to **leader of digitalisation, strategic data analysis, or change,** among others.
- Ensuring **transparency** and complete availability of information.
- Ensuring that your organisation is ready to respond to the **technological challenges** of today, but especially those of tomorrow.



Tax automation

At Auxadi, we have our own purpose-built MySPV technology platform, which allows us to monitor the obligations of our clients in real-time and keep them correctly archived – providing agility, establishing control processes, avoiding duplication of tasks and reducing the presence of errors.

Our tax automation tool allows us to monitor our client's obligations accurately while saving them countless hours of manual work – allowing their teams to focus on more value-add tasks. We'll also ensure regulatory compliance in different jurisdictions and give you the strongest guarantee of confidentiality and data security.

People and talent

Hiring the right people

One of the essentials for any burgeoning international business is having the right people in place. Not only the new people you'll be recruiting to operate your foreign business, but experienced people who can train your new talent – who can be guides and mentors, who you can trust to reinforce your company culture with the new staff you'll be hiring.

Our International Expansion survey showed 41% noted global mobility, visas and work permits to be of the greatest concern for international expansion, while 30% of respondents believe finding the right talent to be a barrier to internationalisation.

In this section, we'll look at some of the considerations for both moving foreign workers to your new location and hiring the right local staff.

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Foreign workers

Having the right people in place at the right time involves a lot more than just deciding who should go. You should also be sure that the people you choose can go, based on their personal circumstances as well as the rules for foreign workers in your new location. Moreover, you should start investigations early. Visa processing can take time, and you want your seconded staff to have time to find accommodation and properly settle before jumping into the new business.

Choose carefully. You don't want to risk wasting your investment and damaging your brand. Further, seconded staff may be in place for a fair amount of time and will have to deal with not only the challenges involved in moving to a foreign land (even temporarily), but also with an untried bureaucracy, enthusiastic but nervous new staff, and the additional difficulties posed by language and cultural differences.

There are considerations for secondment that could be even more important than who you send. For example, maintaining a good corporate culture and managing your local reputation while taking local working practises and bureaucracy into account can definitely be challenging.

> **"Maintaining a good corporate culture and managing your local reputation while taking local working practises and bureaucracy into account can definitely be challenging".**

First, and possibly most important, is planning. What are the visa requirements? Are you sending someone to lead your recruiting from in-country? How do you intend to manage the secondment? How many seconded staff will be required to provide adequate training and oversight to your local team? Are secondees going to rotate or swap after a certain period? Will they be there for a fixed period or 'drop in' for a few days per week? And, how will they be paid? Do local regulations require them to be paid in-country, or can they continue to be paid by Head Office? What about local tax and social security requirements? How will they manage in a medical emergency?

Do your research and consult with local agents to check requirements. Local regulations may force changes to your secondment plan (like experience level, duration of stay, payroll options, etc).

Next, consider funding for your seconded staff. What will the company pay for, and what will your people have to manage on their own? Will you provide additional benefits during secondment? Maybe a trip home every six months, or private medical insurance, or accommodation on location? Maybe a bursary? Will secondees get any additional remuneration, benefits, or promotion from their secondment?

Only when all this planning is completed can you look at building a shortlist of possible secondees based all these requirements. Obviously, though, the person/people you'll be sending to nurture your fledgeling operation must have experience and knowledge of your business, but they also must be capable leaders. There's nothing more devastating to a new business than having someone with no leadership or management skills in charge. Consider carefully.

Now it's time to talk to your candidates. Time to give them your secondment pitch, sound them out, and make sure they want to go – that it's a challenge they can accept. There will be many things affecting their decision; family, medical issues, personal history, and even just the considerations of their current housing (Can they sublet? Do they have to put things in storage for an extended stay? Will the firm pay for storage?). You'll find your shortlist narrows further on its own.

Then, and only then, can you begin the visa application process – based on your prior review of the requirements and your selection of compatible secondees. The visa process itself may take some time and you can best use that time to plan and strategise with them, so your new operation can launch as smoothly as possible.

Your secondees should understand how the new location will work – what essential elements will be provided by Head Office (and subject to transfer pricing) and what third parties they'll be dealing with on the ground (suppliers, trades, local representatives, local directors, etc.). Make sure your secondees understand local culture and business practices, working hours and conditions and what they can expect of their new local colleagues.

Get them involved, get them invested. Ask their opinions. Make sure your secondees are as prepared as they can be before you send them on their way.

AUXADI

Local recruitment

After all the challenges and pre-planning involved with seconding experienced people to your new location, local recruitment can be a relatively smooth process – simply by hiring a local HR/Talent Agent to manage local recruitment, reporting to your HR/ Talent Director at Head Office.

Not only can local agents more easily source staff to interview, but they can also advise on local regulations, taxes, and registrations required for your new workforce. Local agents are also best placed to advise on any employment code changes, recommend suitable benefits and perks, and may even be able to help you choose the best location to place your operation based on the available local workforce.

