

A report from The Economist Intelligence Unit



CORPORATE OVERSEAS EXPANSION

Opportunities and barriers

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About this report

Corporate overseas expansion: Opportunities and barriers is an Economist Intelligence Unit (EIU) report, sponsored by TMF Group. It investigates the range of practical issues companies face when they start setting up operations in a foreign country and how they deal with those issues.

In August-September 2015 The EIU surveyed 155 senior executives who have some or very good knowledge of the issues involved in their company's expansion into foreign markets. Survey respondents included 33 chief financial officers, 31 chief operating officers, 31 general counsels or chief legal officers, 30 chief procurement officers and 30 heads of payroll or senior payroll professionals.

Geographically, 46 respondents were drawn from North America, 46 from Europe, 47 from Asia-Pacific and 16 from rest of the world. They represent a wide range of industries, including manufacturing (16% of respondents), IT and technology (16%), professional services (16%), financial services (11%), retailing (8%), transport, travel and tourism (6%), construction and real estate (5%), and energy and natural resources (5%). Of the companies included in the survey, 80 have an annual revenue of less than US\$500m and 75 have an annual revenue of US\$500m and above.

The EIU also conducted 11 in-depth interviews with senior executives. The insights from these interviews appear throughout the report. The EIU would like to thank the

following individuals and their organisations (listed alphabetically) for sharing their insight and experience:

- Kelvin Au, managing director, Metail
- Jerry Buhlmann, chief executive, Dentsu Aegis Network
- Sally Campbell, group head of mergers and acquisitions, Hiscox
- James Kidd, CFO, AVEVA
- Nicholas Nash, group president, Garena
- Brian Pallas, founder and chief executive, Opportunity Network
- Jose Papa Neto, chief executive, WGSN
- Gilles Raymond, founder and chief executive, News Republic
- Joseph Smith, general manager, EMEA, Hootsuite
- Chris Southworth, director, International Chamber of Commerce (UK)
- Matthew Tilley, finance director, Taylor Vinters

The EIU bears sole responsibility for the content of this report. The findings and views expressed in the report do not necessarily reflect the views of the sponsor. Anna Lawlor was the author of the report, and Martin Koehring was the editor.

November 2015

Executive summary

As the 2008-09 recession fades from memory and credit conditions improve, many companies are considering expanding into new markets. In doing so, they face a multitude of challenges spanning the range of corporate functions.

This report is based on a survey of 155 senior executives and 11 in-depth interviews with experts who have special knowledge of the issues involved in their companies' expansion into foreign markets. The main findings of the research are presented below.

- **A desire to open new markets and gain market share drives corporate expansions abroad.** This is especially the case for European countries, as sluggish growth in domestic markets has encouraged many European companies to seek stronger returns overseas. As James Kidd, CFO at the UK-based multinational information technology company AVEVA, explains: "We do take inspiration from the demands of other markets."

- **Many companies seek support from governments and chambers of commerce.** Around half of survey respondents rely on resources provided by their local government and/or chamber of commerce, especially North American respondents. Support from governmental agencies and chambers of commerce also features highly across business

areas, including legal/compliance, HR/administration and accounting/tax. Chris Southworth, director of the International Chamber of Commerce (UK), says that it is not unusual to find big-brand companies with no export experience at board or executive level, which is likely to be one factor for a reliance on support from trade organisations such as chambers of commerce.

- **The socioeconomic circumstances in the target country are the biggest physical location issue in corporate overseas expansion.** This concern is linked to the above-mentioned desires to access new markets and/or gain market share. Perhaps connected to the socioeconomic factor, the second-biggest concern is exchange-rate volatility. Among the job functions surveyed, CFOs view physical location issues in the corporate expansion process with particular concern.


- **Concerns about data protection and privacy laws are the biggest legal/compliance issue.** This is particularly the case for COOs and general counsels/CLOs as well as for respondents based in Europe. However, general counsels/CLOs are more likely than other functions in advocating in-house control of the legal and compliance aspects of the expansion, while many COOs prefer using external experts in this field.

- **Local employment customs, practices and laws are the main concern for HR/payroll.**

Those interviewed for this report agree that maintaining company culture while respecting local customs and cultural differences is a fundamental objective for a successful international expansion. Jose Papa Neto, chief executive of global fashion-trend forecasting company WGSN, says that “being aware of and adapting our operations to accommodate for the complexities of individual markets—from sales strategies and respecting culture to local

HR practices—while maintaining our core operating principles” is crucial to undertaking an expansion.

- **Excessive bureaucracy in the local tax system is rated as the biggest accounting issue for businesses expanding overseas.** COOs and senior payroll professionals see this as a particular issue. By contrast, a country’s level of taxation seems to be far less of a concern in companies’ expansion projects than might have been expected.



Introduction

Expanding into an overseas market is a daunting and exciting proposition for any ambitious, high-growth company. International expansion is a key driver of revenue growth and tends to provide businesses with improved return on capital, an increased reinvestment rate and greater security through more diversified revenue streams.¹ Moreover, the pace of growth from overseas expansion tends to be quicker than domestically generated growth.

From a competitive standpoint, businesses that launch internationally gain access to a wider customer base and grow their brand “footprint”. Plus, globalisation and the Internet-enabled open, instant access to global information means that businesses with footholds in non-domestic territories can bring to clients the added benefit of their “on-the-ground” understanding of a diverse marketplace. Increased competition across global marketplaces feeds corporate innovation, making new products and services

available, increasing consumer choice and rationalising consumer pricing.

The global financial crisis has been seen as a catalyst spurring companies to launch overseas operations; sluggish domestic growth can encourage companies to search for more vibrant markets overseas and diversified revenue streams, while the return to a positive domestic economic environment buoys business confidence, making an overseas investment more palatable to the corporate C-suite.

This report will first explore the ways in which companies across different sectors approach an overseas expansion; what prompts consideration of an expansion; how they identify potential locations; and their general approach. It will then move on to consider the ways in which these companies operationally approach key thematic areas, such as legal/compliance, accountancy/tax and human resources/administration.

¹ “4 Real Benefits from International Expansion”, *Chief Executive*, April 16th 2012. Available at: <http://chiefexecutive.net/4-real-benefits-from-international-expansion/>.

1

Strategy and approach

Motivating factors

The motivations for businesses to expand into an overseas locale are almost as diverse as the businesses themselves. International expansion can be a bellwether of business confidence when acquiring foreign brands or entering into joint ventures as well as a sign of corporate health; profitable companies stockpiling cash reserves are frowned upon as growth is considered to be curtailed by the lack of astute spending.² Apple has the largest cash reserves in corporate history—more than US\$200bn—which worries analysts.³

Likewise, international expansion can be a defensive move against an aggressive competitor, an attempt to maintain or grow market share, or a bid to reach a fertile market ahead of the competition so as to build a solid brand loyalty ahead of competitors.

The survey conducted by The Economist Intelligence Unit (EIU) for this report reveals that both drivers for international expansion are in play, perhaps reflecting the mixed global economic picture. According to the survey, the strongest motivation for respondents to launch overseas operations is “opening new markets for products and/or services” (59% of all respondents). This is especially the case for businesses based in Europe (three-quarters of respondents in that region), which is often put down to sluggish growth in domestic markets compelling European companies to seek stronger returns overseas.

