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Going global gets more affordable for small and mid-size firms

Gov. Chris Gregoire, through the Washington Export Initiative, is working to boost foreign trade in Washington by 30 percent during the next four years. President Barack Obama's National Export Initiative seeks to double U.S. exports by 2015.

FOREIGN TRADE



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Both government leaders see exports as a way to improve the economy. But they are not looking only to the big public companies to do this. Small and medium-sized companies will play an important role.

Some 90 percent of Washington's 8,500 companies that export goods worldwide are businesses with fewer than 500 employees, according to state Department of Commerce statistics for 2008 (the most recent available). These businesses generated 19 percent of

the state's \$46.6 billion in exports in 2008.

Economic growth in less developed countries has fueled demand for American goods and services. This includes demand for natural resources, consumer goods, business products and services. Washington's nonaerospace exports to China grew 38.6 percent from 2009 to 2010. This growth was driven by a diverse group of products that includes coniferous wood, copper ore, silicon, medical equipment, software, manufacturing technology and engineering services.

Whether seeking revenue growth or cost

reduction, or to attract the best and brightest, Washington's small and medium-sized businesses are increasingly looking to global markets.

Producers continue contract manufacturing in China, Malaysia and Vietnam.

Software companies have opened offices in Eastern Europe and Latin America, where they hire developers at lower rates than in the United States. Companies have generated revenue growth by providing architectural and engineering services in Asia and the Middle East, software and media products in Europe, and legal services in China.

Affordable cloud-based software solutions, collaboration tools and communications software have helped smaller companies communicate with employees located around the world.

Some companies have taken advantage of such tools to help recruit high quality employees in distant locations. Companies that once recruited regionally are now recruiting globally. Whether it is Eastern Washington or Eastern Europe, commute times depend only on the speed of the internet connection.

This is exciting news for U.S. companies looking for growth. But while it is much easier to operate an international business today than ever before, the first step across the border is usually challenging. Legal, human resource and tax issues vary significantly by country. It is important that companies make sure they address these issues early in the process.

Some of the most critical issues to consider include establishing the legal structure for foreign operations, understanding labor law obligations, and protecting intellectual property rights.

In deciding on a legal structure, com-

panies have several forms from which to choose. Foreign operations may be conducted through a branch, a domestic subsidiary, a foreign subsidiary or a hybrid entity. This choice will have a significant effect on tax obligations and legal liability.

Labor laws in other countries are often much different from those in the United States. Employees frequently have greater rights with respect to pension benefits, insurance, paid leave and severance. It is often difficult to terminate employment. Employers will need to understand all of the costs associated with hiring employees outside of the United States.

For many companies, intellectual property is their most valuable asset. Protection of this property is a prime concern. It is important that companies understand both the legal and practical aspects. Proper legal advice is vital, but companies must also consider the operational aspects of protecting essential technology.

At first glance, dealing with foreign tax, labor, and intellectual property laws can seem daunting. Often smaller companies wonder if that new contract, cheaper labor or star employee is worth the hassle.

In the past, solutions to these issues cost big dollars. Luckily, there is a growing number of international advisers with worldwide networks who focus on providing solutions that are affordable to small and medium-sized companies. In the final analysis, the opportunities provided by global markets are increasing and the costs of operating an international business are decreasing.

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