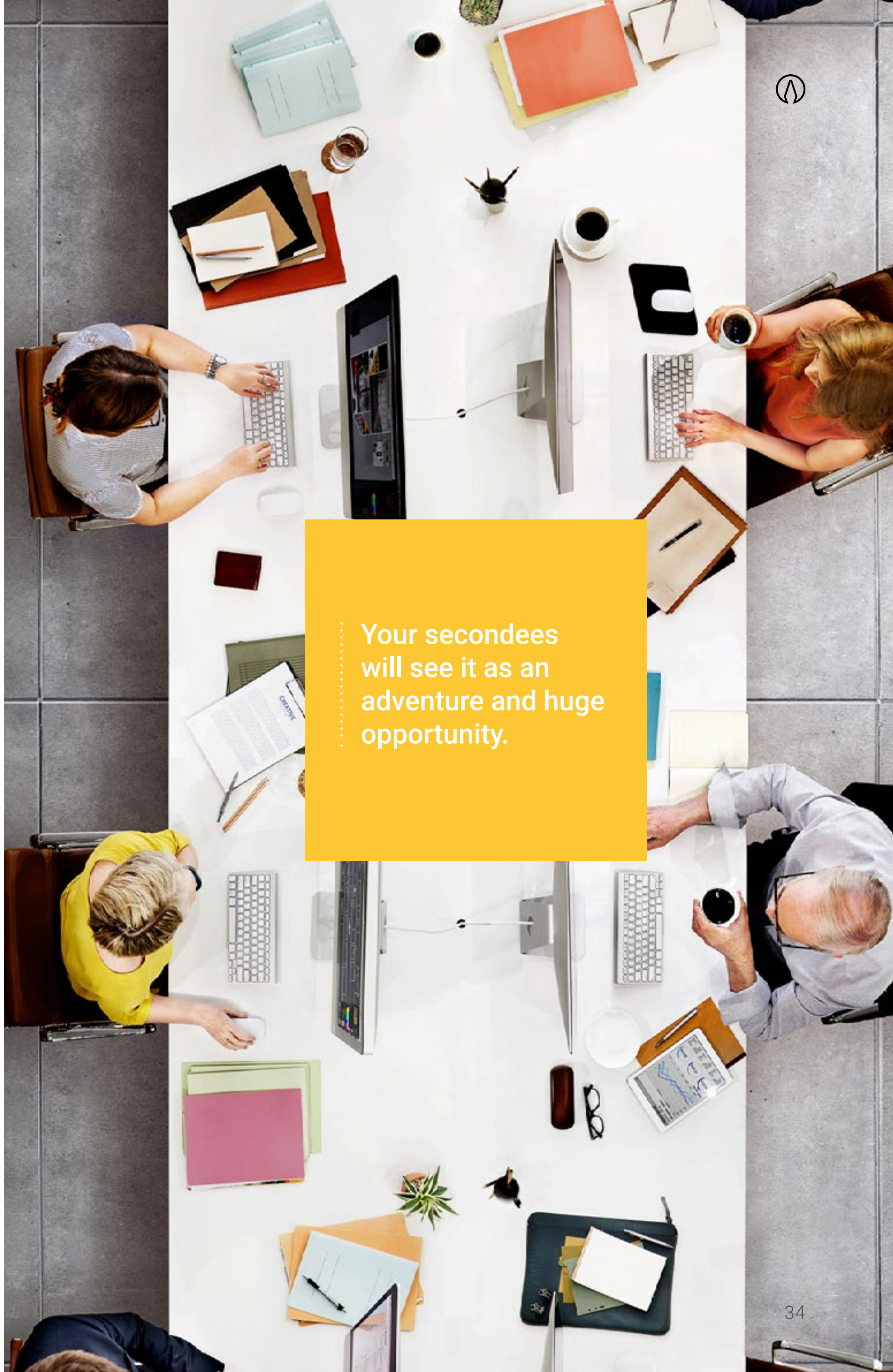
The most important consideration when hiring a local workforce is 'the fit'. Obviously, everyone who applies for the roles will be qualified or able to be trained but, as we know, suitability is based on more than previous experience. And, whether you interview by phone/video to Head Office, or candidates present themselves to your secondees on the ground, that all-important 'fit' is fairly easily recognised.

Find staff who'll both accept and reinforce your company culture. Who want the challenge and (possible) prestige of working for a newly opened firm, who could be good brand ambassadors – both local and (with some experience) international, now and in the future.

Once your local talent has been sourced, it's up to your secondees and your management team to fold them into the company and make them feel included and valued – that they're a part of something bigger, something exciting, and even more opportunities may now be open to them.

All in all, on the people side, international expansion is more exciting than painful. Sure, visas and local regulations can be a headache, but your secondees will see it as an adventure and huge opportunity, and you'll probably find your local staff enthusiastic and eager.

The best advice we can offer is for you to go into it with eyes open, and make sure your staff share your enthusiasm for the enterprise.



Legislation and labour codes

Failure to comply with labour laws can lead to action from regulators and action from employees, putting a significant dent in your company's reputation and potentially irreversibly damaging your brand. And, when undergoing global expansion, this becomes even more critical.

There are basic internationally accepted rules (the ILS), regional codes (like EU labour laws) and country-specific labour codes (even municipal ones in some places) – and all of them touch on requirements for contracts, termination, vacation allowances and other worker rights.

If you're moving into a new country, it's essential to understand and comply with all of these.

International Labour Standards (ILS)

The International Labour Organisation (ILO) is a United Nations Agency that sets global labour standards across its 187 member countries. Since 1919, the ILO has developed and maintained a system of international labour standards aimed at promoting opportunities to obtain and undertake decent and productive work, in conditions of freedom, equity, security and dignity.

The most fundamental labour standards are contained in the Declaration on Fundamental Principles and Rights at Work and revolve around four key policies:

- Workers' right to free association and collective bargaining
- Prohibition on forced or compulsory labour
- Prohibition on child labour
- Prohibition on discrimination among workers, including equal renumeration

The ILO also provides a database of international labour codes. NATLEX provides detail on the labour codes of 196 countries and territories.

Regional labour codes

Another form of international labour law is the set of rules applied across a select group of countries, the most prominent example being European labour law, applicable across the European Union.

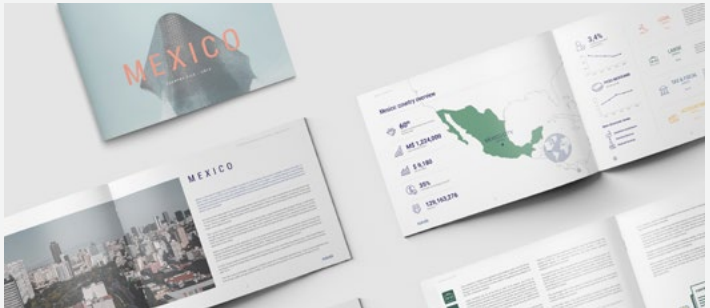
Rights for employees under European labour law include:

- **The right to a written employment contract.**
- **The right of employees to free movement across EU member states.**
- **A right to a minimum of four weeks' annual leave.**
- **Minimum health and safety standards.**
- **Discrimination prohibition.**
- **Restrictions on redundancies.**

However, EU labour legislation doesn't cover everything and, since EU Member States can add their own country-specific rules to this umbrella legislation, there's more variation on labour codes within the EU than you'd think. For example, Member States control the minimum wage within their borders and can also apply different rules for collective bargaining.

Another example of a regional code is the North American Agreement on Labor Cooperation (NAALC), a 'side agreement' to the North American Free Trade Agreement. Under NAALC, Canada, United States and Mexico all agree to enforce certain minimum labour standards, including (among others):

- Freedom of association and the right to organise
- The right to collective bargaining and the right to strike
- No child labour
- Equal pay for equal work
- Health and safety protections
- Workers' compensation
- Protections for migrant workers



To understand more about the regulatory, legal and labour complexities of specific countries, click here to access our library of detailed Country Files, all produced to help you navigate new jurisdictions.

Country-specific codes

Finally, and this is where it can get even more complex, you must have a good understanding of the detailed labour codes of your chosen expansion country – which can vary wildly. For example, workers in Colombia are guaranteed 15 days vacation but must actually take eight days, while the rest can be paid out. In Costa Rica, workers get two weeks leave for every 50 weeks worked, while workers in Ecuador are entitled to an uninterrupted period of 15 days of leave each year.