However, there is disagreement among the experts interviewed for this report as to the validity of this assumption. Brian Pallas, founder and chief executive of Opportunity Network—a digital company which originated in Italy and now has offices in New York, Barcelona and (just this year) London, Santiago and Dubai—supports this view: “It’s traditionally been the case in global markets that when growth slows down, companies will begin to look outside their borders. Sluggish growth is a catalyst for internationalisation. Lately, we have seen this trend occurring among southern European companies in our member network.”

Gilles Raymond, founder and chief executive of News Republic, which is based in France but has offices in India, Mexico, the US and China, takes a different perspective: as digital business knows no borders, “we have never considered ourselves as a European company, but as a global company headquartered in France.” He bristles at the suggestion that European sluggish domestic demand should be considered “a special case”. “Would you say that American/Chinese/Korean/Japanese companies have been motivated to expand overseas due to sluggish growth in domestic markets?”

Another important driver of overseas expansion identified in our survey is “gaining market share in target market”; again, this is more popular for European companies. The third most prevalent motivation is “seeking foreign markets in response to increasing competition in the home market”.

² “The cash paradox: How record cash reserves are influencing corporate behaviour”, *Deloitte Review*, Issue 15, July 28th 2014. Available at: <http://dupress.com/articles/excess-cash-growth-strategies/>

³ “Apple has \$203 billion in cash. Why?”, *CNNMoney*, July 22nd 2015. Available at: <http://money.cnn.com/2015/07/22/investing/apple-stock-cash-earnings/>

James Kidd, CFO at the UK-based multinational information technology company AVEVA, says: “As a company, we spend little time analysing our competitors’ position, but we do take inspiration from the demands of other markets. For example, the value we bring to major projects of high capital value in our core markets is aligned with the business needs of adjacent markets, where complexity and project spend is high. Here we work with partners with domain knowledge of these new markets to introduce AVEVA technology.”

Headquartered in Cambridge (UK), AVEVA has offices in 46 countries spanning every continent. Its latest international expansion (in January 2015) was to Saudi Arabia, a strategic location for the company, explains Mr Kidd, and an example of an overseas launch in response to a growing client base. “It is important to provide

service and support in local language and in accordance with local culture,” he adds.

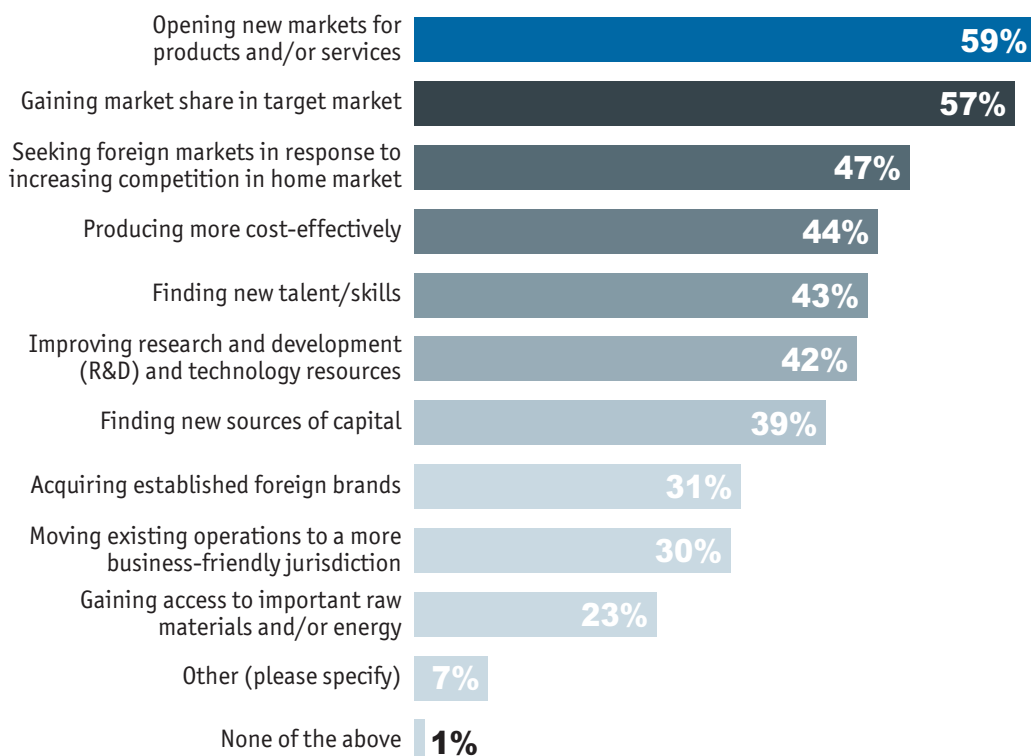
According to Mr Kidd, AVEVA’s expansion strategy is based on a number of criteria, including revenue opportunity, profitability, competitive positioning and brand awareness. “The balance between these factors is dependent on the specific circumstances of the region in question. Expansion has been—and will always be—driven by customer requirements.” Evidence of customer demand emerging from a new overseas market is a key motivation for international expansion noted in all in-depth interviews conducted for this report.

The US economy is driven by consumer demand—and more so than in many of the more export-oriented European economies. For North American companies surveyed for this report,

Chart 1: Drivers of expansion

Q What are your company’s motives in its recent/current/planned major expansion project into foreign markets? Please select all that apply.

(% respondents)



Source: Economist Intelligence Unit survey, August-September 2015.

producing more cost-effectively is one of the top two drivers of corporate expansion overseas, mentioned by more than half of respondents in that region (and by 44% of all respondents).

Joseph Smith, general manager, EMEA, at Hootsuite, which provides a social media management tool and originated in Vancouver, Canada, interprets the survey findings on “producing more cost-effectively” in terms of closeness to customers “not only geographically, but also culturally”. Mr Smith explains: “When you are aligned, relationships and business are more effective. It is not just about having employees who speak many languages in the same time zone. It is the understanding and experience of business culture, localised trends and buyer behaviour that make it important for North American companies expanding overseas.”

By contrast, respondents in Asia-Pacific are particularly driven by the need to find new sources of capital (mentioned by more than half of respondents there). However, the findings of this survey reveal a more complex story, insists Nicholas Nash, group president of Singapore-based Garena, a mobile and Internet platform provider. He says that the Asia-Pacific region is undergoing a shift in its approach to capital allocation, but he notes that for many companies it is the other way round: new sources of capital help to provide the knowledge, networks and financial resources to make overseas expansion successful.

“Asia is awash in liquidity [but], in general, capital allocation in Asia tends to skew towards the fixed-income side of the capital structure and towards more traditional, asset-intensive industries,” he explains. “Where we see opportunities for optimisation is in how that capital is allocated, both across the capital structure and across industries. The powerful lesson of Silicon Valley over the past three decades is that truly outsized returns come from equities and from newer, more innovative industries. Asia is still in the process of embracing that approach.”

Expansion options

Identifying target locations is considered commercially sensitive by all those interviewed for this report. Interviewees stress that their companies typically use formalised criteria to define the type of presence and carefully consider a matrix of factors, such as the macroeconomic environment of potential target locations and the legal, tax and regulatory requirements, with some interviewees adding that proximity to existing hubs and satellite offices is also a consideration.

