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Executive Summary

Global organisations are increasingly asking questions about Global Employment Companies (GECs). These questions range from those who are considering setting up a GEC and would like to know how to do this, to those who are already operating a GEC and would like to revisit their GEC structure, in light of the worldwide attention on corporate governance and responsible tax.

GECs have come into and out of fashion over the years and it seems that they are now back in vogue, although for different reasons. The key drivers for setting up GECs have changed and the current focus is on global talent management, and facilitating the transparency of employee mobility as part of the corporate responsibility debate.

Often the outcome of conversations with organisations who are considering implementing a GEC is very different to the original intent. It is important to invest time to understand the challenges your organisation is facing and the key drivers for change, to evaluate whether a GEC is in fact the right answer.

Our established approach to tackling the question ‘to GEC or not to GEC?’ includes assessing the current state to determine the best employment, deployment and/or service delivery model for each organisation based on their business model and specific talent, mobility and reward requirements.

This document provides various insights into the topic of GECs including the main considerations and key questions to ask to determine whether a GEC is right for your organisation, alternative deployment and service delivery optimisation models to consider if a GEC is not the best fit, and the support we can offer from the initial thought process to the implementation of a new model, where this is required.
Global Employment Companies

Overview

Supporting business growth through talent alignment and management of a borderless workforce is becoming key to operating as one globally integrated organisation. Organising and managing employees who are not aligned to a single country but are instead “global nomads” remains a significant and key strategic challenge. It is important to differentiate between individuals or executives who travel extensively on ad hoc, shorter term business trips, and global nomads who undertake a series of longer term, planned international assignments with no plans to return to their “home” country or any other specific country.

An approach often considered to overcome this challenge is the establishment of a global employment company (GEC), a separate subsidiary that employs the business' global nomads.

A global employment company (GEC) is an incorporated entity which forms part of an organisation’s group structure. Its purpose can include simplifying or centralising operational processes and/or employing a distinct employee population to meet certain business and talent requirements.

Top GEC drivers in the market

1. Global war for talent and global talent management
2. Increased governance
3. Global reward structure

Timeline and evolvement of GEC business drivers

1970s – 1980s
Focus on taking advantage of low tax and social security rates

1980s – 1990s
Focus on managing risk of host country attack on HQ profits via the creation of a Permanent Establishment

2000s – Today
Focus on corporate governance, transparency, the war for talent and Permanent Establishment risk

What are the key reasons for having a GEC?

<table>
<thead>
<tr>
<th>Reason</th>
<th>Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Facilitates internal equity amongst mobile employees</td>
<td>Simplifies global mobility administration</td>
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<tr>
<td>Provides internal controls to enhance employee and employer compliance</td>
<td>Creates a mobility P&amp;L to facilitate proactive cost management</td>
</tr>
<tr>
<td>Can be set up to make use of favourable tax and social security locations</td>
<td>Minimises permanent establishment exposure</td>
</tr>
<tr>
<td></td>
<td>Facilitates global reward structure</td>
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</table>
Global Employment Companies

Typical GEC locations

Current favoured GEC locations

These countries have been removed from the EU's non-cooperative jurisdictions list and are in a separate category of jurisdictions subject to close monitoring. These countries have agreed to make the changes requested by the EU. Historically they have been favoured GEC locations.

These countries are on the EU’s non-cooperative jurisdictions list*

* The overall goal of the EU list is to improve tax good governance globally, and to ensure that the EU's international partners respect the same standards as EU Member States do. The list is a result of a thorough screening and dialogue process with non-EU countries, to assess them against agreed criteria for good governance. These criteria relate to tax transparency, fair taxation, the implementation of OECD BEPS measures and substance requirements for zero-tax countries.