Specificities vary between countries, even for countries within the same regional code. For example, in Germany, an employer must consult the works council before dismissing any employee and there are specific requirements applicable for collective dismissals. In Luxembourg (Germany's neighbour and workplace for many commuters from Germany), an employer may dismiss an employee with notice only for "real and serious" reasons linked to the employee's conduct, or based on the company's operational needs, or for a "very serious" reason resulting from the employee's misconduct or actions. While statutory notice periods apply in both countries, termination procedures are very different.

It's incredibly important, therefore, to thoroughly investigate the labour codes enforced in your chosen expansion country – as there's significant reputational risk involved in operating in a country where international standards (at the very least) aren't complied with. There are huge variations in compliance and enforcement of employment legislation between countries, ILS ratified or not.

But the challenges of labour laws shouldn't deter you from expanding across borders. Engaging a local provider who can offer advice and knowledge of local requirements will help unravel any complexities and relive your headaches. They'll also be on hand to ensure you're adhering to the strict rules and guidelines, helping make sure your international business runs smoothly.

Payroll

Payroll is one of the most sensitive areas in any organisation. When dealing with payroll management at an international level, the function carries a much greater level of complexity.

If your business has several international locations, you must adhere to each location's: tax codes; regulations; variations on employment law, benefits and bonuses; social security; registrations and other considerations – all of which will affect the payroll function in each location.

Before starting to implement an international payroll process, it's important to take the following aspects into account. They can become issues or even pose a threat to the entire payroll flow and, therefore, the activity of the organisation – and may even affect the success of your international expansion.

Cultural component

The cultural aspect is a basic consideration for international expansion. Beyond the legislative specifics of your chosen country (like rules regarding the number of payments, payment intervals, social security deductions, and so on), the person in charge of leading the international payroll process may have to deal with de-localised teams, and possibly a third party in each country – each with their own cultural characteristics, different ways of working, and different systems. Understanding the specific cultural component of each country is essential.

Control and visibility of information

Closely linked to technology, it's essential that whoever leads your multi-country payroll process has full control and visibility of all relevant information. This includes full visibility of employee contracts, sign-offs and approvals, of payments and bank transfers, of tax and social security deductions. Although this may seem a no-brainer, it can sometimes be missed, and it's already too late when problems arise from a lack of control. Defining your management model and providing the tools that give you full transparency of data and accurate reporting is something that you must keep in mind before beginning your very first process of crossing borders. Plan ahead and future-proof your business.

Technology

Technology plays an indispensable role in international payroll. Having a technological solution to ensure local compliance avoids unpleasant surprises, now and in the future (for example, including automation from the start, when international payroll is smaller, will greatly ease future growth). Not to mention, given the sensitivity of payroll data, your solution must include security – reassuring both your staff and regulators. And there are data privacy regulations to consider. Having technological solutions adapted and customised to accommodate the real needs of those who manage your payroll eases pain points and assures a smooth process.

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Complexity of the process

The payroll management process on an international level starts complex, and will only get more complex as you grow further and expand into more countries. All measures must be taken to make life easier for those who manage and lead the global payroll function. Some of the complexities you should focus on are:

Your choice of model

Are you leaning towards centralised or decentralised payroll management? Consider the difficulty involved with one central Human Resources (HR) or finance team learning all the variables of multiple countries, which they'll need to be able to accurately monitor and maintain your compliance. But the additional costs for systems, people and space adds up quickly.

Communication channels

Email is normal, but doesn't provide the most secure, efficient and compliant means of communication. There are other options.

The approval process

Are you going for local level or global level payroll approval? Both? You should also consider digital approvals and automating the process.

The use of language

Think about whether the payroll-related terms you currently use are country-specific, and could cause problems. Does your new location use the same language or the same terms? How will that be managed going forward?

New staff onboarding

There may be multiple internal and external registrations required, in multiple countries.

Reporting format

What currency do you need your reporting to be in? Do you need consolidated or local reporting? Are your teams trained to match terms and payments? Different locations using different systems can make consolidation a nightmare.

Future-proofing

It's vital to ensure your solution is fit for your expansion plans and adaptable for future growth. What will you need next year? In five years?

There are many other considerations but these are just some of the most important. Every decision should be aimed at facilitation – making the process efficient, easily managed and easily expanded in the future.

Outsourcing

A solution to all these issues is to have an outsourced partner to accompany you through your internationalisation – one who can also provide local knowledge and visibility, and can grow into other countries with you.

Using a third-party provider means no significant outlay in additional systems or people to run it, and no downtime for training your internal teams on the specificities of a new location. Your outsourced team will have the expertise you need to keep you compliant.

It's crucial, though, to have a supplier that can manage onboarding and make it a fluid experience (guaranteeing the continuity of payroll payments and activity), one that that has the flexibility to adopt the processes of your company and, at the same time, adds value for your teams and your whole business.

Expanding across borders involves many moving parts that are easily overlooked and can have serious repercussions for future growth.

Not properly considering your international payroll operations will not only affect your business, reputation and employees, but also your HR/talent department and your internal finance function.

Outsourcing your international payroll to a trusted partner can provide exactly what you need with no massive cost outlay, and no downtime for staff training. The right outsourced team is where you need them to be, now and in the future, and has the technology and local expertise you need to ensure your global expansion runs smoothly, while giving you full real-time control and visibility of your data.

Payzaar on payroll

CONTRIBUTION

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The challenges of scaling payroll internationally

Payroll is inherently local: local regulation, local pay elements, local employer obligations, local custom and practice, local filing requirements, local terminology and language, local software, local payslip formats – the list goes on and on.

But in today's connected global economy, businesses operate increasingly across borders, spinning up teams quickly in different countries as they grow to meet customer needs or access talent. This means that even small businesses can have employees in multiple countries, which in turn means they need to figure out a way to effectively manage payroll in a variety of, often unfamiliar, locations around the world.

This presents certain challenges, because international payroll is inherently more complex than payroll in a single country.

Each jurisdiction an organisation is operating in will have different compliance obligations, regulatory frameworks, tax schemes, benefits, social security arrangements and contract models.

Furthermore, banking standards vary from country to country, meaning that the process of paying employees must be country-specific to ensure deadlines are met while accommodating for different bank transfer processing times.

Whereas payroll in a single country is homogeneous, international payroll processing requires different inputs and produces different data outputs in each country.

Wrangling this data, providing local payroll providers with the right inputs, validating their calculations and reporting on all payroll activities to Finance and HR becomes ever more challenging as organisations grow in headcount and complexity.

