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

<table>
<thead>
<tr>
<th>Cross-cultural</th>
<th>Country/Political</th>
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<tr>
<td>- Cultural differences</td>
<td>- Unstable political systems</td>
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<td>- Negotiation patterns</td>
<td>- Law and regulations</td>
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<td>- Decision-making styles</td>
<td>- Poor legal systems</td>
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<td>- Ethical Practices</td>
<td>- Bureaucracy and red tapes</td>
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<td>- Corruptions</td>
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<td>- Government intervention</td>
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<td>- Trade barriers</td>
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<th>Commercial</th>
<th>Financial</th>
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<td>- Poor choice/execution of strategy</td>
<td>- Currency exposure</td>
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<td>- Partner selection</td>
<td>- Taxation</td>
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<td>- Timing of entry</td>
<td>- Asset valuation</td>
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<td>- Operation issues</td>
<td>- Inflation</td>
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<td>- Competition</td>
<td>- Transfer pricing</td>
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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.
  – 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.
• 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
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?
  – 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).

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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:
  – 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.
– 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.
Logistics

• Corporate Documentation:
  – Power of Attorney.
  – Board Resolutions.
  – Embassy authentication required.

• Visa requirements.

• Air travel.

• Local transportation.

• Shipping requirements & documentation.
• 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.
• 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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