According to our survey, corporate expansion is typically split between markets where the company has no presence at all (44% of respondents) and markets where the company has a small or medium existing presence (41%).

Often tied to a company’s key objectives for expanding overseas is its method of expansion. Common approaches to foreign expansion include the following:

- Direct entry
- Acquisition
- Joint venture
- Local partnership

Dentsu Aegis Network, a UK-based multinational media and digital marketing communications company, has pursued an acquisitive approach, says chief executive Jerry Buhlmann. “As we strive to become a business which is 100% digital by 2020, our growth strategy is now aligned to the opportunities brought about by the digital economy. We are focused on increasing our exposure to faster-growing regions and product segments; in 2014 £360m (US\$546m) was spent on 25 acquisitions, and we are on track to achieve similar levels in 2015.” Acquisitions such as Covario, Emerald and Isobar were selected because they provided a clear, value-added proposition, supporting Dentsu Aegis Network’s overarching strategy.

The global fashion-trend forecasting company WGSN operates across four international hubs (New York, London, São Paulo and Hong Kong) and has ten further offices around the globe. Jose Papa Neto, the company's chief executive, says that over the 17 years in which the business has pursued its international expansion strategy it has done so through a combination of all four approaches mentioned above. "Our model and delivery method makes the products we sell readily accessible where the local IT infrastructure can support it. We have a flexible approach, which means we can adapt quickly while minimising unnecessary risk."

WGSN has made direct entries into new markets, made acquisitions such as Mindset in Brazil and formed joint ventures such as the recently announced partnership in China with China Textile Information Centre (CTIC). However, the company also "tests the waters" of a new market through local partnerships, such as with the Scandinavian media company Pej Gruppen, based in Denmark, entering into simple commission or revenue-sharing models.

"We had a small local client base in Denmark and Norway but no physical presence, both of which are served by this deal [announced in August 2015]," Mr Papa says. "It would have been a significant investment for us to build a direct presence and, for the market size, was difficult to justify against other strategic priorities."

Echoing AVEVA's Mr Kidd, Mr Papa says expansion is driven by client demand, which is informed by global access to information that has been transformed over the past 20 years. He explains: "Our clients—large and small—are impacted by the global marketplace, and the more we can be experts internationally, the more value we can provide to help our clients grow."

He adds: "If we look at recent examples of expansion, such as China and Latin America, we consider market size, proximity to other markets (inter-continental), latent demand for our services (through market research/analysis),

how well we understand the market, and the likely cost of entry/expansion. We compare this against the other strategic investment priorities we have—new products, sector expansions etc—and then make a call on whether we should enter and how we should do so. The executive team of WGSN and [parent company] Top Right Group will then make the call with support from our board where necessary."

A further approach to international expansion is AVEVA's investment in Centres of Excellence, where the company establishes development and support hubs close to key customers "in order to increase our presence and provide a more targeted service and proposition," explains Mr Kidd. Examples include establishing Centres of Excellence for Power in China, Oil & Gas Plant Operations in Norway and Mining in Chile, which Mr Kidd says become key hubs to support market expansion in those locales.

Opportunity Network's Mr Pallas warns that the biggest mistake most businesses make when they decide to expand overseas is to start by first selecting the country. "That's often not the best approach," he says. "Instead, decide the business goal of your expansion, then find local partners or clients abroad through governmental support or a business matchmaking service. Only then should you enter a specific market, where you know you will find traction. Don't follow the map, follow the business."

Location concerns

Our survey asked participants to think about the physical location issues in their companies' recent/current/planned major expansion projects into foreign markets. They were asked to rate the severity of problems their companies encountered on a scale of 1 to 5 (with 1=no problems and 5=significant problems). The biggest concern, according to our survey respondents, are the "socioeconomic circumstances in the target country", with almost one-quarter rating these either 4 or 5 on that scale.

Given how fundamental the socioeconomic environment is to supply and demand cycles, and considering that the principal reason cited by our respondents for launching overseas operations is to access new markets for products and/or services and/or gain market share in a target market, this is an understandable concern.

Interestingly, the survey identifies role-specific concerns. Socioeconomic circumstances in the target country is the biggest issue for general counsels/chief legal officers (CLOs) and chief procurement officers (CPOs), and one of the main issues for CFOs. In addition to socioeconomic circumstances, many CFOs also express concern about environmental/ecological considerations as well as security and personal safety; more than 30% of CFOs rate these three areas either 4 or 5 on the severity scale—highlighting that CFOs view physical location issues in the corporate expansion process with particular concern. For

many chief operating officers (COOs), however, setting up a distribution network is the biggest issue.

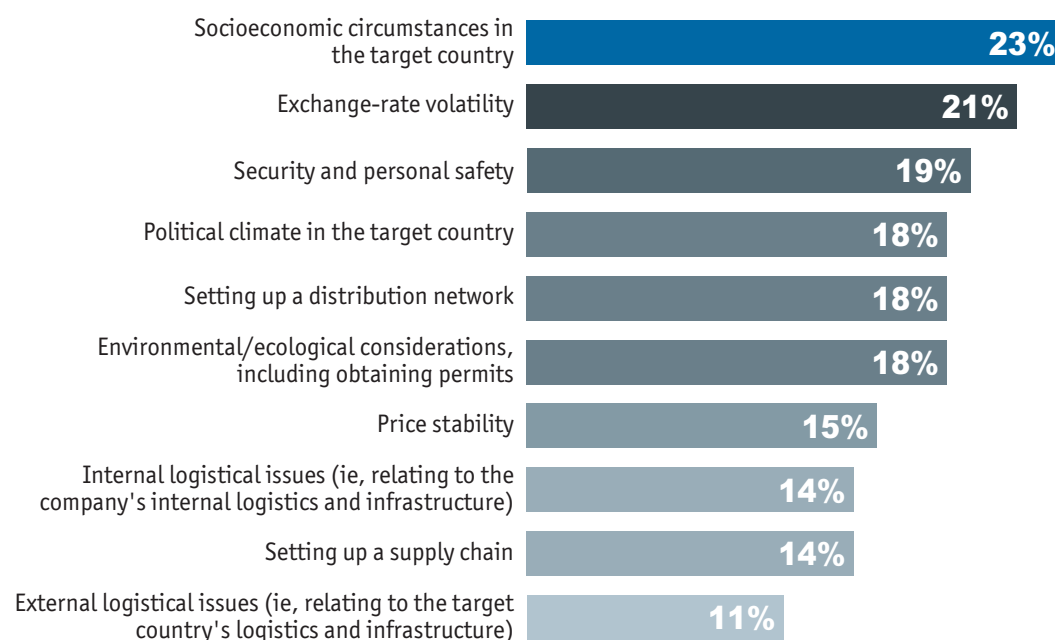
Perhaps connected to the socioeconomic factor, the second-biggest concern for more than one-fifth of respondents is exchange-rate volatility. Unexpected or sudden movements in exchange rates can expose a business significantly to higher-than-expected fixed costs, such as property, utility and staffing costs, and considerably reduce revenue and profit levels. This was the case in 2014, which was the worst year for profit warnings from the FTSE 350 companies since the financial crisis. One in four of these companies cited adverse currency movements as being at least partially responsible for the deterioration of their bottom line.⁴

Exchange-rate volatility is the biggest issue for payroll professionals in our survey. Matthew

Chart 2: Physical location issues

Q Please think again about the physical location issues in your company's recent/current/planned major expansion project into foreign markets. On a scale of 1 [no problems] to 5 [significant problems], please indicate the severity of problems your company has encountered with each of the following.