According to many global payroll managers, the single task their teams spend the most time on is manually cleaning, cutting and organising data so all of their international payrolls are in the same 'language'. This manual way of consolidating payroll data isn't scalable and is vulnerable to human error.

Beyond a certain point, the traditional approach based on spreadsheets and email starts to break down. Dedicated tools for payroll management are necessary to introduce standardisation and to make the payroll function more transparent and accountable to the rest of the organisation.

For companies that are expanding internationally, the key to solving these problems is to combine strong local market expertise from local payroll providers, with solutions that can streamline the entire payroll process.

With the appropriate technology, it's now possible to standardise payroll management across the entire company. Instead of each country having its own workflow and producing different outputs, which then have to be consolidated by hand by the payroll team, global payroll management platforms allow companies to have a single workflow for all national payrolls.

People Analytics

Enabling the expansion process through people management

Any international expansion provides a multitude of challenges and difficulties, with a myriad of resources and solutions on offer to solve them. But, no solution is as decisive or as beneficial to the process as people. The human capital and talent of any organisation is essential to the success of expanding internationally. And, with people, new technologies and data analytics take on even greater relevance.

The term 'People Analytics' encompasses all those technological and data analysis solutions to identify high-impact options for your business, using information on the people within your organisation and producing useable data in a solid, precise, timely, well-structured and well-managed manner.

All in all, the development and incorporation of People Analytics can be invaluable to both the internationalisation process and to planning future growth. After all, your people are your best resource.

The application of People Analytics during international expansion makes it possible (among others):

- Estimate the expected turnover rate for different geographies, how to measure success rates of new hires across different countries.
- Identify the reasons for differing team performance depending on location.
- Identify attributes employees have that add the most value and how to structure their remuneration.
- Analyse to determine compensation levels between different middle management, business units, or subsidiaries.
- Discover the real impact of development and training plans.
- Find out which of the new hires will become high-performance profiles in the next two years and which will leave the company within the first year.
- And even assess the international career potential of each candidate or employee.

Some of the benefits of using People Analytics solutions in an international expansion strategy include:

- Anticipating talent needs by identifying turnover patterns and risks, comparing them with the industry, position, structure, geographic areas, etc.
- Objectively identify key, high-performing and high-potential employees and detect issues in performance.
- Evaluating engagement rates, establishing loyalty and identifying engagement strategies.
- Structuring recruitment mechanisms to produce better candidates, regardless of market or jurisdiction.
- Promote reskilling and upskilling, aligned with organisational strategy and change management.
- Encourage multiculturalism, internationalisation of talent, diversity and inclusion, and the definition and planning of fast-growing careers.
- Implement bonus strategies that are fair, transparent and based on objective parameters.
- Help finance and talent management functions work closely and collaboratively, generating synergies.

However, the implementation of People Analytics solutions isn't without its challenges. To get the most out of it, you should consider:

- Having a homogeneous technological solution adapted to the reality of all jurisdictions.
- Having the appropriate training so that HR professionals can make best use of the tools.
- Generating the appropriate processes to promote synergies between departments involved in the analytic functions (human resources, finance, IT, etc.).
- Regulatory compliance and minimisation of derived risks (compliance, cybersecurity, privacy, etc.) in all countries.
- Scalability of the solution to be able to replicate it in future expansions to new markets.

Office space

AUXADI

Office space considerations for your international expansion

You've completed incorporation, appointed some local directors, arranged to second some head office staff to train your local hires – you're doing well. But, if you haven't already covered it by this point, you should definitely be thinking about where your people are going to work. Since 20% of respondents in our International Expansion survey indicated that locating suitable business premises may be a barrier, we thought we'd take a look at workplace options.

There are some decisions to be made before you start looking:

How will your new location function? Will there be regional team members who will work closely with head office? Or will the new location be autonomous for day-to-day operations?

Will clients be visiting the office?

Will the new office be a static satellite or expected to grow and bring in its own clients?

Will your staffing levels have to increase in the future?

Beyond the legislative specifics of your chosen country (like rules regarding capacity, ergonomic provisions, health and safety, and so on), you'll also have to consider that you may shortly be operating with de-localised teams, and easy head office communications will be essential.

Hopefully all the operational-type questions have already been answered, as they'll affect your use of technology, your location, and your fitout.

The first thing you should do, though, is put together a project team to manage the setup of your new location. You'll need a Project Manager (PM) to coordinate and keep the project on track. Your CFO and CTO should definitely be included, and you'll need input from the COO and CEO. Your team will also need someone from someone from legal to be able to review contracts, and marketing to manage the branding.

In this section, we'll look at things you must consider, including both short-term and long-term options for your new office. Of course, your specific requirements will be based on your business operations, but there are many points for consideration that aren't sector specific.

Office technology

Technology plays an indispensable role in today's office, and should be one of the first decisions you make. Having good technological solutions avoids unpleasant surprises, now and in the future. Not only must you have the same levels of data security as your Head Office (at least!), but you also must consider and comply with local data regulations, and decide how your local systems will be maintained.

Some systems will need to be integrated, some may not. Some locations have strict data privacy laws and don't allow integration, so you may need to adapt processes and implement workarounds.

You should identify and drill down into the specific roles of your local staff, as their roles and interactions will determine levels of systems access they'll need. Will local staff be an extension of your head office team? Or perhaps their levels of interaction will be limited? How often will they need to access head office files to perform their roles?

Don't forget telephony. Do you need an interconnected PBX system? Does the new location support one? Would VoiP and cloud-based access work best for your new team? Does your new location have the digital network reliability to support it?

You'll also need to consider future growth and what the desired final headcount of your new location will be.

Your CTO should be working closely with your PM and CFO to identify, source and cost the best technology solution for your new location.

Research is required, advice should be sought, and your final decisions made according to both your requirements and budget. Lead times for telephony and hardware can be lengthy, and these should be factored into your project planning. Don't forget to incorporate possible training for your IT staff; they may need specific training on the system extensions.

Plan ahead and future-proof your new location.

Working culture and health and safety

The cultural aspect is a key consideration for your new office. Each country comes with its own cultural characteristics, different ways of working, and different health and safety regulations.

Managing the cultural component of each country is essential, and you must comply with the specific requirements of the location you're entering.

Find out normal working practices in the country and how you can best accommodate them in the space you're looking at.

Check your health and safety regulations, as these vary greatly from country to country. For example, the UK requires ergonomic furniture if the worker will be using computers for more than one hour at a time. In the Philippines you must provide a First Aid/Nurse's Room.

