

Risks Analysis



Key Considerations When Doing Business Overseas

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Objectives

1. The nature of international business risks.
2. How firms can respond to international business risks.
3. Key considerations/international business risks checklist.

The Four Risks of International Business

Cross-cultural	Country/Political
<ul style="list-style-type: none"> - Cultural differences - Negotiation patterns - Decision-making styles - Ethical Practices 	<ul style="list-style-type: none"> - Unstable political systems - Law and regulations - Poor legal systems - Bureaucracy and red tapes - Corruptions - Government intervention - Trade barriers
Commercial	Financial
<ul style="list-style-type: none"> - Poor choice/execution of strategy - Partner selection - Timing of entry - Operation issues - Competition 	<ul style="list-style-type: none"> - Currency exposure - Taxation - Asset valuation - Inflation - Transfer pricing

Cross-cultural Risks Responses

- Gain factual and interpretive knowledge about the other culture.
- Avoid cultural bias.
- Cultivate a “Global Mindset” – Always strive for a geocentric orientation.
- Tolerance for ambiguity.
- Valuing personal relationships.
- Flexibility and adaptability.

Country/political Risks Responses

- Understand the political and legal environment in target countries.
- Use all sources available to assess the potential threats to the firm (Avoid cultural bias:
 - Embassies.
 - Trade associations.
 - US Department of Commerce.
 - World Bank Doing Business.
 - Private entities like: PRS Group (www.prsgroup.com/) and Business Entrepreneurial Risk Intelligence (www.beri.com/).
 - Transparency International – Corruptions & Bribes.

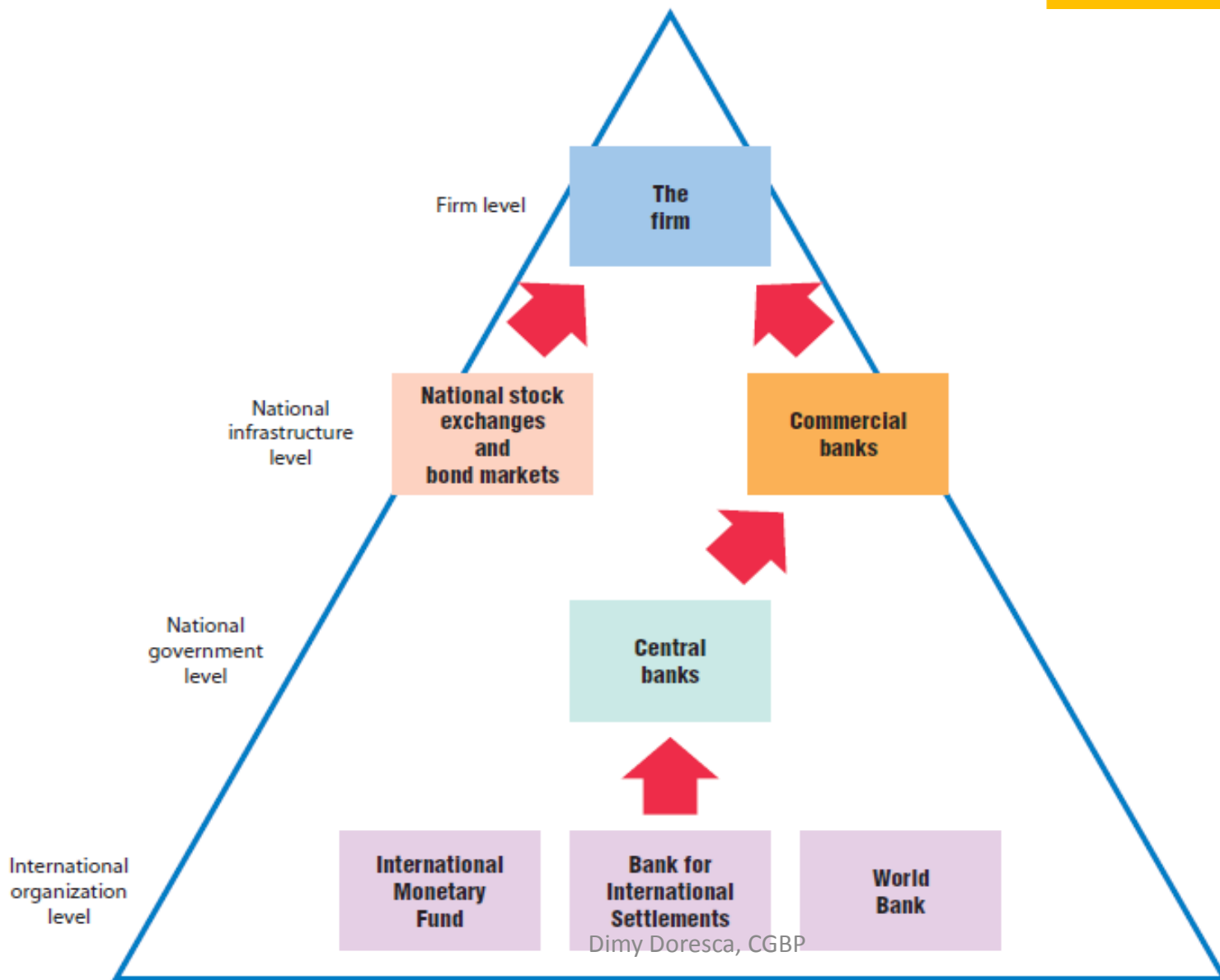
Commercial Risks Responses

- Understand why you are taking your firm to this new foreign market.
- Get all the key players in the firm involved in defining the entry strategy.
- Based on your market research and risks analysis, choose the right entry strategy.
- Have a well elaborated process to choose your partner/agent/distributor.
- Define an exit strategy.