Key characteristics of current favoured locations

- More regulated environment to ensure sustainability
- Reliable business support services
- Local talent available/existing office structure
- Political and economic stability

Emerging selection criteria

Selecting the most appropriate location for a GEC is an important part of the due diligence process. As well as reviewing key tax aspects similar to the EU process (including corporate tax, transfer pricing, indirect tax and employment tax), there are a number of other significant areas which should be considered such as the following: employment law, reward regulation and social security, corporate governance and talent mobility.
Global Employment Companies
Key issues to consider

<table>
<thead>
<tr>
<th>Managing Global Talent</th>
<th>Establishing Global Pay Strategies &amp; Structures</th>
<th>Structuring Global Reward Programmes</th>
<th>Addressing Global Governance, Compliance &amp; Risk</th>
<th>Understanding Global Currency Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Many companies have created global talent management models for the executive leadership.</td>
<td>• A well-thought-out, consistent pay structure can increase a company’s ability to attract, motivate and retain top talent.</td>
<td>• Local country regulations typically govern compensation such as equity, benefits and retirement programmes.</td>
<td>• Generally the greater the number of home-host country combinations, the more administratively burdensome the management of compliance such as immigration, exchange controls, labour laws, tax and social security laws, anti-corruption laws and laws addressing equity based compensation.</td>
<td>• A GEC can choose in which currency to deliver remuneration but consideration should be given to any host country requirements where compensation must be delivered in the local currency.</td>
</tr>
<tr>
<td>• One issue within global talent management of highly mobile employees is career mentorship. Global nomads who tend to feel responsible for their own career development are at a higher risk of leaving the business.</td>
<td>• An early step of any global workforce management model including a GEC involves establishing local pay strategies and structures for key international talent.</td>
<td>• Global pension and post retirement benefit programmes can be complex so employees must be educated on what they will receive as coverage may change depending on the type of deployment model adopted.</td>
<td>• Most common currencies used are the US dollar and the Euro.</td>
<td>• Employees are usually responsible for managing the impact of exchange rate fluctuations between the currency used by the GEC and their preferred currency.</td>
</tr>
<tr>
<td>• A GEC can eliminate lengthy negotiations on compensation each time there is a new move. This facilitates quicker redeployment of talent for the business.</td>
<td>• Pay levels are often established by role and calculated taking into account internal business considerations and competitive market rates. The impact of tax and regulatory environments in local geographies is also considered in order to come to a globally harmonised model.</td>
<td>• GEC models can facilitate the segmentation of groups of mobile employees such as executives. The GEC can have separate programmes to incentivise certain behaviours, reward and retention within this group.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Consider which segments of the workforce would be best suited to a GEC. Managed under one entity/P&amp;L can increase visibility and retention.</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

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Global Employment Companies
To GEC or not to GEC?

There are many questions to consider in determining whether a GEC is the right approach:

- What type of deployments and behaviours do we want to facilitate/encourage?
- Can we capitalise on today’s two-way flow of talent by bringing people from developing markets into more sophisticated markets to provide development opportunities, while deploying skilled employees to nurture talent in the emerging markets?
- Do we have a clear view of policies and programmes that allow us to deploy our workforce in the best interests of both the organisation and the employees?
- Will the creation of a GEC improve operational efficiency?
- How do I define my global citizens?
- How do our employees experience the company as a brand, organisation and place to work, and will a GEC help articulate the value of being part of this?
- Do we understand the tax and regulatory implications of how we manage our talent?
- Can a GEC provide a more consistent, integrated view of how to evaluate personnel who are not aligned to a specific geography or business unit but will instead be in a global talent pool?
- Will a GEC help provide a more integrated view of how we manage our financial resources, and understand the particular impacts of entering emerging markets?

Depending on the answers to these questions, some businesses find that a GEC is the best way forward for them whereas others conclude that a different type of global talent deployment model is more suitable. By addressing issues related to management, reward and risk, each company can improve their ability to choose the right approach for them.
Global Workforce Management
Alternative deployment models

A GEC may not necessarily be the right answer for your organisation. Consider the alternative deployment models outlined below. The organisations we work with vary in their approach to cross border mobility. There is no ‘one size fits all’ optimal deployment model. Understanding your key drivers for deploying global talent typically concludes that more than one type of model is required. From our experience most organisations utilise multiple models depending on the needs of their different globally mobile populations.

