



Global Mobility

The Myths And Misconceptions Of 'Going Global'

With changes a-foot to tariffs and perceived barriers to market entry, Blick Rothenberg's Partner and lead for the Nordics and Americas, Simon Gleeson, suggests leaders are facing fresh challenges and barriers when scaling internationally and shares his insights on how they can be overcome.

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Securing funding to expand internationally is an exciting next chapter as fast growth companies look to accelerate their trajectory and enter new markets. There has been a lot of commentary around operational errors, risk and lack of compliance as well as choosing the wrong model to enter a new market that somewhat dampens what should be a transformative time for any founder to pull the growth lever.

The purpose of this article is to clarify some of the myths and misconceptions when expanding internationally and the options available to you. From understanding what these are when hiring internationally, to putting in place the right foundation for growth and leveraging all the support and financial incentives, acting as a catalyst to facilitate a successful execution and launch.

Now more than ever founders and senior leadership teams are being challenged daily to adopt global versatility in an increasingly volatile world. Renegotiating tariffs and perceived barriers to market entry, displaced workforces, harder access to capital markets as well as keeping up with digital globalization are new territory for early-stage companies looking to be successful on the global stage. Faced with a variety of different scenarios to navigate, it's important to take two steps back to decide what is the right platform to launch off going forward.

It starts with identifying what is the right talent to drive organizational performance, often tasked with building out a local team and ensuring an optimum balance between company culture and local market nuances to work effectively with clients and company partners who often create the pull when expanding into a new market.

“Now more than ever, founders and senior leadership teams are being challenged, daily, to adopt versatility.”



Seconding existing employees to set up a new overseas location

When companies are expanding overseas, they need to consider various factors from a staffing perspective and make an informed decision as to whether it is appropriate to second an existing UK-based employee to the new location or to try and recruit someone locally who is already based in the market.

Whilst there is never a ‘one size fits all’ answer to this issue – it will depend on the exact role, company culture and skills requirements of a particular opportunity, it is important for businesses to realize that there are significant, potential benefits from seconding people internationally in such cases.

“...if as a company, you have focussed on growing and developing a unique company culture, ensuring that established HQ-based employees are directly involved in the establishment of the overseas presence, can help ensure that this identity is transferred effectively into the new location.”

These benefits, together with some of the wider issues that companies need to consider from an HR and employment perspective in this type of scenario are discussed below:

Company Culture – All companies will have their own particular culture and whilst in some cases, this might not be too noticeable or a significant aspect of the company's overall 'corporate advantage', if as a company you have focussed on growing and developing a unique company culture, ensuring that established HQ-based employees are directly involved in the establishment of the overseas presence, can help ensure that this identity is transferred effectively into the new location.

Recruitment and Retention Tool – The opportunity to travel and work internationally is attractive to many employees – and perhaps in particular millennials, who make up an increasing element of most countries' workforces.

Hence ensuring that your business provides secondment opportunities for employees can provide you with a competitive advantage from a recruitment perspective, whilst the international experiences can – at least if managed correctly – help further 'upskill' these employees, so that they provide your business with an ongoing competitive advantage.

Skills Transfer – Whilst some international roles in a new market might not require any specific company-centric skills or product knowledge, in many cases this type of know-how and experience can be a key component in successfully establishing a business in its new market. As such, the use of existing staff from the home location can be a key factor in ensuring that products and services are effectively sold (and subsequently maintained and serviced, for example), in new overseas markets.