Chart shows the combined total of those responding either 4 or 5 (% respondents)



Source: Economist Intelligence Unit survey, August–September 2015.

⁴ “UK companies blame exchange rates for profit warnings”, *Financial Times*, January 25th 2015. Available at: <http://www.ft.com/cms/s/0/d3673908-a485-11e4-8959-00144feab7de.html#axzz3lRS8o86A>

Tilley, finance director at international law firm Taylor Vinters, says that his company—which has offices in Cambridge (UK), London and Singapore but serves clients around the world—has recently employed currency hedging. “Currency hedging is relatively new for us. In the legal profession it can be quite complex as it’s not just about the

currency received from clients, which is typically US dollars, British pounds or Singapore dollars, but also the currency of disbursements [payments to third parties on behalf of clients], which can be in any currency from around the world. To be able to pay those to meet client needs, hedging the risk of exchange-rate volatility is crucial.”



Virtual global expansion?

One result of globalisation and the Internet-enabled free access to information could be a complete rethinking of what global expansion means in the future for some industry sectors. Physical “boots on the ground” commercial locations may, in time, be replaced by a virtual (online) brand presence.

Matthew Tilley, finance director at the international law firm Taylor Vinters, says that while his company’s expansion into Singapore has been a success, “we don’t necessarily feel that we need to have more boots on the ground in other locations to continue to fulfil the strategy of being a special offer.” His argument is that clients, who themselves have global footprints, can often be served by professional services companies irrespective of where those companies are based, with “who you know” and “what you know” more important than a bricks-and-mortar location of where that brainpower is stored.

Sally Campbell, group head of mergers and acquisitions at Bermuda-headquartered global insurance company Hiscox, says that the corporate strategy to provide specialist

insurance and expert service to good clients wherever they exist is being pursued in regions where the company does not have—nor necessarily intends to have—a physical base. Ms Campbell explains: “Through our Lloyd’s and Bermudian businesses we also attract business from around the globe that customers find too difficult to place in their local markets. For example, we are the largest insurer of fine art in Australia, but we do not have an office in Australia. At the moment, these risks travel to Lloyd’s of London to be covered by specialists.”

That said, Hiscox is pursuing a strategy of organic growth combined with “small bolt-on acquisitions”, such as its 2014 purchase of DirectAsia, a small online insurer that operates in Singapore, Hong Kong and Thailand. “DirectAsia was a mature start-up with 140 people and 54,000 customers and a challenger brand with real potential. This business complements our existing direct-to-consumer business. It uses a similar IT platform. We will keep the DirectAsia brand, but eventually hope to distribute other Hiscox insurances from the same platform,” Ms Campbell says.

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Operational challenges

Making the vision a reality

Expanding a business overseas requires a team committed to making the strategic vision a reality. It requires strong leadership and cohesive project-management skills. Few of our survey respondents say their company elected to outsource the entire setting-up process of international expansion (only 15%); slightly more than one-third (37%) used in-house and external services in equal measure, while almost half (45%) relied primarily on in-house resources. Our interviewees broadly concur, adding that the make-up of the operational team responsible for their international launch morphed depending on the size and scope of the opportunity presented.

For WGSN's Mr Papa, the project lead will typically be the commercial lead for the region together with the company's chief operating officer, Kevin Silk, and himself, with local partnerships managed in-house and the acquisition or joint venture involving external programme management, consulting and legal support.

Mr Papa explains: "We have in-house expertise within Top Right Group, which means we don't need to jump straight to external support every time. Each in-house function has a role to play. They will typically own the external relationship and then report back to the programme/commercial lead via some form of formal working group."

He adds: "This also provides cost savings; for example, our in-house legal team may conduct

research without external cost, leveraging their own expertise, and at the right time engage local counsel. This means we don't have a 'sunk cost' to write off if we decide not to proceed. The leader of our strategy team also assists in bringing about tough debate, and strategic and precise execution."

Government support

Governmental support for corporate overseas expansion plays a crucial role across all key areas. Around half of survey respondents rely on resources provided by their local government and/or chamber of commerce, with North American respondents the biggest advocates of this approach, while support from governmental agencies and chambers of commerce also features highly across legal/compliance, HR/administration and accounting/tax.

Governments are keen to support their national businesses' international expansion plans because of the business growth (and increased taxable revenue) this can generate. This support often takes the form of detailed country reports, access to training to up-skill in-house employees, invitations to overseas trade missions (sometimes grant-funded) and introductions to other government agencies, potential suppliers and funders "on the ground" in the target country.

Perhaps in recognition of the practical support provided by chambers of commerce and governmental organisations, chief operating officers were the survey respondents who identified this support as most valuable (48%).

Regionally, the highest response came from respondents in North America; the lowest from those in the Asia-Pacific region.

According to Chris Southworth, director of the International Chamber of Commerce (UK), it is not unusual to find big-brand companies with no export experience at board or executive level, which is likely to be one factor for a reliance on support from trade organisations such as chambers of commerce. The regional disparities highlighted by this survey's results are more complex, he explains, and are probably influenced by each country's export strategy as well as the multi-language capabilities within the company (which are heavily influenced by the approach to languages in the country in which it is located), both of which can increase demand for business-to-business practical and strategic assistance for international expansion. The dominance of the English language in North America, for example, despite being the so-called "language of international business", can become a challenge when considering expansion into regions where English is not the main language, such as China.

The *Open Markets Index* by the International Chamber of Commerce (ICC)⁵ measures the extent to which governments are following through on their commitments to create genuinely open economies. The index's 2015 edition finds that none of the G7 economies are among the top ten, and only Germany ranks in the top 20 worldwide (19th). G20 economies in general are found to be behind the global standard, with an average aggregate score of 3.4 out of 5. The only two economies ranked "excellent" in terms of overall openness are again Hong Kong and Singapore, key strategic business hubs in the South-east Asian region. This may indicate that South-east Asian respondents feel sufficiently supported by their domestic business environment that governmental support overseas is less imperative for their expansion plans.

One example of a British company's expansion into South-east Asia is Metail, which creates 3D visualisation tools to provide online fashion retailers with a virtual fitting room. Metail is a British technology company which expanded into Singapore in June 2013, having secured a two-year strategic partnership with leading telecommunications provider Singtel. Kelvin Au, managing director of Metail, which closed a £7.5m round of investment funding in October 2014, says: "Asia is the global growth engine, and Singapore acts as a regional hub for us. We could have considered other Asian hubs like Hong Kong, but it doesn't really have an e-commerce market, and there were other practicalities that made Singapore attractive, such as English being widely spoken. [British] companies come to Singapore for the culture, language, living standards, ease of doing business and as a hub for the fast-growing markets of Indonesia, Vietnam, the Philippines and Thailand."