1. Global Employment Company (GEC)*
   - Sever or suspend home ties. Employment contract with the GEC and assigned to the host country
   - Encourages global mind set and career paths for global nomad population with no strong links to a particular home or host country
   - Commonly used to manage high volumes of very mobile employees with a number of home and host country combinations
   - Can generate potential tax and social security savings and minimise PE risk

2. Regional Employment Company (REC)*
   - Sever or suspend home ties. Employment contract with the REC and assigned to the host country
   - Encourages regional mind set and career paths for regional nomad population with no strong links to a particular home or host country
   - Commonly used to manage high volumes of very mobile employees with a number of home and host country combinations within a particular region
   - Can generate potential tax and social security savings and minimise PE risk

3. Regional Office Headquarters (ROH)
   - Individuals are contracted into ROH and subsequently assigned to the host country
   - Back to back assignments as deemed necessary
   - Requirement to comply with ROH legislation
   - Creates physical ‘capability’ centre of expertise
   - No creation of new entity

4. Home employment
   - Remain employed by home country and assigned to host country
   - Employees have ongoing link with home country
   - Commonly used where employees are frequently in and out of the home country
   - Home country compensation, benefits and payroll
   - Central policy introduced and deployment processes optimised
   - Implementation of tracking and compliance processes required
   - Low implementation cost and change management required but may not address core business requirements

5. Host employment
   - Sever or suspend home ties. Employment contract with the host country
   - Host country compensation, benefits and payroll
   - Central policy introduced and deployment processes optimised
   - Implementation of tracking and compliance processes required
   - Low implementation cost and change management required but may not address core business requirements

6. ‘As is’ optimised
   - Use existing group company structure to employ individuals
   - Employment by entity dependent on cost optimisation
   - Central policy introduced and deployment processes optimised

*Both the GEC and REC approaches can be implemented on a “Lite” basis where appropriate. This involves setting up the GEC or REC within an existing group company (instead of creating a separate legal entity).
Global Workforce Management
GEC or REC vs. optimising the service delivery model

Setting up a GEC or a REC potentially involves the cancellation of existing employment/secondment contracts and the implementation of new contracts with the new global or regional entity. Depending on your business drivers and desired outcomes, this may not be required and an alternative solution for your business may be to optimise your global mobility service delivery model depending on your business problem.

Consider the following areas within your service delivery model. Are your challenges limited to any/all of these areas?

### Business/Functional Support
- HR support
- HR programme/policy support
- Assignee selection & planning
- HR business planning at the function/business level
- Cost control & management reporting
- Exception management
- New country entry

### Employee Support
- Assignee mobility support & on-boarding
- Training
- Issue resolution (in partnership with function HR & management)
- Communication of new or changes to existing HR programmes & policies

### Policy & Strategy
- Policy, programme & service design
- Alignment of HR programmes with global function/business needs
- Global HR strategy & design
- Talent management

### Admin & Compliance
- International mobility compensation, benefits, immigration, relocation & payroll administration
- Controls & consistency oversight
- Exception administration
- Global HR administration and reporting
- Governance
- Tax, social security & immigration compliance
- Payroll compliance/compensation management
Global Employment Companies

Our approach

As an alternative to reviewing possible GEC country locations and constructing GEC specific business cases our first phase involves a Data Analysis and Mobility Impact Lab to validate the business drivers and requirements of the proposed new model which may or may not include a GEC. The output would be a business case for phases 2 and 3 (Design and Implementation) to be approved by the business, including a roadmap with immediate next steps, priority actions, key deliverables, timeframes and resources required.

Global or Regional Employment Company Project Approach

<table>
<thead>
<tr>
<th>Phases</th>
<th>Data Analysis and Mobility Impact Lab</th>
<th>Design</th>
<th>Implementation</th>
<th>Ongoing</th>
<th>Admin &amp; health check</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Review current operating model and mobile worker demographics</td>
<td>Undertake due diligence and agree future model and supporting structure</td>
<td>Finalise transition plan</td>
<td>Ongoing administration of the new model including the implementation and review of KPIs, SLAs and other performance related measures</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Analyse and validate the key business drivers and needs of the new model</td>
<td>Prepare detailed model architecture including the identification of key workstreams, activities and resources</td>
<td>Implementation of new model, per recommended and agreed workstreams</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Recommendation of optimisation opportunities or new model and plan for next phase for business sign off</td>
<td>Develop transition plan for implementation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Report outlining key drivers and priorities, relevant quantitative analysis and recommended optimisation priorities or model for business review and sign off</td>
<td>New deployment model and GEC design blueprints; implementation project plan for business review and sign off</td>
<td>Various (to be documented in detailed project plan)</td>
<td>6 month health check and review of GEC administration to include the evaluation of performance related measures</td>
<td></td>
</tr>
</tbody>
</table>

When designing the GEC, the following key workstreams are usually considered:

- Legal and labour law
- Taxation and social security
- Policy framework and documentation
- Compensation and benefits
- Communications and change management
- Outsourcing and technology
- Process maps, guides and other supporting documentation
- Payroll and delivery
Global Employment Companies
Success factors

There are some fundamental principles of the GEC operational structure which must be considered to ensure a sustainable model for the future.

