Global considerations for mid-market companies

This article is part of a series devoted to global expansion considerations for US businesses, particularly those in the middle market segment.

Back-office, front-of-mind: Business process, compliance, and reporting

The processes that keep an enterprise functional, efficient, and compliant are familiar to many business leaders. On this foundation, businesses in widely diverse industries keep their doors open and their people paid. So when a company takes on a cross-border expansion—when it confronts large-scale challenges like new markets and location selection—do these back-office mainstays need special attention?

Yes, for three reasons.

First, those functions aren’t as straightforward as they used to be. Evolving technology and fast-changing regulations add complexity to functions like payroll and tax reporting. Second, crossing borders adds complexity and change. A tax or employment rule may have remained stable in the home country for generations, but if the regime in the new host country operates differently, even a degree of variance can add up to big challenges. And third, it’s simply more difficult to manage detailed business processes at a distance. You don’t want a slip now to trip you up later.

What follows is a representation of common business process needs and the considerations that may accompany them during an overseas expansion. While each company should make its own decisions about priorities and resources, it’s worth bearing in mind that in many areas—such as finance, accounting, payroll, tax compliance, financial reporting, and technology services—companies may benefit from working with a third-party service provider that can bundle the necessary solutions based on first-hand familiarity with the market in question.
Money, information, law: In running a business, they all intersect.

**Direct and indirect tax reporting**
Everything from local regulations to import/export reporting to the simple (or not-so-simple) matter of report timing has to match host-country expectations. An organization opening a new overseas location should check to see whether any local requirements bear on the activities of the industry involved, and establish an internal infrastructure to support compliance requirements. Tax documentation policy and procedures, tax registration requirements, withholding procedures, and systems integration should all conform to local requirements as well.

Depending upon the jurisdiction, a company may be required to use automated systems to file tax information. Conforming to the required format may require changes in data handling and enterprise financial systems—and in some cases, a third-party system with local capabilities is required to handle the submission. In addition, a new location may need to realign its fiscal month, quarter or year-end, and its leaders may wish to consider whether some compliance functions should be outsourced.

**HR benefits and procedures**
An employer should develop its own HR policies and procedures, its own hiring and recruitment strategy, and its own plan to open local bank accounts and make confidential payments. A company should use benchmarking of local and global benefits to help drive these decisions. Other considerations include securing insurance companies for health and welfare benefit plans, and documenting the key compliance considerations that will go into managing employee benefits.

**Payroll reporting and withholding**
Payroll reporting and withholding for income tax and social security are functions a company may wish to pay a third party to carry out—but it cannot outsource its responsibility to comply with relevant tax laws in the places it does business.

Satisfying local statutory and labor market needs for reporting and withholding is one area where outsourcing opportunities are likely to be numerous; a company should weigh whether or not to take advantage of one of them or set up the needed systems in-house. No matter who carries out the day-to-day functions, the company is still responsible for a strategy that includes registering and setting up independent local payrolls, as well as shadow payrolls where necessary. Tax and social security compliance all require local strategies, and those must be based on a clear understanding of local compliance obligations for income tax, social security and applicable employment tax reporting and withholding.

**Compliance with the regulatory environment**
Supply chain requirements and the flow of direct materials will be subject to a host-location regulatory environment, and a company should have a local agent to help assess the way customs, import, and export regulations will affect these operations. Who will manage record-keeping for local import and export? Who will monitor marketing competition practices? Are manual tax filings permissible, or do local authorities require the use of automated systems?

**Accounting and financial**
What accounting standards apply in the new business location—IFRS, GAAP, or a local variant? How do those standards differ from the ones used at headquarters, and how do they apply to the industry? Are ledgers and systems set up according to local regulatory requirements? Are your systems ready to provide all the required data?

Questions like these are precursors to carrying out an analysis of ledger accounts. A company should establish an accounting system that will provide for recording items at the local, corporate, and tax levels. It should determine the intra-company transfer agreements and recharging principles that will govern transfers of value. And to bridge the potential divides between home and new locations, it should assess how well its corporate accounting software integrates with other platforms, identify industry- and jurisdiction-based requirements for corporate reporting, and review the documentation provisions and risks associated with the accounting balance.
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Technology solutions
This is yet another area that has received plenty of attention at home. Platforms, adaptability, infrastructure, security, and data privacy all need to be considered and planned for with care. Some considerations that are specific to an international shift include automation of compliance processes, data hosting strategy, IT licensing, a company’s internet domains strategy, and the way it plans to incorporate a new country into its global mobility technology. Critical questions include: What IT packages can manage the flow of business processes in a given location and industry? What information has to flow between core business units and support areas? An expanding business should also align its global IT platforms and programs for human resources, payroll, and global mobility to comply with local requirements, and should make sure it is ready to support fundamental operations such as purchases, inventories, fixed assets, treasury, budgeting, forecasting, and reporting. New laws and new flows of information will make it important to determine the security configurations that will keep data privacy implementation in accordance with both local regulation and corporate policy. And in the event that some or all of this is outsourced, a company will need third-party procedures to govern those relationships and operations.

Tax automation
While this topic weaves through several of the areas discussed, it is a growing trend that deserves consideration on its own terms. To increase revenue capture, limit the potential for corruption and tax avoidance, and bring efficiency to their own operations, a number of governments around the world are using digital technologies to collect tax information. In order to be compliant and avoid potential penalties, enterprises will need to make process, technology, and talent adjustments of their own. The changes involve more than just switching from paper forms to online uploads: In many automated regimes, reporting happens throughout the year instead of at broad intervals or year end, and requires transaction-level data.

Because the United States has been slow to adopt tax automation, US companies that expand overseas may find compliance to be a significant adjustment. But, as with other data and analytics requirements that originate from the regulatory sphere, tax automation carries a potential silver lining. The yield of all that data collection and analytics can also be used internally, to drive more accurate planning and ability to respond more quickly to frequent auditing, to speed tax refunds, to reduce risk, and to better allocate resources.

Make the commitment
A middle-market company that’s expanding into an overseas market is likely to consider its resources spoken for, if not stretched thin, even before these operational considerations arise. Because they appear to be straightforward and established, it may be tempting to assume they will take care of themselves. This is a temptation to avoid. The ability of the new operation to align with its new environment depends on the reliable function of all these areas. And whatever the mix—in-house, outsourced, or some of each—the resources that go into nailing down these foundational areas can represent a wise investment.
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