Review and analyse the health and safety regulations of your new location and plan your fitout accordingly. Consider, too, that providing more than the minimum will go a very long way with your staff and might even enhance your brand – easing your future recruiting and building community support for your enterprise!

The outsourced solution

One of the easiest ways to move into a new location with speed is to rent plug-and-play office space. The serviced office solution might be right for you.

Serviced offices are flexible, furnished and usually include telephony, though you'll probably have to provide computers. There are a range of features and deals, and your cost will depend on your usage. Usually billed and contracted by the month, serviced offices are very useful as both short- and long-term options.

There are serviced offices all over the world, ready and waiting to provide a turnkey solution for your new business. And, with our post-COVID hybrid ways of working, a smaller and more flexible space may suit your operations perfectly.

The serviced office solution might be right for you.

Finding your own space

The other option, often more suitable for the long-term, is to rent property.

There are infinite possibilities and opportunities involved in property rental, and renting provides the chance to make the space your own; an option not really possible with a serviced office.

View many properties and come up with a shortlist, then consider:

Is your chosen building best placed for your operations?

Does it give good access to clients?

Does it have good transport links for your staff AND clients?

Does it provide a safe and secure environment for your business?

Does it offer the security systems you need? (i.e. access cards, security guard, video, etc.)

Does the lease have any restrictions that could limit your fitout or business operations? (i.e. what's the building access like? Is there restore clause in the lease, meaning fitout must be removed on vacating?)

What are the building's 'green' credentials? (Becoming more important every day and can save you money in the long run.)

Moving into new offices is incredibly exciting, for both staff and clients, though may challenge your CTO and PM.

Other considerations

Finding somewhere to work from involves as many complexities as you imagine – though the chance to 'make your mark' is incredibly worthwhile. Your office immediately shows your clients what your firm is about and what your firm stands for.

Get advice, do your research, hire reputable contractors, and enjoy making your office environment a reflection of your business.

Some of the questions to think on (in brief):

Consider the floorplan

- Have you found out how your workers actually work? i.e. should you have open plan, partitions, or offices?
- Will you need offices for senior staff?
- How many meeting rooms will you need?
- Do you need to provide lockers for your staff?
- Does it meet health and safety requirements?
- What sort of filing system and storage space will be needed?
- Don't forget to factor HVAC and fire systems into your new floorplan!

Future-proofing

- Is your solution short-term, or is it adaptable for future growth too?
- What will you need next year? In five years?
- Do you have space to add more staff as required?

Fitout

- How will the office be cabled? Overhead? Underfloor?
- Are you cabling for the future or for what you need right now?
- What will your workers need at their desks? Under-desk storage? Lamps?
- Have you considered the finishing touches? (i.e. equipment for hot drinks, microwaves, fire extinguishers, even stationery, will all need a location.)
- Don't forget the importance of branding!

Next level expansion

Carve-outs

When considering next level expansion, carving out certain segments of your business can be an efficient and effective way of freeing up capital for further investment into your core operations. Carve-outs can be an opportunity to release assets that aren't necessarily serving the company or relevant to your overall growth strategy. Companies typically use carve-outs for subsidiaries that are outside the parent company's main operational focus.

Carve-outs can be an opportunity to release assets that aren't necessarily serving the company or relevant to your overall growth strategy.

But, the carve-out process can be complex, particularly in cross-border settings – which is why engaging the right third parties to provide support is vital for success.

Carve-outs can be a useful restructuring strategy for your business and beneficial in streamlining your operations, improving cash flow as well as proving convenient for tax savings and benefits. They're also a popular strategy when exploring cross-border opportunities, as carve-outs can act as a means to optimise balance sheets or deploy capital in anticipation of recessionary pressures.

And there's been a COVID-related increase in the number of businesses restructuring and looking for a stronger focus on their 'core' business, with companies being encouraged to sell off those assets that are no longer profitable. This has resulted in increased deal activity as companies look to revaluate their business portfolio and adapt to changes within the market as a result of the global disruption.

Outsource Partner Checklist

If considering a carve-out, you should look to engage a third-party partner who:

- Can provide advice and expertise to unravel the complexities of carve-out transactions.
- Can help streamline your operations by relieving you of the administrative tasks involved in these types of deals.
- Has a strong global presence to assist with local restrictions and legislative barriers.
- Has 'full service' capabilities, so you only have to engage one partner across your global operations (e.g. tax compliance, HR, payroll, accounting and reporting).
- Has expertise in both global and local regulations to ensure compliance and maintain due diligence across your operations.
- Will support you by helping mitigating risks and control costs.

As corporates look to reassess operations in the aftermath of the pandemic, the number of carve-outs is expected to rise as major corporates dispose of businesses that are no longer relevant to their long-term strategy. In fact, **Harvard Law School** reported that "H2 2020 witnessed $254 billion in private equity carve-outs, according to data from Dealogic. The momentum carried over into 2021: In H1, US$281.1 billion in such deals was recorded, a 197% year-on-year increase." Despite carve-out deals often being more complex than standard acquisitions, buyers can have the opportunity to acquire at a lower price, which is proving an attractive option for many organisations.

Pitchbook's 2021 US Private Equity Outlook, forecasts that carve-out deal values will hit the highest level on record this year, stating that "while many large companies are struggling, private equity firms have been raising hundreds of billions of dollars and sit on around $1 trillion in dry powder… and they are now seeking massive transactions to swiftly spend down this cash pile".

However, strategically growing your business is a multi-layered undertaking – one that demands painstaking attention to detail and the ability to meticulously plan strategies from beginning to end. And, while buying into non-core assets can be a smart option, particularly for private equity sponsors, the legal, operational and financial aspects can be challenging, requiring expert knowledge of the design and implementation of these types of transactions.

Having an experienced partner at your side can make a huge difference between a successful transaction and a failed one. Not only will you have peace of mind that your business is operating at its fullest potential, but you can focus on the value-added aspects of restructuring, like getting the best price for your carve-out, retaining your best people and expanding your core business.

Despite carve-out deals often being more complex than standard acquisitions, buyers can have the opportunity to acquire at a lower price, which is proving an attractive option for many organisations.

Initial Public Offerings (IPOs)

After expanding your business into the company it is today, likely to be top of your mind is your next level expansion strategy – how you can continue growing. An initial public offering (IPO) can be an attractive option for businesses looking to enhance their international profile, to expand into new territories and attract and retain talent.

Not only are IPOs common in larger privately-owned companies looking to list and trade publicly on stock exchanges, but they're also a viable option for smaller businesses seeking the required capital to expand their operations.

However, going public is a huge decision for any business. Preparing an IPO is not only time-consuming and costly, but also risky when it comes to guaranteeing investor interest. And listed companies are open to greater public, regulatory and reputational scrutiny.