Legal role and challenges

Our survey shows that across all the key business areas—legal/compliance, HR/payroll and accounting—most businesses employ a mixture of in-house and external expertise in overseas expansion projects. However, the survey uncovers diverging views among different functions on the extent to which external help should be used. General counsels/CLOs are more likely than other functions to advocate in-house control of the legal and compliance aspects of the expansion, while many COOs prefer using external experts in this field. In-house legal teams may be more worried than other functions about relinquishing control to locally based external legal teams.

At least COOs and general counsels/CLOs agree on their main, shared concern: data protection and privacy laws, which ranks top in this category, with respondents from these job functions rating the severity of problems during the expansion process at either 4 or 5 on a scale

⁵ *Open Markets Index*, International Chamber of Commerce, September 2015. Available at: <http://www.iccwbo.org/global-influence/g20/reports-and-products/open-markets-index/>.

from 1 to 5. It is also the top answer in terms of severity of problems for all survey respondents combined, and especially for those based in Europe.

News Republic’s Mr Raymond points out that “the high degree of inconsistency between the regulations of different countries” is a challenge for businesses expanding internationally, with sometimes contradictory data regimes applying: what is considered highly confidential in some countries is required to be public in others. As a result, he says, his business “thinks global but acts local”, needing to balance consistency with flexibility.

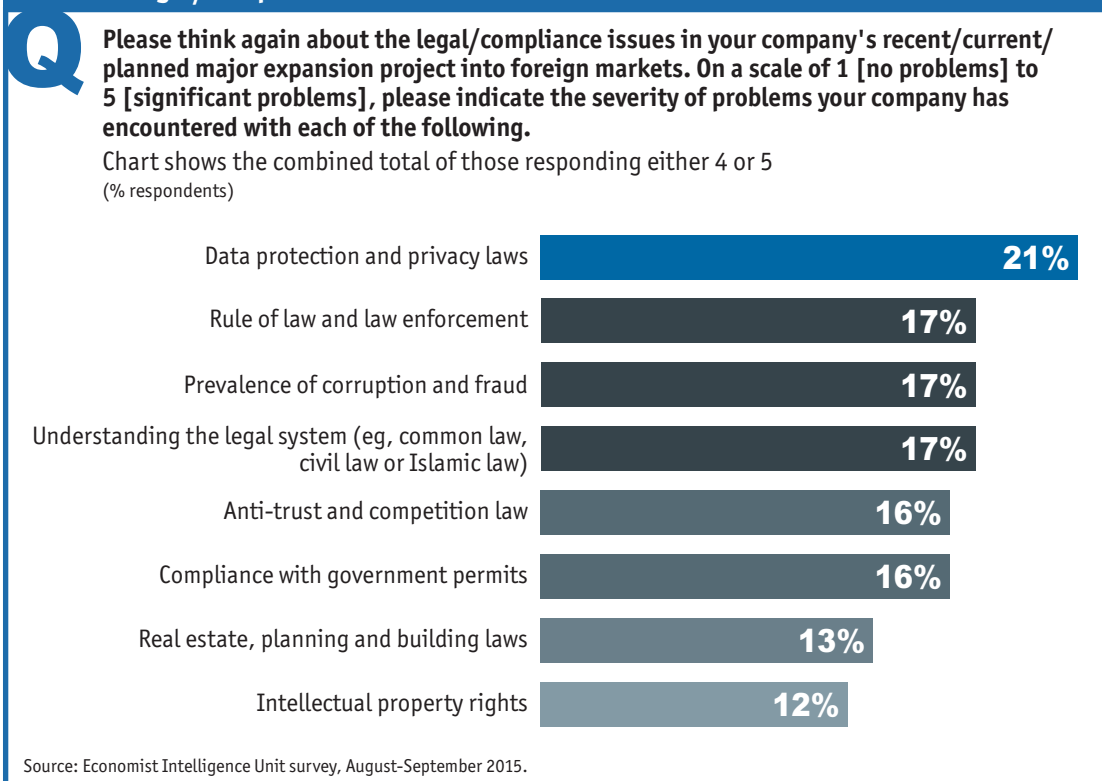
One example are businesses’ privacy statements, which are regionally compliant in the EU, the US and China. Mr Raymond explains: “We adapt product modifications for regional compliance as long as this does not fundamentally alter the consumer experience. For instance, we adapt our push notifications by region to comply with regional laws.”

Categories in which most companies (around two-thirds) see few problems (rated 1 or 2 in terms of severity of problems) are real estate, planning and building laws as well as anti-trust and competition law; however, many CPOs view the latter two categories as problematic (top category with ratings of 4 or 5). Understanding the legal system in the target location is also not generally seen as a major problem, except by senior payroll professionals, for whom it is the top answer in terms of severity of problems.

Culture first: The HR approach

Whether relocating existing employees to new business bases overseas or hiring from the local talent pool, the previously considered “soft skills” side of the HR process is now occupying centre stage for growing businesses. Local employment customs, practices and laws are the biggest headache for respondents, and this is especially true for COOs. There is near-unanimous agreement among the interviewees in this report that maintaining company culture

Chart 3: Legal/compliance issues



while respecting local customs and cultural differences is a fundamental objective for a successful international expansion.

WGSN's Mr Papa says that "effectively onboarding new people into the WGSN culture and values" has been one of the company's three biggest challenges during its international expansions; the other two main challenges are integrating the new/expanded operation into the existing corporate structure and processes and gaining a comprehensive understanding of the local market—from client through to regulatory frameworks. Potentially defying the prevailing assumption about a CEO's key concerns for international expansion, Mr Papa says that "being aware of and adapting our operations to accommodate for the complexities of individual markets—from sales strategies and respecting culture to local HR practices—while maintaining our core operating principles"

is crucial to his role in the project team when undertaking an expansion.

AVEVA's Mr Kidd concurs, adding that "maintaining the company culture, values and ethos is key" and one of the top three challenges of international expansion. He says that AVEVA achieves this through a rigorous programme of internal communications and ensuring good visibility of senior and executive management personnel. In fast-growing commercial areas for the business, such as India, Mr Kidd advises against flash hiring and says working with locally based and well-connected recruiters contributes to both achieving quality hires (with a higher chance of longevity in the company) and in "driving the brand in the local market".

While local employment customs, practices and laws concern COOs and CPOs, general counsels/CLOs are more focused on cultural sensitivities

Chart 4: HR administration/payroll issues



Please think again about the HR administration/payroll issues in your company's recent/current/ planned major expansion project into foreign markets. On a scale of 1 [no problems] to 5 [significant problems], please indicate the severity of problems your company has encountered with each of the following.

Chart shows the combined total of those responding either 4 or 5
(% respondents)



Source: Economist Intelligence Unit survey, August-September 2015.

and compatibility with the rest of the company, which clearly plays into company culture, but perhaps also preoccupies the legal professionals as a source of potential litigation risk. CFOs worry about the availability of a skilled local workforce in addition to the more role-specific concerns of visas and immigration and the costs of the local workforce; each of these issues is cited as a concern by more than 30% of CFO respondents, making this another area where CFOs are generally more concerned than other job categories surveyed. Meanwhile, the biggest issue for senior payroll professionals is local reporting requirements, such as electronic payroll, which is perhaps unsurprising, given that it has a direct impact on their daily work.

HR administration/payroll issues are principally managed in-house (according to more than half of respondents), with one-third combining in-house and external services. The survey finds that European businesses are far more reliant on HR/admin resources provided by their local government or chamber of commerce than respondents in other regions.