The Challenges with seconding employees overseas

However, whilst moving employees internationally can – at least in many cases – make a lot of sense for businesses, these opportunities also come with challenges and (potential) costs for employers. Specific issues, for example, can arise with:

- Ensuring that the team 'adapt' to the overseas location from a cultural perspective. Whilst businesses will typically want to ensure that their own 'company culture' is spread to new, overseas entities, it is still important to realize that this existing company culture needs to be integrated with the culture of the overseas country concerned; and

- Ensuring that the employees seconded overseas actually have the correct skill set to be successful in that location – whether from a language perspective or with regard to the relevant 'soft skills' which might be required. For example, if you are seconding the employees internationally to ensure there is an effective transfer of skills to the new location, it is important to ensure that the employees being seconded overseas have the ability to train colleagues and share knowledge effectively; and

- An employee's 're-integration' into the home team. Experience shows that many employers struggle to successfully reintegrate seconded employees back into the existing teams successfully and – unless there is a proper plan to manage this process – it is possible for businesses to lose skilled and experienced employees.

> Employee secondment...

In addition, some employers will be concerned about the costs of seconding individuals internationally – and the overall costs can certainly be higher than simply employing someone in the host addition, as additional costs (e.g. travel and housing) may need to be provided by the employer to seconded employees as part of the assignment package.

However, the good news is that it is possible for employers – with proper planning and organization – to minimize these costs and ensure that, for example, those home country-based employees who ‘commute overseas’ (i.e. remain tax resident in their home country whilst doing project work say in an EU country), do not become liable to any ‘double withholdings’ from an income tax or social security perspective. Similarly, there may be significant opportunities for employers to control some of the costs which arise when employees are required to work internationally.

For example, by ensuring that the employment package is as tax efficient as possible (e.g. it is often better to provide benefits-in-kind in some situations rather than cash allowances) or by the correct structuring of the employment contract, so that social security costs are minimized.

Potential next steps with regard to employee secondments

Seconding employees overseas may not be the correct option for all employees. However, in many cases it may certainly be the best option, and it therefore certainly makes sense for employers to typically analyse this area in some detail, as part of their international expansion plans. This can, for example, include:

- An analysis of labour and staffing requirements, availability and employee expectations (both with regard to HQ-based and overseas-based labour);

- The development of a clear HR policy for secondments (including working through various ‘options’ in this regard); and

- Reviewing the costs of international assignments under various assignment scenarios.

“No entity required”

The explosion of remote working over the past five years has presented different employment models and options for high-growth companies.

Use of contractors are now considered a short-term option, particularly with increased scrutiny around employee status and HMRC now enforcing legislation such as IR35 fining companies who they deem as the ultimate employer for not handling the correct PAYE and National Insurance Deductions

if ultimately the contractor is in fact an employee in all sense of their daily responsibilities and contractual obligations. Professional Employer Organisation (PEO) or Employer of Record (EOR) has become an increasingly common means for start-ups to hire talent whilst outsourcing all administrative tasks like payroll, benefits and HR to a 3rd party who act as a “hiring employer”.

This is particularly common with US headquartered SME companies where PEO is an approved regulated model and the employee is co-employed by their employer and 3rd party. As a result, the SME avoids challenges such as having to build HR from scratch and gain access economies of scale in areas such as benefits where private medical cover which is very expensive if sourced as a single employer.

With EOR, there are some fundamental differences which can be overlooked and need further consideration. EOR is not the same as PEO as EOR will hire the employee solely and directly and “lease back” to the ultimate employer. It is often seen as a quick easy win to grow and scale fast to test new markets but may not be suitable for long-term operations. Due-diligence is key and very much back in fashion due to increased scrutiny by in-country tax authorities.

- The EOR is the legal employer and in direct control of the employee when it comes to performance management and cultural alignment.

- Increasing scrutiny in some jurisdictions has led to unexpected tax liabilities when it is deemed that the “ultimate employer” aka “client” has a taxable presence also known as a permanent establishment (PE) triggering tax exposure

- EOR vendors do not take any contractual responsibilities for permanent establishment risk

- Stock options and direct equity awards continue to be a main attraction for talent and senior hires. Favourable tax incentives and lower deductions for employees on “sale” can be lost if the certain criteria are not met and the employee is contractually hired by a third party. Tax deductions on gains are substantially higher.