It's important to take the time to understand the complexities and challenges you may face going down the IPO route. You should also research and engage the right partners to help lift the burden of navigating these complex environments, and implement a successful approach to taking your business to the next level.

> **IPOs are a viable option for smaller businesses seeking the required capital to expand their operations.**

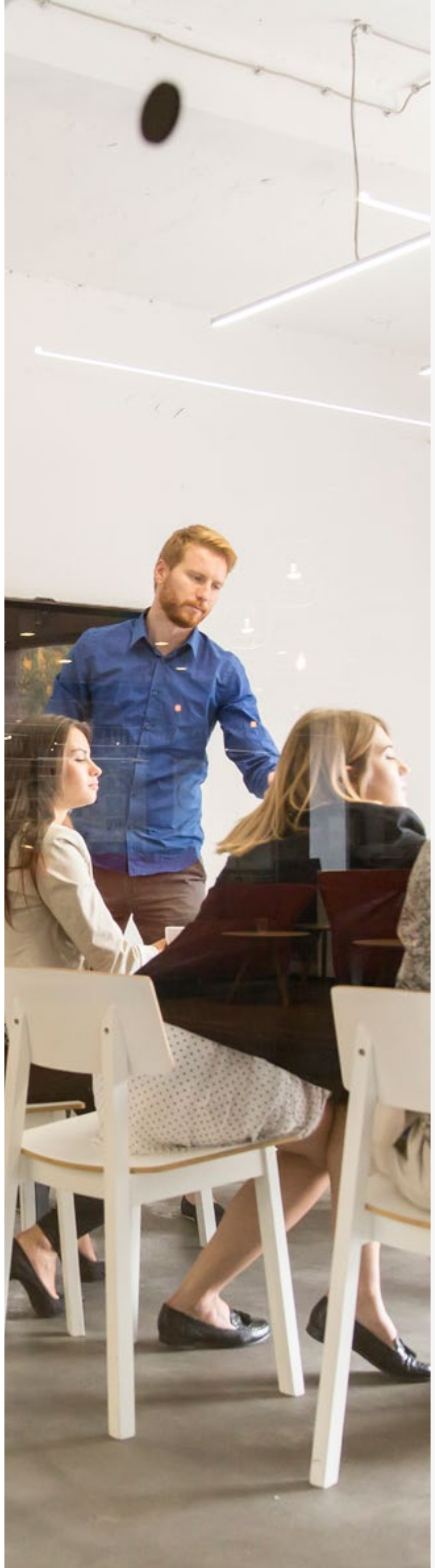
How does an IPO work and what's the opportunity?

An IPO not only exposes companies to increased public scrutiny, but the process also involves filing a veritable mountain of paperwork to meet the requirements of the regulator that oversees public companies. An underwriter (usually an investment bank) is hired to help manage the process from start to finish, producing the relevant documentation and scheduling investor roadshows. Once the initial stock price is set for the IPO, the underwriter issues shares to investors and the company's stock begins trading on a public stock exchange.

In general, the IPO process can take between one to two years to carry out successfully.

According to Forbes Advisor, IPO activity was significantly higher in 2020, hitting levels higher than in 16 of the previous 20 years. The year 2021 is set to host numerous highly anticipated IPOs.

As Statista reports in `Largest IPOs worldwide as of July 2021', China has recently emerged as a leading IPO market but the United States remains close behind in terms of IPO volume. In 2020, 407 companies in the U.S. alone made their public-market debut, with the largest U.S. IPO being by Alibaba Group Holding in 2014, raising US$21.77 billion.



Pros and cons

There are a number of possible advantages of going public including; better access to capital, stronger financial position, better brand recognition, new liquid M&A currency, and better incentives to attract, retain and reward talent.

However, with advantages come potential drawbacks, including: the drain on time and resources; the need for greater transparency and disclosure of company financials; greater risk exposure; and the pressure to meet investor expectations as well as corporate governance requirements.

Pros

- Access to capital markets, raising money through equity and bond offerings
- Shares will function as liquid currency
- Flexibility to trade shares with high liquidity and daily valuation
- Better brand recognition – reputation building
- Greater ability to attract, retain and reward talent
- Opportunity to incentivise key talent with shares in the business

Cons

- Costs – the IPO process is expensive
- New investors will have voting rights
- You must deliver for your shareholders – increasing business pressure
- Enhanced corporate governance duties
- Will require greater transparency and disclosure
- Produces new time-consuming tasks, like investor relations, and will require greater marketing efforts
- Add-on costs associated with being a listed company

Key steps of an IPO

Understanding your strategy

It's important to be sure you've carefully considered your decision to go public. Make sure you're fully informed of the potential risks and returns. The potentially volatile nature of political, economic, and interest-rate environments means timing is everything, and you need to understand the right time to be able to fully leverage the IPO windows of opportunity.

Planning is key

The planning process is key to success when it comes to this pinnacle moment for your company's future. There are many different paths and options to consider when going public – by being prepared in the early stages, you can be more efficient and save costs later down the line.

Building your IPO team

You need a good team onboard who are experienced and understand the market and process behind an IPO. You need experts who can prepare the relevant paperwork, seek necessary approvals, and provide sound advice and counsel along the way.

Knowing which stock exchange to List on

As part of the IPO process, you need to decide which market, geography and stock exchange to list on. Therefore, you need to understand the entry and listing requirements for various exchanges and they, along with the relevant regulator, should be approached early on in the process.

Choosing your IPO structure

There are many different corporate structures you could use when going public and selecting the right one is crucial for driving value. Will you go for a traditional IPO structure? Or would an alternative option, such as a direct listing or a SPAC, better suit? Take time to explore your options and weigh potential pros and cons of each before making the final decision.

Attracting investors

It's important to build a clear vision and story to define how the company will be positioned in the market – vital for the business valuation and for attracting investors. Be prepared to launch an IPO roadshow; an opportunity to market the shares to institutional investors to generate interest and understand what potential demand/value of shares will be.

Setting your issue price

Once you've received regulatory approval, and based on your company financials and the demand indicated by your roadshow, your IPO team can finalise the offer price and the number of shares being issued to investors.

Going public

Once listed, you need to expertly manage your public perception in the market. Communicating regularly with your investors, analysts, and releasing company financials are essential for your success – as communication will directly impact the value of your company's stock. You'll also need to stay on top of ongoing regulatory and reporting obligations to ensure you don't fall foul, and risk large fines and reputational damage.

An IPO can be a hugely strategic and rewarding path for your company when looking to take your business to the next level.