Financial Risks Responses

- Understand the global monetary and financial systems, the key participants and their relationships.
- Choose the right method of payment for your international business ventures.
- Analyze for each target country the factors that influence the supply & demand for its currency:
 - Economic growth.
 - Interest rates & inflation.
 - Market psychology.
 - Government intervention.

Key Participants and Relationships in the Global Monetary and Financial Systems



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Instruments to Safeguard Political, Financial, & Commercial Risks

1. Credit Risk
 - Credit insurance from EXIM Bank or private companies.
2. Political Risk
 - Foreign receivables, confiscation, nationalization, expropriation risks insurances from EXIM, OPIC, MIGA.
3. Foreign Exchange
 - Hedging Techniques, currency convertibility insurance from EXIM, OPIC, MIGA.
4. Commercial
 - Protection through legal contracts.



Key Considerations/International Business Risks Checklist

Previous Experience in the Country

- Have you worked/conducted businesses in this country before?
- Can you work in this country now?
 - US Executive Orders, Trading with the Enemy Act, Sanctions, Legislation, Export Controls, Etc.
 - Boycott Clause

Company Registration

- Do you have to register?
- Form of registration:
 - Representative/agent/distributor, branch office, local company, joint venture.
- Type of Registration:
 - Commercial and Professional.
- Existence of local law firms to assist.
- Identify local contacts (agents).

Company Registration (cont.)

- Is it mandatory to have a local sponsor to register?
- Restriction on ownership:
 - Can you be your US company?
 - Limitation on foreign ownership versus wholly-owned foreign ventures.

Legal Environment

- Can you cope?
 - Rule of law? Do you understand the risks of their legal system (Common, Civil, Shariah)?
- Transparency issues: Oligopolies, Official and unofficial government mandates.
- Language: Will work be in English? If not do you have translation capabilities?

Legal Environment (Cont.)

- **Dispute Resolution:**
 - Local Courts.
 - International ADR (ICC, UNCITRAL, Regional Government Dispute Resolution Center).
- **Corruption Problems:**
 - US Foreign Corrupt Practices Act.
 - Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (an OECD vehicle).
 - Use of Agents.
- **Intellectual property issues:**
 - How to protect what you take overseas?

- What are the requirements?
 - Professional Indemnity.
 - Workman Compensation.
 - Public Liability (third Party).
 - Vehicle.
 - Political Risk.
 - Currency Convertibility.

Bonds/Bank Guaranties/LCs

- What are the requirements?
 - Bid bond.
 - Performance bond.
 - Letter of credit.
 - Advance payment bond.
- Does your bank have international banking capabilities?

- Has taxation been considered right at the beginning?
- What are the tax issues and implications?
 - Corporate income tax.
 - Gross receipt tax.
 - Payroll tax.
 - Personal income tax.
 - Social security tax.

Taxes (Cont.)

- Value added tax (VAT).
- Service tax.
- Repatriation tax.
- Will taxes be paid in the country?
- Does transfer pricing exist?
- Tax treaty with the US?
- Existence of local CA firms?
- Audit Requirements?

Human Resource

- Hiring and firing staff.
- Employment contracts.
- Cultural training and orientation.
- Termination & Severance.
- Cessation of business.
- Medical Assistance/Insurance.
- Medical Evacuation.
- Mandatory health insurance program.

- Corporate Documentation:
 - Power of Attorney.
 - Board Resolutions.
 - Embassy authentication required.
- Visa requirements.
- Air travel.
- Local transportation.
- Shipping requirements & documentation.

Logistics (cont.)

- Mail and courier services.
- Hotel accommodation.
- Housing for long-term expats.
- How fast can we get team on the ground ready to work?

Office Space, CAPEX, & IT

- Office Space:
 - Location.
 - Price per square footage.
 - Executive office space.
 - Availability of local partitioning firms.
 - Lease requirement and terms.
- Furniture:
 - Local purchases.
 - Shipping of items not available locally.
 - Custom laws.

Office Space, CAPEX, & IT (cont.)

- Equipment:
 - Preloaded PCs.
 - Local acquisition of PCs.
 - Shipping if not locally available.
 - Custom laws.
 - Software licenses & laws.
- Internet connection:
 - Providers and cost of installation.
 - Required bandwidth.
 - Other special requirements: VoIP, Skype, video conference.

Office Space, CAPEX, & IT (cont.)

- Network requirements:
 - Wired or wireless.
 - Printing requirements.
 - Access to home office network.
 - Emails.
- Telephone systems:
 - Cell phone and/or desk phones.
 - Local telephone #s and/or VoIP with phone # from another location.
 - Smart phone requirements.

- Bank relationship?
 - Bank account opening.
 - Authorized signatories.
 - Foreign currency.
 - Check books.
 - Online banking capabilities.
 - Bank statements.
- Local accounting practices: US GAAP Vs IFRS.

Payroll

- How do you pay the employees?
- Access to monies and safety with receiving funds:
 - ATM, Credit Cards—Cards that are not accepted.
- Is US dollar widely used?
- Is it mandatory for the payroll to be paid locally and in local currency?
- What is the customary pay frequency?
- The existence of local payroll agencies?

Marketing and Business Identity

- Branding:
 - Logo and office signage – local requirements.
 - Business cards – local customs.
 - Letterheads.
- Marketing and Sales:
 - Communication and Promotions – Local requirements.
 - Marketing materials – local customs and language
 - Media relations.

Demobilization

- How quickly can you get staff out in case of unexpected civil unrest?
 - Communication plan.
 - Safe temporary shelter before repatriation.
 - Quick repatriation to a 3rd. Country.
- How quickly can you get money out?
 - Bank laws on fund repatriation.
 - Currency conversion.
 - Quick repatriation to a 3rd. Country.

Questions?



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