You've hit the ground running. Now what?

This article is part of a series devoted to global expansion considerations for US businesses, particularly private and mid-market companies

Throughout this series, many of the decisions that go into an overseas expansion—involving site location, tax, talent, regulatory compliance, and a host of other issues—have been examined at least in part through the lens of setting up the new operation at "square one." Having arrived at that point, you will find some decisions start to "lock in," and your options will begin to narrow. What is a more effective use of the ones you still have?

Beyond supply: the value chain

Understanding where your raw materials, parts, tools, fuel—whatever it takes to keep the business operating—will come from, with how much reliability, and at what cost all factor in to how successful your operations will be.

The answers to those questions typically involve ways to remove uncertainty from the equation. Standardization is one way to do that, whether the item being standardized is commodity pricing, part fit, resource grade, delivery schedules, or some other parameter. The race to automation, fueled by digitization and robotics, contributes to greater standardization. But to reap these benefits, companies will need to determine how the latest technologies apply to their operations. None of this is to overlook the industry-specific knowledge that helps an enterprise identify and secure the best resources from among the choices the marketplace makes available.

In their concern for the flow of materials, though, overseas businesses should not overlook the value chain. This is an area of strategy that influences decisions about where to generate value and how it is taxed.

Ask yourself: Where do you want to earn margin? The jurisdiction in which you create value is the jurisdiction that will tax it. If your process of generating value extends across international borders, it will take careful planning and documentation to put your value chain decisions into practice.

Where does intellectual property reside? What is the physical location of a critical strategic or management decision? Where does risk live?

Some locations are inescapable. A plant or an office or an employee is located in a definite place. But where does intellectual property (IP) reside? What is the physical location of a critical strategic or management decision? Where does risk live?

In broad terms, tax jurisdictions may consider profit and loss to follow the people who manage it or the IP that went into it. However, where you consider the value to reside is a more subjective matter and leads one to ask the following question: Is the value appearing in your system in the place where your decision-makers are actually managing that value?

To be able to answer any of the questions posed above, indeed to shape the answers deliberately, P&L units, high-tech and creative employees, and the IP itself need to be in the right location from the start. To make the right calls, give tax professionals a seat at the table when planning strategy. Companies should also consider discussing their plans with local tax authorities. Rather than guess how a jurisdiction will interpret strategic arrangements, a company might have conversations regarding how many people will work in a location, what their roles will be, and what value they will create. In some cases, a discussion like that can not only head off surprises, but may stimulate tax incentives as well.

Once the enterprise has made informed, careful decisions about the location of value, other considerations such as IT systems, HR, finance, and others will follow. Even the physical supply chain.

Keeping talent in line with changing reality

Similar to making key decisions regarding your supply chain, another important consideration is your talent strategy. Many of the core decisions about talent and culture are considered at the beginning stages of expansion. But effective organizations should be ready to move beyond the basics and take talent strategy to the next level.

After all, the initial burst of staffing and recruiting is a special case. The normal mode of operation starts after the dust has settled—and continuous improvement and alignment should be the watchword. A year in, or two, or five, what still makes this enterprise an employer of choice in its location? How do the employer brand and employee value proposition support the business's strategy? How will the company train employees with the necessary skills to be successful? What are the standards, behaviors, and culture the company would like to drive and reward—and who defines them?

These decisions take place in an environment of multivariate change. The new business is growing and changing shape. The economy, culture, and politics in its location are evolving, as any location does. If you consider your talent model decisions from startup as static, and stay with the same talent model that got operations started, that talent model may not support the planned business growth or sustain performance over the long term.

One example is the mix of home-country versus local employees in the overall talent mix as well as in leadership positions. Is your long-term vision to remain a US "colony," or to integrate more closely with the local markets as time goes on? What is your plan to cultivate a local talent base and to set up a sustainable succession plan for leadership? According to Deloitte's Talent Edge 2020 report, 41 percent of executives surveyed rated competing for talent globally as one of their most pressing talent concerns.* One way to help strengthen those capabilities is to imbue the entire organization with a global mindset.