**Sustainability & Base Erosion and Profit Shifting (BEPS)**

- The rules on the taxation of cross border activities are being scrutinised and it is no longer acceptable to use a brass plate company with no ‘substance’ i.e. with no employees and central management and control being exercised elsewhere.
- Consideration must be given to the people vs. profits issue when designing where the GEC will be located and how it should be set up. The OECD’s BEPS initiative aims to prevent the artificial avoidance of Permanent Establishment status.
- Given the global attention on BEPS, it is essential to create a sustainable GEC revenue model which stands up to current and future scrutiny on the international taxation of companies.

**Data Analytics & Transparency**

- Given the increased focus on corporate governance, the transparency of employee mobility has become a key GEC driver.
- The GEC must be set up with the appropriate controls and reporting procedures in place to facilitate transparency.
- Regular data collation, analysis and reporting is key to this, whether it is automated through the implementation of technology or more manual processes.

The **BEPS** (base erosion and profit shifting) initiative is an **OECD** initiative, approved by the G20, to identify ways of providing more standardised tax rules globally.
Global Employment Companies
Organisations with an existing GEC

In light of the global attention on corporate taxation leading organisations are undertaking reviews of their existing GEC models in order to ensure that they are fit for purpose.

Consider the following in a correct GEC review

<table>
<thead>
<tr>
<th>Category</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>Why was the GEC set up and does the GEC still provide the same value to the organisation? Consider how this value is being measured</td>
</tr>
<tr>
<td>Entity Structure, Tax, Social Security and Governance</td>
<td>How has the GEC been set up? Consider factors such as the location, governance structure, the number of employees and their roles</td>
</tr>
<tr>
<td>Reward and Remuneration</td>
<td>What is the reward structure of the GEC? Does this continue to align to business and talent objectives? Consider a global reward strategy</td>
</tr>
<tr>
<td>Payroll and Employment Tax</td>
<td>Are there regular compliance checks? Consider these to address potential non compliance and mitigate financial and reputational risk</td>
</tr>
<tr>
<td>Programmes and Processes</td>
<td>Have programmes and processes been kept up to date with changing assignee demographics? Consider the use of technology</td>
</tr>
</tbody>
</table>
## Global Employment Companies

### Key attributes and challenges

<table>
<thead>
<tr>
<th>Key attributes</th>
<th>Potential challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single standard employment agreement</td>
<td>Creation of a new legal entity</td>
</tr>
<tr>
<td>Separates employees from assets</td>
<td>Requires a change in employer</td>
</tr>
<tr>
<td>Individuals hired as new GEC employees</td>
<td>Transfer of employees to new entity</td>
</tr>
<tr>
<td>Provides a pool of globally mobile employees for the business</td>
<td>Requires staffing of new entity</td>
</tr>
<tr>
<td>Facilitates global consistency and compliance</td>
<td>May require a change in compensation and benefit plans (e.g. retirement, healthcare, social security, etc.)</td>
</tr>
<tr>
<td>Facilitates career management</td>
<td>Resource intense implementation, as impact of change must be communicated to stakeholders</td>
</tr>
<tr>
<td>International pension plan typically provided</td>
<td>Operate mobility as a business</td>
</tr>
<tr>
<td>Facilitates quick deployment and promotes consecutive global moves</td>
<td>Revisit tax positions on intercompany payments</td>
</tr>
<tr>
<td>Centralisation maximises control and minimises risk</td>
<td>Will not resolve recruitment issues, e.g. where to find appropriate talent pool</td>
</tr>
<tr>
<td>Facilitates the use of global pay bands</td>
<td>Does not encourage assimilation with local markets, employees or company</td>
</tr>
<tr>
<td>Can involve loss of home country social security benefits</td>
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</table>
Team profiles

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