The survey also shows that European and North American companies prefer hiring local workers in the target country over bringing in their own workforce. Of all respondents, very few rely entirely on relocating their existing pool of workers to the new location. As far as recruitment of managers is concerned, almost four out of ten respondents say that they try to maintain a balance between hiring managers in the target country and bringing in their own managers; respondents from North America are keener to bring their own managers.

In answer to the question of hiring locally versus relocating existing employees, most of the interviewees respond with their views on values: if local hires can be found with the right skills and experience but—most importantly—fit with the company's corporate values, then that plays a significant role in the company's approach to HR during international expansion.

In Europe, for example, News Republic's Mr Raymond says: "Our team is an open but tight community. We work fast and we work closely together. Trust and camaraderie are critical to this, so we go out of our way to ensure a great fit." This involves many interviews and a meet-and-greet with at least 80% of the team. "We fly every lead candidate to Bordeaux to check we have the right chemistry before extending an offer", Mr Raymond adds. The result, he says, is that "most candidates appreciate the rigour; it gives them a chance to get fully acquainted with us as well, so the first day feels like a homecoming".

Hootsuite's Mr Smith echoes this point, saying local hires are essential for the business to be able to embed in the local culture; this is especially important in the people-centric world of social media, he adds. "When we recruit in new markets, we always look for the same qualities: individuals who embody our Hootsuite values, have a passion for social media and want to be part of our company culture. HR initiatives such as #HootsuiteLife, a portal for employee-curated content, are a great way of disseminating this culture across the world and making sure everyone feels empowered and part of the organisation."

Accounting role and challenges

Respondents are almost equally split on handling accounting issues primarily in-house (41%) and sharing the burden between in-house teams and external agencies (39%). Excessive bureaucracy as a result of the local tax system is rated as the biggest accounting issue for businesses expanding overseas (ranked 4-5 on the severity scale). This is especially true for COOs and is also the biggest challenge for payroll professionals. Rules on the repatriation of profits as well as transfer pricing rules are also rated by some companies as causing severe problems, especially for CFOs and general counsels/CLOs.

By contrast, almost two-thirds of respondents express few concerns about financial reporting requirements (rated 1-2). Moreover, the overall level of taxes, including payroll tax, value-added tax (VAT) and corporate income tax as well as the level of social security contributions, are all considered to be rather modest challenges. CPOs, however, express some concerns about the level of taxation, with the level of payroll taxes and VAT the top-rated categories in terms of severity. General counsels/CLOs voice similar concerns, especially regarding the level of VAT.

this is not as much of a fundamental concern—neither an attraction nor a deterrent—to businesses growing and investing in a region as politicians and policymakers tend to make out. The argument is often made that businesses are only attracted to low-tax environments: this is either an incorrect assumption or less of a factor in businesses' expansion plans—or else the respondents to this survey had already been attracted to a low-tax and business-friendly location for their expansion plan and this is therefore not a risk to their current international growth plans.

This overall muted response to the level of taxation in the target country may indicate that

Chart 5: Accounting/tax compliance issues



Please think again about the accounting/tax compliance issues in your company's recent/current/ planned major expansion project into foreign markets. On a scale of 1 [no problems] to 5 [significant problems], please indicate the severity of problems your company has encountered with each of the following.

Chart shows the combined total of those responding either 4 or 5
(% respondents)



Source: Economist Intelligence Unit survey, August-September 2015.

Conclusion

Whether motivated to launch overseas operations in order to access new markets for products/services or to gain market share in a target country or even in response to increasing competition in the home market, it is clear from our survey that once a company's executive team has identified its scope for an overseas expansion, much of the success will rest on comprehensive planning, in-depth research and support from external parties such as governmental agencies and local experts. AVEVA's Mr Kidd advises expanding businesses to "do your research carefully" and to build up a business offering in the target location with a small number of key customers as a means to testing the waters before committing to a full-scale office expansion.

While in-house teams bear the brunt of responsibility for all aspects of the expansion—from HR and legal to accounting—external help, for example from government agencies, plays an important support role, particularly for Western businesses. WGSN's Mr Papa says: "It may sound clichéd, but we have learned from historical expansions, where we did not respect the need to look at all factors, particularly not investing enough in expert advice to create the right conditions for expansion."

Our survey also finds that policymakers may have overstated the importance of a location's level of taxation, as this seems to be far less of a concern in companies' expansion projects than might have been expected. Equally, this report finds that businesses expanding overseas are not particularly concerned about skills shortages in their target locations, even though the majority (and particularly Western businesses) tend to employ from the local talent pool rather than relying on relocating existing employees from the home territory.

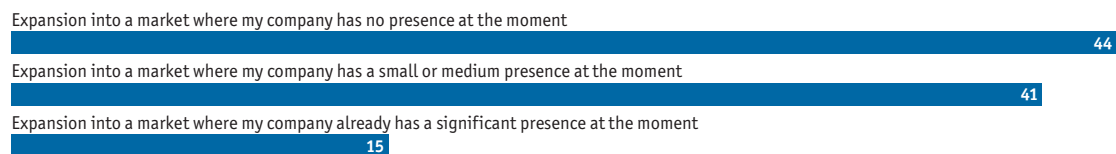
This report indicates that "softer" aspects of business expansions, such as maintaining good relationships with existing clients in the target locations and sourcing new employees who support and enhance the brand's existing culture, are of utmost concern. These brand-authenticity elements appear to be in some regards more pressing—or perhaps more challenging to master—than the "drier" elements of currency hedging, integrating a wider web of operational systems or ensuring compliance with local legal rules and regulations.

Appendix: survey results

Please think about your company's most important recent/current/planned expansion project into foreign markets:

What is the nature of this expansion project? Please select one

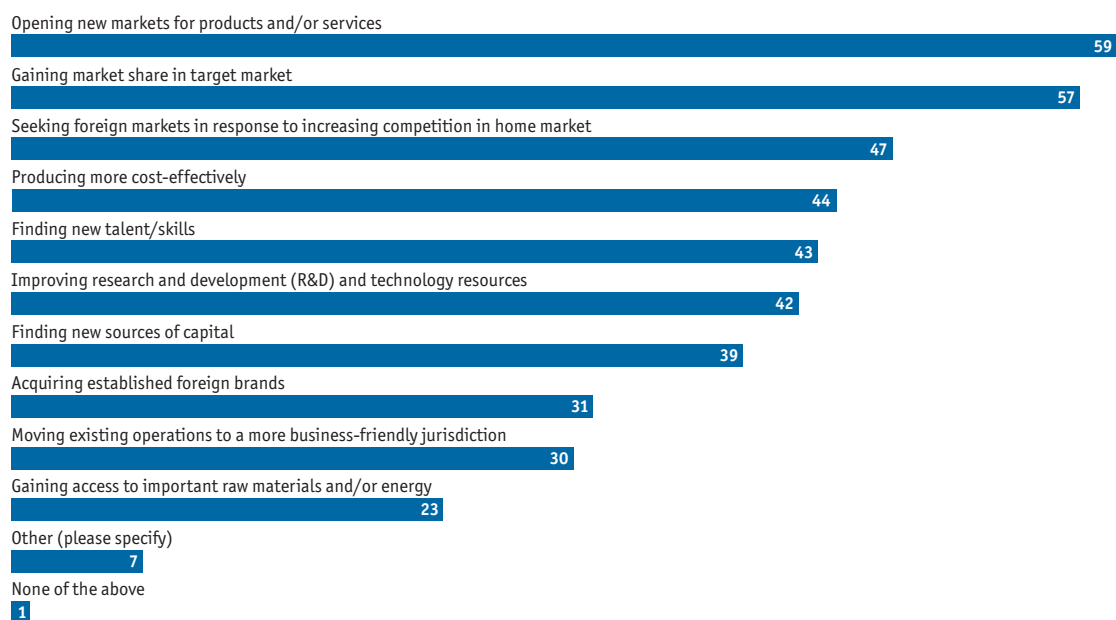
(% respondents)