Not only does it give you more publicity, a higher-market profile and further opportunity to grow and expand, but the process itself can be relatively easy if you get the timing right, the right team in place and experienced partners and advisors on board to ease you through the process and ensure the long-term growth and success of your business.

SPACs

The past year has seen the rise of SPACs (special purpose acquisition companies) in the IPO market. According to Goldman Sachs, SPAC IPOs comprised more than half of the IPOs in the U.S. in 2020. 56 U.S. SPACs went public in the first three weeks of 2021.

SPACs have become an attractive alternative to a full IPO, as these generally stock-quoted structures raise money for the sole purpose for acquiring private companies. Once merged, these target companies then become public without having to pay for an IPO as all the costs are covered before the target company ever gets involved. The pandemic drastically boosted this trend, as SPACs could continue going public while many IPO plans were halted. According to PitchBook, a reason for the increased use of SPACs is that the value of a SPAC is tied to how much it raised from investors, and it's therefore less susceptible to the ups and downs of the market.

While the process of a SPAC is a lot faster, less complex and less costly than a traditional IPO, it can be riskier as investors are able to withdraw their investments if they're unsatisfied with the target company.

Mergers & acquisitions

Mergers and Acquisitions (M&A) can play a key role in international expansion. And, despite increased regulation, M&A can be a good option for achieving growth within your company. Not only does it offer the potential to jump start your entrance into new markets, but also to access top talent and reduce your costs. Our International Expansion survey showed, however, that 23% of respondents carry anxiety about the execution and funding of successful M&As, with a further 17% saying M&As are one of their greatest areas of concern when it comes to international expansion.

Purchasing a fully operational 'going concern' can be both easier and more difficult than building your own business in a new market from scratch. There are pros and cons to each route, to be sure – but, from the aspect of next level expansion, M&A offers one of the most direct routes for exponential growth and market share.

Buying an already established business may well be considered the easy way to expand. After all, there's already a client base, all the key staff are in place and know what they're doing – you can hit the ground running. If you can effectively manage concerns and expectations from clients and staff, then you can be making money from day one.

But it's important to recognise that the M&A process takes time, effort, negotiation and patience. And the risks (such as business and regional culture clashes) must be considered carefully. Rigorous planning and a well thought out post-deal integration strategy is essential to ensure the M&A process is done successfully. Your first step should be to ensure you've got the right people for your M&A project – both for research and analysis of opportunities and to effectively navigate the intricacies involved.

Then, research. Unless your diversifying, you'll be looking for a company that does what you do and matches your sensibilities. You want a company that you can easily absorb and integrate, in a market you don't currently reach. You'll want a company whose people you can work with – because, depending on the size of the target company, those people will be in place after completion. On the most part, this is hugely beneficial as instead of having to hire new employees, you have experienced people already working at the acquired company. However, the challenge can be integrating two different working cultures, especially in countries with a different business culture or in companies that have a strong established company culture already in place.

A common way to do this is to look at a current partner; a company providing a service you don't with possible referral agreements already in place. But they're a partner because, as well as being great at what they do, their culture and values align with your own. That's a key step to success, and one of the biggest things that can go wrong in any post-M&A integration – having to merge two totally different business cultures is inherently difficult and something to be avoided.

For this reason, it's important to manage those employees involved in M&A carefully, to ensure that they remain engaged and in their positions at the company. Once the process begins – when you've identified the target company and talks commence – your team will begin the complex and daunting task of due diligence. This can take a long time, both to receive required documentation from the sellers, and to properly review everything on the buy-side.

We at Auxadi know this process intimately, having completed acquisitions ourselves (a recent purchase instantly expanded our reach into five new countries in the Americas and exponentially increased both our reputation and global team). Not only that, we're well equipped to help ensure books are maintained, taxes are properly paid and people are remunerated accordingly.

We've been through it. We can help you through it. And, we can help by taking your current back-office operations off your hands, so that you can focus your energies on your M&A project. Knowing these areas are well taken care of will give you the time and space to consolidate your vision for the acquisition/s.

McDermott Will & Emery

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Unlocking more value in M&A and carve-out activity for cross-border expansion

Whether you're a strategic or a financial sponsor, market appetite for cross-border expansion has never been stronger. However, as businesses become more integrated and supply chains more diversified, clients are facing an increasingly complex array of legal, strategic and commercial challenges when looking to unlock more value in M&A. In particular, carve-out activity is becoming increasingly common and is expected to grow in the coming years given falling oil prices, slow-growing economies and increased capital costs.

On the sell-side, a carve-out transaction can help a company that needs to refocus on core business competencies or that has a desire to unlock value in underperforming business units. And, buyers in the international carve-out market are becoming increasingly sophisticated, focusing more on long-term value rather than the lowest purchase price.

In spite of the increase of deal flow worldwide, there are still some misconceptions about inbound and outbound M&A, especially carve-out transactions. Understanding the intricacies of the legal landscape, cultural nuances and trends in market practices in the jurisdiction in which you plan on expanding into will help you make your next transaction a successful one. Below are examples of critical issues to be addressed in your next cross-border carve-out:

Buy-side

- As a buyer, you'll need to determine how best to address any key contracts or commingled contracts that cannot be "split" or otherwise unwound between seller and buyer. And understand the consequences of separating any applicable commercial relationships. Similarly, you may need to make arrangements to replace any guarantees, letters of credit or credit support arrangements material to the target business.
- You should understand the nature and materiality of any IP assets owned by or licensed to seller and used in the carved-out business to determine who'll ultimately own such IP and who'll need a license.
- To the extent the seller's books and records for the target business unit are maintained on a consolidated basis, there may be complexity in transferring separate records for the carved-out business.
- The buyer should understand the target business sufficiently well to be able to determine whether a transition services agreement (TSA), which sets terms for the seller to continue providing certain support services (such as IT and payroll) to the carved-out business for a stated term after the deal is closed, is necessary and, if so, what to ask for.

Sell-side

- As a seller, you should determine whether you have available, or need to prepare, carve-out financial statements, including whether or not such financials are current, audited and otherwise sufficiently meet a potential buyer's needs.
- Will you seek to impose obligations on buyer to maintain similar employee benefits for some period post-closing? The employment and labour laws in each jurisdiction can vary significantly.
- Consider a buyer's willingness to agree to non-competition covenants and related scope against the carved-out business, which are typically multi-dimensional and buyer-specific. Equally, non-solicitation covenants pertaining to seller's customers and suppliers will be a material issue for negotiation.

Planning and implementation are key to successful carve-outs. Dealmakers, and their third-party advisors, must focus not only on the operational issues associated with the transaction, but also take a holistic view of the legal, finance, IT, HR and tax implications of the process in order to successfully close on a carve-out transaction that benefits both the seller and the buyer.

