It’s a small business world – and getting smaller every day, which opens up new pathways to global expansion. Indeed, mid-sized companies are more and more frequently finding that international trade is a critical component for growth.

Consider that the European market for imports grew by €1.696B from May 2013 to April 2015, with year over year growth climbing from -5.1% to +1.4% in that time span. And while China’s economic development has slowed, its GDP annual growth rate is still 7.4%. The decline of domestic production in that region also signals an increasing need for foreign goods and services.

Despite such alluring numbers, launching a foreign presence invites a heavy dose of risk. As the Harvard Business Review noted, “Like diversification, [international expansion] comes with many challenges. Few companies have the size or management capabilities to make a success of going overseas and for most it may well be more profitable to look closer to home.”

Forethought, planning, and an understanding of the local environment can help improve the odds substantially. Business owners should consider three crucial elements as they look for international opportunities:

1. **Corporate structure and tax law**

   The most commonly applied options for structuring an overseas presence are a foreign subsidiary and a “branch.” Foreign subsidiaries are often the default, as branches are not an option in the U.S. but are frequently used in Europe and Asia. In essence, branches enable companies to treat overseas operations as a separate entity, even though they are technically tied to the home office.
Whichever structure houses the company, understanding local tax law is tremendously important. Just as in the U.S., owners must know how money flows into the foreign office and how much is required for taxes. This will inform them as to the best balance of offshore and onshore funding. In short, revenue that is generated in a specific market should likely stay in that market to support local operations, manufacturing, and distribution. On the other hand, if money is generated in one market but used for operations in another, more complicated international tax consequences will come into play.

2. Labor laws

Employing a US citizen in another country carries a wide range of implications, and there are different guidelines in every market. In Turkey, for example, businesses must employ five local residents for every foreign worker. In Europe, different requirements are triggered by crossing certain employee count thresholds, and severance packages (redundancy costs) for local employees vary depending on their age and length of employment. When owners hire someone new, they should be sure to understand what it might cost to fire them.

In both Europe and Asia, the enforceability of non-compete agreements are also different: they apply in the UK, but rarely hold up in other markets. That means that skilled labor comes with inherent risk; owners must be cautious about who has access to intellectual property (IP).

3. IP protection

Overall, controlling IP internationally is no small feat. While protection is strong in Europe, it is virtually nonexistent in much of Asia. China is an exciting place to manufacture product – but only if companies are willing to accept a certain amount of duplication and “grey goods.” Indeed, it is common practice for a facility producing high end merchandise to simultaneously manufacture “knock-offs.”

Beyond the risk of IP loss, corruption is another pitfall. Petty graft and large graft (bribery) are illegal in both the U.S. and overseas, but are routinely encountered in other cultures. Business owners should get strong legal counsel on The Foreign Corrupt Practices Act of 1977 and local laws for legal compliance requirements.

Whether international business endeavors start with a single sales opportunity or a key employee moving overseas, U.S. businesses often go global without making a conscious, strategic decision. That can result in unwanted challenges, even when new markets are rich with opportunity.
Working with a trustworthy, local law and accounting firm will yield key insights into navigating the cultural nuances of the region, while a U.S. firm can help bridge the gap between the home and foreign offices. Mapping out the legal, business, and cultural landscape before extending into new markets will help business owners reduce risk and increase the odds of a successful expansion.

Endnotes