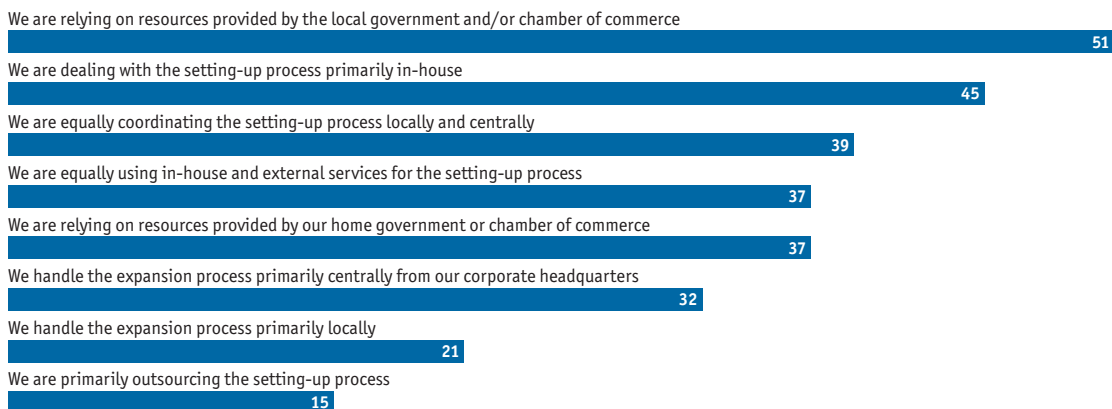
What are your company's motives in its recent/current/planned major expansion project into foreign markets?

Please select all that apply

(% respondents)

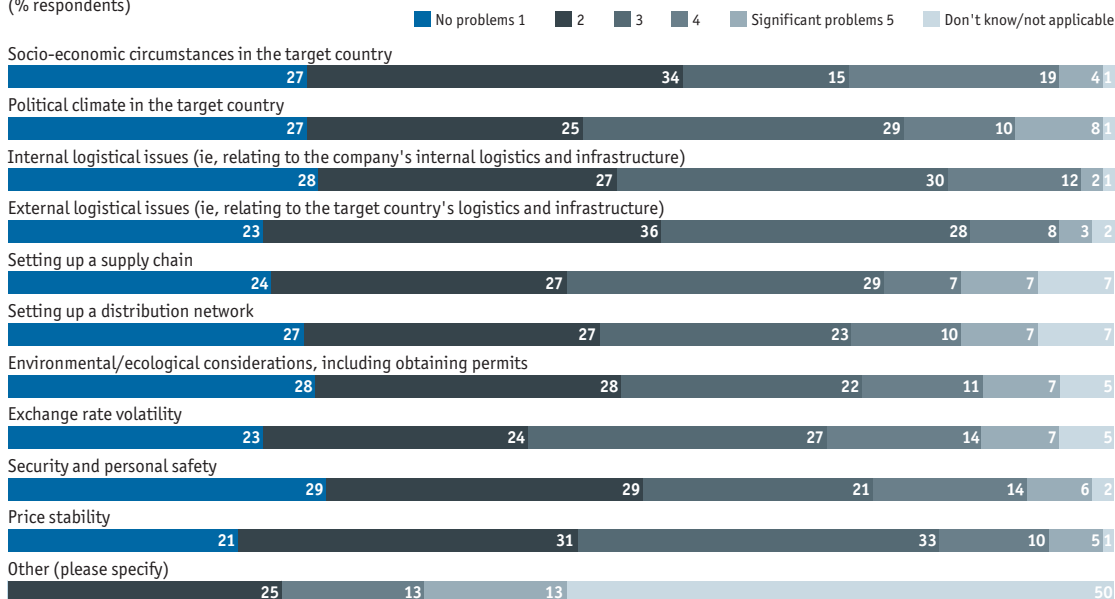


Please think about the physical location issues in your company's recent/current/planned major expansion project into foreign markets: How has your company handled the setting-up process? Please select all that apply
(% respondents)



Please think again about the physical location issues in your company's recent/current/planned major expansion project into foreign markets.

On a scale of 1 to 5 please indicate the severity of problems your company has encountered with each of the following
(% respondents)

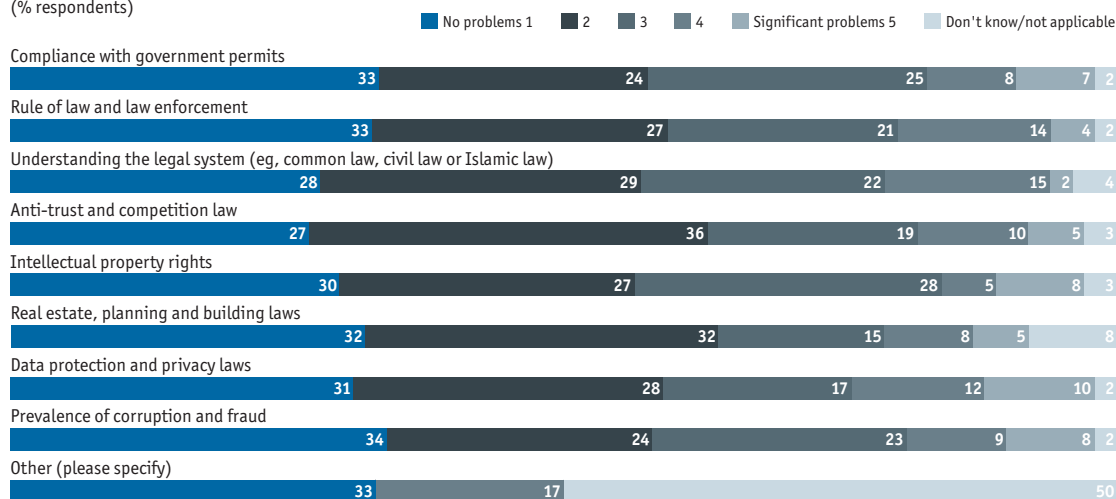


Please think about the legal/compliance issues in your company's recent/current/planned major expansion project into foreign markets: How has your company handled legal/compliance issues? Please select all that apply (% respondents)