- Employee status checks are becoming very common in funding rounds as part of investor due diligence to identify mis-classified workers, tax liabilities, equity allocations and potential future litigation. It has significantly lengthened funding rounds due to corrective measures being needed and further indemnifications and financial provisions being added for future protection for investors.

As such EOR is ever-increasingly being seen as a bridge or stop-gap measure with most start-ups needing to transition to a legal entity 6 to 9 months later having fully understood their wider obligations as a business and financial benefits mid to long-term. In order to mitigate some of these challenges,

it is important to adopt a proactive and structured assessment including:

- Seek independent advice from international tax advisers to assess any PE risk and understand corporate tax liabilities as well as any impact on tax incentives at business and employee compensation levels.

- Plan for transition early and fully understand EOR contractual obligations, exit fees and costs when transferring employees under direct control and employment.

- Seek legal advice on employment terms, indemnity clauses and correct local legislation to follow i.e. TUPE obligations in UK which is specific employment legislation that protects employees’ rights and conditions when a business or service changes ownership or is transferred to a new employer.

- Modelling the complete costs of using an EOR versus setting an entity e.g. onboarding/off-boarding fees, additional administrative fees, FX fees and how payments are managed and scalability i.e. country thresholds (headcount, revenue, management roles and market optics).



A foundation for growth: Making the most of tax incentives,

In the excitement of the moment or naivety of the founding team, companies can fail to reflect on the bigger picture such as further tax incentives available to them and means to get further investment. In most countries globally, these are typically available to them when a legal entity is incorporated.

Beyond the benefits of hiring directly, establishing an entity opens up tax incentives and support designed to help drive innovation, secure capital investment and benefit from reduced tax rates on profits in multiple areas for SMEs.

If we take the UK as an example, there are schemes specifically for start-ups such as Seed Enterprise Investment Scheme (SEIS) which provide up to 50% income tax relief, loss relief if the venture fails and exemptions of tax owned on the gain if the investment proves successful.

Enterprise Investment Scheme (EIS) exists for later stage companies exploring crowdfunding as an alternative means to raise capital which

is proving increasingly popular given any tax reliefs could be applicable if an investor has held the shares for +2 years. EIS recently has been reconfirmed as being in place until 2035. R&D tax credits are a valuable source of funding for businesses looking to expand internationally. Where businesses are carrying out innovative projects there is the potential to recoup up to 26% of the project cost (staff, subcontractors, prototypes etc) which can be vital to the continuation of a project, hiring more staff, and expanding the business.

There are also multiple agencies in the UK (such as Innovate UK), including the UK Government, where businesses can apply for grant funding. The UK Government is always looking for innovative businesses to invest in the UK to drive the economy forward, and grant funding is a mechanism to achieve this.

Application for these grants should outline the need or challenge the business has identified and how their innovation will meet this, going beyond competitors and what's currently considered state-of-the-art.

The project idea must be genuinely new and novel with rapid economic and commercialisation potential for the UK economy, and can be applied for with a collaborative partner such as a research institution or university.

Some points to consider and recommendations:

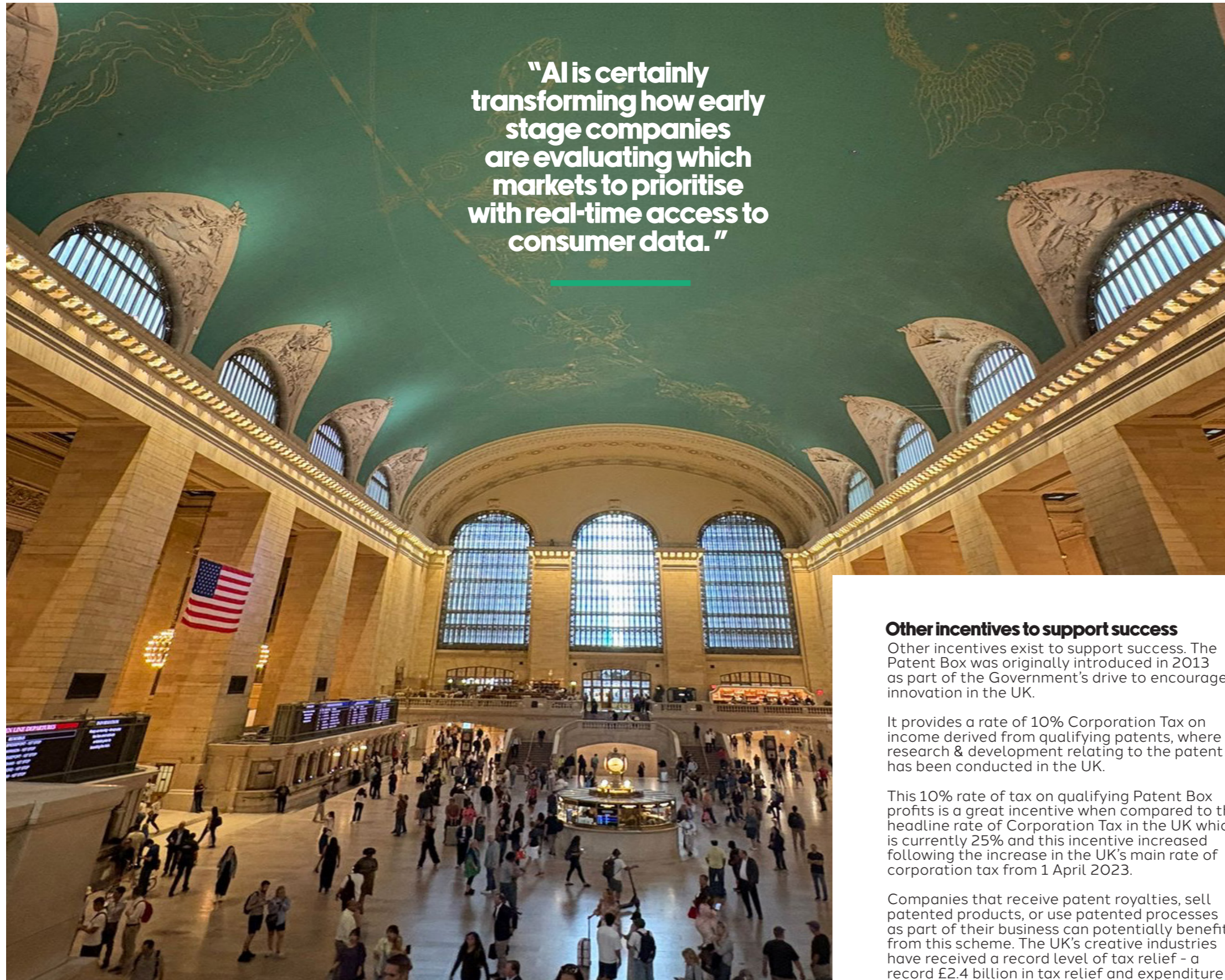
- Will the business be hiring employees and/or utilising subcontractors in the UK? Relief can only be claimed on UK-based staff (with few exceptions). We would recommend speaking with a qualified R&D tax adviser who will be able to talk you through these nuances;
- Does the business keep detailed records of its project(s) timelines and key activities? We would recommend holding records internally that are updated on a regular basis. This could be as part of a monthly, quarterly, or bi-annual meeting. HMRC does not stipulate a specific method of record-keeping, so this can be flexible based on the requirements of the business.

“The UK Government is always looking for innovative businesses to invest in the UK, to drive the economy forward.”

- Will the expansion involve carrying out innovative projects on behalf of a customer? There are detailed rules around who can-and-can't claim for the development of products and undertaking projects work. We would recommend speaking to a qualified R&D tax adviser who will be able to talk you through these nuances.

> AI and incentives...

"AI is certainly transforming how early stage companies are evaluating which markets to prioritise with real-time access to consumer data."



Other incentives to support success

Other incentives exist to support success. The Patent Box was originally introduced in 2013 as part of the Government's drive to encourage innovation in the UK.