Don't forget that the conditions back at headquarters—which shape the overseas location's value proposition—may change as well. For US businesses, consider the potential effect that changes to the regulatory, tax and trade realities that formed the basis of the original decision to expand may bring. The headquarters culture can also shift based on the global operations and the deployment of employees around the world.

* "Talent Edge 2020: Blueprints for the new normal," Deloitte Consulting LLP, December 2010.

As with regulatory and tax considerations, your cultural view should also shift from startup mode into forward gear

Just as with regulatory and tax considerations, your cultural view should also shift from startup mode into forward gear. In some places, for example, pay-for-performance approaches may be more or less acceptable than in familiar home markets. Depending on your location, elements such as equity compensation and vested retirement programs may have more or less significance than they have for people at headquarters. Similar cultural differences may affect talent strategies such as the importance of seniority or academic credentials. Only if you remain current in your understanding of the landscape can your talent plan unfold over the years as to address the changing market and environment.

Some of the strategies that companies have found effective in managing overseas workforces include: a focus on learning and growth opportunities that, in some places, may be valued as much as pay; treating key talent as an asset that benefits the entire enterprise, not just a single location; overseas assignment opportunities that give both HQ and overseas personnel a chance to participate; and a concerted effort to build reward and retention programs around the values of local markets.

Here are some examples of location- and culture-specific strategies at work in the ongoing management of an international workforce:

- In **China**, effective companies identify emerging leaders early through formal succession planning. They use analytics to identify high-potential employees and predict their future performance. The management pipeline includes development programs that build people skills, and non-monetary incentives respect the importance of work-life balance.
- In **India**, flexible work arrangements respect gender and generational differences and pave the way for better retention among populations such as women and young workers. Education and succession planning go hand-in-hand in building a leadership pipeline, and collaborations and consortium arrangements with corporate universities enrich leadership development while reducing its cost.
- And in **Singapore**, effective companies collaborate to grow the limited talent pool through cross-border "development communities of practice" and offshoring projects. Retention of critical and high-potential talent focuses on work-life balance. And tailored education programs, stretch assignments, and formal mentoring programs are all central to the leadership development process.

Every location will present considerations like these that can help or hinder the performance of a new enterprise. And while there are guidebooks and friends to help a new market entrant get the lay of the land, the leading guide will always be your own informed knowledge. There is no substitute for engagement.

Conclusion

As the world shrinks and connects, cross-border enterprise is likely to remain a fixture, even for companies whose traditional worldview has been limited to their home countries. At the earliest stages of an expansion, the watchwords are: Focus on why you're making this investment, engage with the local culture to make informed decisions, and keep your options as open as possible.

At the end of that process, when the startup phase gives way to ongoing operation, the watchwords aren't really any different. Remember the promised value that brought you here. Remain engaged on the ground so your enterprise becomes part of the local fabric, not an island apart. Finally, remember the options you worked to keep open—and use them wisely.

Contacts

Wolfe Tone
National Tax Leader
Deloitte Growth Enterprise Services
Deloitte Tax LLP
wtone@deloitte.com

International Tax

Miguel Fonseca
Partner
Deloitte Tax LLP
mifonseca@deloitte.com

Michael Gilson
Partner
Deloitte Tax LLP
mgilson@deloitte .com

Jimmy Man
Partner
Deloitte Tax LLP
jman@deloitte.com

Global Employer Services

Karee Buerger
Managing director
Deloitte Tax LLP
kbuerger@deloitte.com

Nicole Patterson
Managing director
Deloitte Tax LLP
nipatterson@deloitte.com

Elizabeth Rosenthal
Managing director
Deloitte Tax LLP
elrosenthal@deloitte.com

International Expansion Services

Christy Wissemeier
Senior manager
Deloitte Tax LLP
cwissemeier@deloitte.com

Perspectives

This article is the seventh in a series on global expansion and just one example of Deloitte research on topics of interest to private and mid-market companies. Presented by Deloitte Growth Enterprise Services, Perspectives is a multifaceted program that utilizes live events, signature reports, research publications, webcasts, and other vehicles to deliver tailored and relevant insights in an integrated fashion.

Please visit our Perspectives library on the Deloitte Growth Enterprise Services website (http://www.deloitte.com/us/perspectives/dges) to view additional material on issues facing private mid-market companies.