McDermott Will & Emery are a global, full-service law firm with unique expertise in the private equity, health care, tax, and private client sectors. They have offices in the major U.S. markets, as well as London, Paris, Frankfurt, Milan, and Singapore. If you're a multinational company looking to discuss complex domestic and cross-border business transactions in connection with M&A divestitures, investments and other commercial activities, get in touch for more information.

Mature organisations

Regardless of industry, country or years of operation, all organisations go through the same phases of development and evolution, until they reach either organisational maturity or dissolution. Many authors have studied this path – like Richard W. Beatty and David O. Ulrich, who analysed the phase of reinvention in mature organisations; Larry E. Greiner, who listed the five phases of growth for Harvard Business Review; or William Torbert, who offered advice on overcoming internal bureaucracies way back in 1974.

The consensus is that organisations go through an average of four or five phases throughout their existence. These are:

- the **start-up** (Donald L. Lester, John A. Parnell and Shawn Carraher baptised it as 'existence')
- **growth** (known as 'survival' by the same authors)
- **maturity** (Beatty, Ulrich, or Adizes)
- **renewal or descent.** These last two aren't consecutive, and their order sometimes depends on the organisational analysis model. In the renewal phase, we find mature organisations try to apply solutions to be more agile and flexible in their decision making. In the descent phase, the organisation begins to weaken and isn't able to respond to the demands of the market.

In any case, the key for any organisation is to reach maturity.

Much has been written about when a company can be classified as mature, and not all in the same vein. While some sources point to organisational maturity as the lack of connection with the market or poor responsiveness, most approaches agree that organisational maturity is the state of professionalism where the purpose, mission and values of the brand have been verbalised and internalised. When functions are standardised and tailored to profiles (with senior management are focused on strategy and middle management are closer to the day-to-day) or when a company has the necessary internal processes to guarantee efficiency and operability, especially in relation to the financial function. In short: the company operates as it's supposed, and intended, to operate.

Organisational maturity is the state of professionalism where the purpose, mission and values of the brand have been verbalised and internalised.

If there's confusion between the maturity and descent phase, it's because companies are sometimes in situations of stability with respect to growth and market share. It's here that organisations have two options (which aren't incompatible with each other) – an internal one, i.e., to undertake a renewal process; or an external one, to look for new markets and take advantage of maturity providing a competitive advantage.

Does this mean that a company that's still in a start-up or expansion phase cannot or should not consider international expansion? Not necessarily. The characteristics inherent to the organisations in these scenarios can also be competitive advantages, particularly for the challenges posed by internationalisation (such as a more horizontal structure in which decision-making is decentralised and, therefore, faster; or the efficiency derived from fewer human resources, implying greater versatility).

If you're a mature organisation looking to take your expansion to the next level, having a trusted third-party provider in place can be pivotal – taking care of your ongoing operations and back-office functions to allow you to focus your energies on your growth strategy.

Having a provider with best-in-class technology would also be extremely advantageous as they can help automate your processes and provide you with the real-time, consolidated data you need to effectively strategise.

That said, what advantages does organisational maturity offer when undertaking international expansion?

- Previous accumulated experience.
- Resilience and ability to face the difficulties arising from the complexities of the process.
- Human capital is trained and with knowledge of the internal dynamics of the company.
- Resources are readily available.
- Existence of a proven culture that guarantees the survival of the organisation.

Challenges faced by mature organisations, especially in the process of international expansion, can include:

- Resistance to change.
- Organisational silo stocks.
- Little or reduced interdepartmental collaboration.
- Problems arising from internal communication (or lack thereof).
- Cultural differences.
- Lack of specialised internal knowledge in certain functions.
- Difficulties arising from leadership.

So, how can an organisation reach organisational maturity?

- Involve the C-suite in this process.
- Define the purpose, mission, vision and values and communicate with your teams.
- Identify a differentiating value proposition.
- Analyse and eliminate barriers, pain points and stoppers.
- Standardise processes, functions and communications.
- Identify and develop leaders.
- Align systems and processes, treating technology as a driver of change and business.
- Put in the resources needed for growth.
- Analyse and constantly measure, then implement necessary improvements – always aim to improve.

Conclusion

Achieving growth and success for your global business

We hope this guide has helped you to understand that, while international expansion is challenging (with many considerations, pitfalls and local/country-specific variances to consider), there are plenty of options for cross-border business growth. Particularly if you have the right, experienced and trusted partners in place to help.

Auxadi have over 40 years' experience supporting multinational corporations with their internationalisation. With experts based throughout our 22 offices in Europe, Latin America, the U.S., and an extended network of over 50 jurisdictions we service, we're exceptionally well placed to ensure you're adhering to local and global standards and, advise on how to overcome any legal, regulatory or tax hurdles you may face.

We can do the advance work, helping create your new entity, providing independent directors and opening bank accounts so that your business is ready to operate when you are. And, after your operations commence, we're on hand to assist with day-to-day accounting, payroll, and tax compliance needs, alongside many other services – all of which are **aimed at helping your global business run smoothly and making your life easier.**

We've built strong relationships with local suppliers and can assist with coordinating your lawyers, banks, appraisers, property managers, and auditors, leaving you focus on what you do best – growing your core business.

Using our purpose built and industry-leading cloud-based MySPV technology, you can **monitor and manage all your international entities through a single online platform – in real-time.** Our unique platform provides a global and harmonised view of all your data, making consolidation and reporting easy, and it's fully customisable and flexible to meet your specific needs. What's more, as our platform was developed as part of our Gold Partnership with Microsoft, you're guaranteed robust data security and access controls.

We've built strong relationships with local suppliers and can assist with coordinating your lawyers, banks, appraisers, property managers, and auditors, leaving you focus on what you do best – growing your core business.

We enable your international expansion across more than 50 countries

We're technology-driven, utilising our best-in-class cloud-based MySPV technology platform to ensure flexible and efficient solutions

We're experts at unravelling complexities, making the complex simple across all sectors

We adopt a single-point-of-contact service model, putting you at the heart of our business

We're a leading provider of accounting, tax, payroll and SPV set up and administration services to some of the world's largest multinational corporations

+50
Countries being served

+1,700
Clients serviced

28,000+
Total annual tax returns in 2021

95%
Of our clients operate in more than one country

375+
Employees globally

25+
Nationalities

4.5/5
Client satisfaction score

Contributors

Thank you once again to our expert contributors for taking the time to provide their valuable input and insight to this guide. By partnering with other industry leaders, we hope we've been able to give you relevant and useful information on the various stages for achieving international expansion.

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