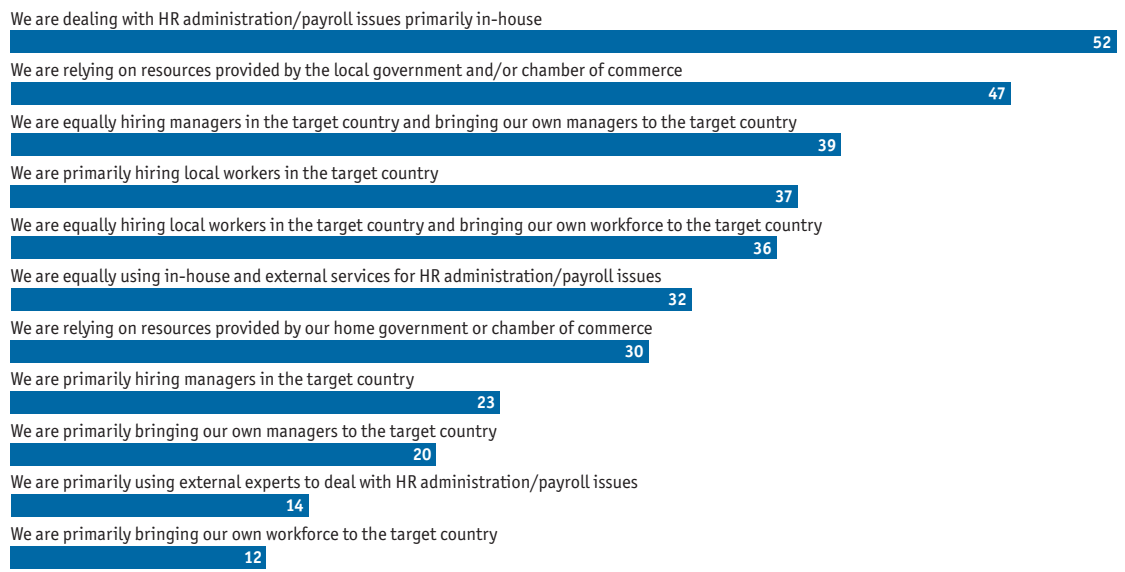


Please think again about the legal/compliance issues in your company's recent/current/planned major expansion project into foreign markets.

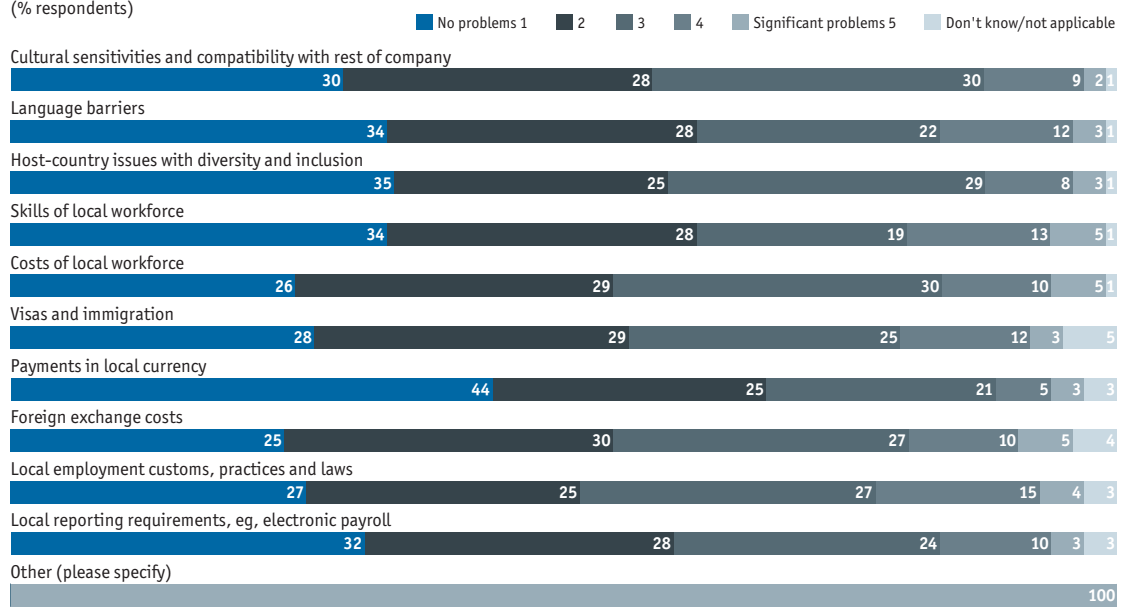
On a scale of 1 to 5 please indicate the severity of problems your company has encountered with each of the following (% respondents)



Please think about the HR administration/payroll issues in your company's recent/current/planned major expansion project into foreign markets: How has your company handled HR administration/payroll issues? Please select all that apply (% respondents)



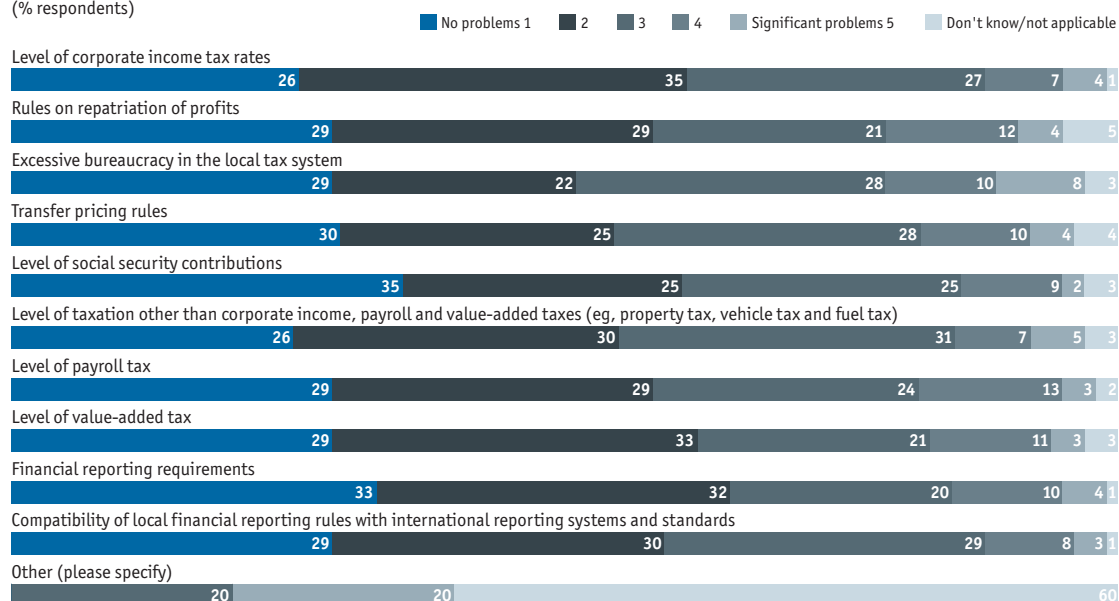
Please think again about the HR administration/payroll issues in your company's recent/current/planned major expansion project into foreign markets. On a scale of 1 to 5 please indicate the severity of problems your company has encountered with each of the following (% respondents)



Please think about the accounting/tax compliance issues in your company's recent/current/planned major expansion project into foreign markets: How has your company handled accounting/tax compliance issues? Please select all that apply (% respondents)



Please think again about the accounting/tax compliance issues in your company's recent/current/planned major expansion project into foreign markets. On a scale of 1 to 5 please indicate the severity of problems your company has encountered with each of the following (% respondents)



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