It provides a rate of 10% Corporation Tax on income derived from qualifying patents, where research & development relating to the patent has been conducted in the UK.

This 10% rate of tax on qualifying Patent Box profits is a great incentive when compared to the headline rate of Corporation Tax in the UK which is currently 25% and this incentive increased following the increase in the UK's main rate of corporation tax from 1 April 2023.

Companies that receive patent royalties, sell patented products, or use patented processes as part of their business can potentially benefit from this scheme. The UK's creative industries have received a record level of tax relief - a record £2.4 billion in tax relief and expenditure

credits for the 2023/24 financial year. This is a 10% increase on the previous year, underlining the industry's growth and resilience.

AI: A game-changer in global expansion?

AI is certainly transforming how early-stage companies are evaluating which markets to prioritize with real-time access to consumer data, trends, regulatory considerations and analytics supporting strategic decision-making. It is fundamentally transforming ways historically companies would staff up and add headcount instead opting for agents in areas such as customer support, operational efficiencies, multi-lingual support and accelerating sales/marketing efforts.

Whilst AI has proven to be a catalyst for transformation and optimisation in many of these areas, the debate continues on how ready and reliant it can be in meeting compliance and regulatory requirements.

Beyond clarifying jurisdictional risks and in-country statutory obligations, there remains many compelling reasons why professional regulated advice is required early in the decision-making process which could have serious implications if wrong later in the company's life cycle.

- Identifying the right leadership and talent that is the correct fit closely aligned with the company's culture and values
- Deciding what is the most optimum structure from a tax perspective to grow and scale at speed internationally
- Risk mitigation through professional indemnification – especially important protection when navigating regulatory requirements in areas such as legal, accounting, financial services, HR, IP and other advisory contractual agreements. Clear accountability both contractually as well as operationally.

Globalization continues to evolve with an ever-increasing reliance and scrutiny on the use of data, digital, AI and real-time technology platforms.

Volatility, regulatory restraints and geopolitical exposure continue to present a risk to a successful launch.

Correctly identifying the right talent and leadership, protecting culture to drive employee engagement and ensuring a company has a foundation for success mid-to-long-term continue to be as important as ever.

Identifying partners who can truly act as an extension of your team and understand your business is key.



About:

Blick Rothenberg



Blick Rothenberg is a leading tax, accounting and business advisory firm founded on personal integrity and technical expertise supporting high growth companies, founders and private equity-backed businesses.

We offer tax advisory, global accounting and compliance support to companies growing and scaling internationally as well as audit and business advisory services, including advice on corporate and personal tax matters.

We act as an extension of our client's business, a partnership built on strong, long-lasting relationships based on mutual trust. As a leading member of Allinial Global, we support clients throughout EMEA, North America and Asia-Pacific as part of a premier association

of independent accounting and advisory firms offering comprehensive, industry-leading solutions worldwide. Founded by Helmut Rothenberg OBE the firm has recently celebrated its 80th anniversary. Since 2016, we have been part of the Azets group.

This partnership has supported our ongoing growth and innovation, enabling us to stay agile and responsive to the evolving needs of our clients, while preserving the values and culture that define us. We are proudly backed by Hg and PAI Partners, two of Europe's leading private equity investors.

Their support empowers us to offer the best of both worlds: the scale, expertise, and cutting-edge technology of a larger organisation, combined with the personalised service and tailored approach that our clients have come to expect.



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Simon leads Blick Rothenberg's US practice team, advising companies on options and best practices for expanding internationally and explaining all requirements and considerations for compliance, hiring talent and any required accounting support.

With over 25 years' experience, he has worked closely with many internationally-headquartered

companies entering new markets in the UK, Europe, Middle-East, Africa and Asia Pacific.

He works on a variety of projects which range from supporting early-stage start-up clients looking to sell internationally, setting up operations, local partnership and hiring key personnel, and supporting overseas customers to increase sales.

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