

**Deloitte.**

Global Workforce  
Management

Best Practice Approach to  
Global Employment Companies

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# Executive Summary

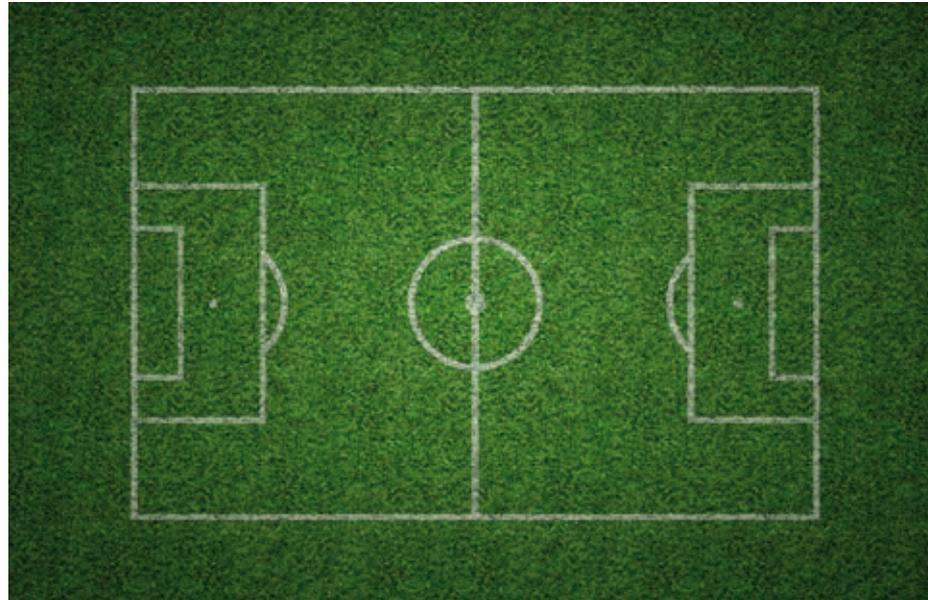
Global organisations are increasingly asking questions about Global Employment Companies (GECs). These questions range from those who are considering setting up a GEC and would like to know how to do this, to those who are already operating a GEC and would like to revisit their GEC structure, in light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

An approach often considered to overcome this challenge is the establishment of a global employment company (GEC), a separate, multinational 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 evolution 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 attributes of a GEC?

Individuals hired as new GEC employees

Provides a pool of globally mobile employees for the business

Facilitates global consistency and compliance

Facilitates career management for global nomads

International pension plan typically provided to reflect nomadic employees

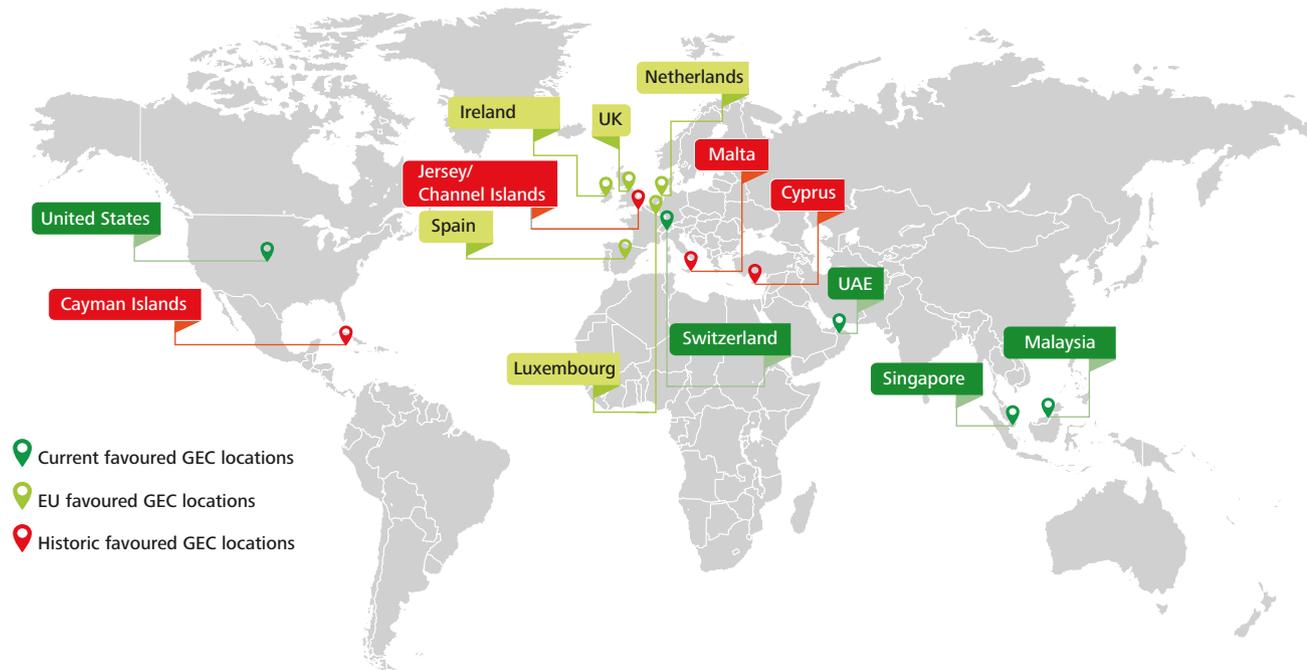
Facilitates quick deployment and promotes consecutive global moves

Centralisation maximises control and minimises risk

Facilitates the use of global pay bands

# Global Employment Companies

## Typical GEC locations



### 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

# Global Employment Companies

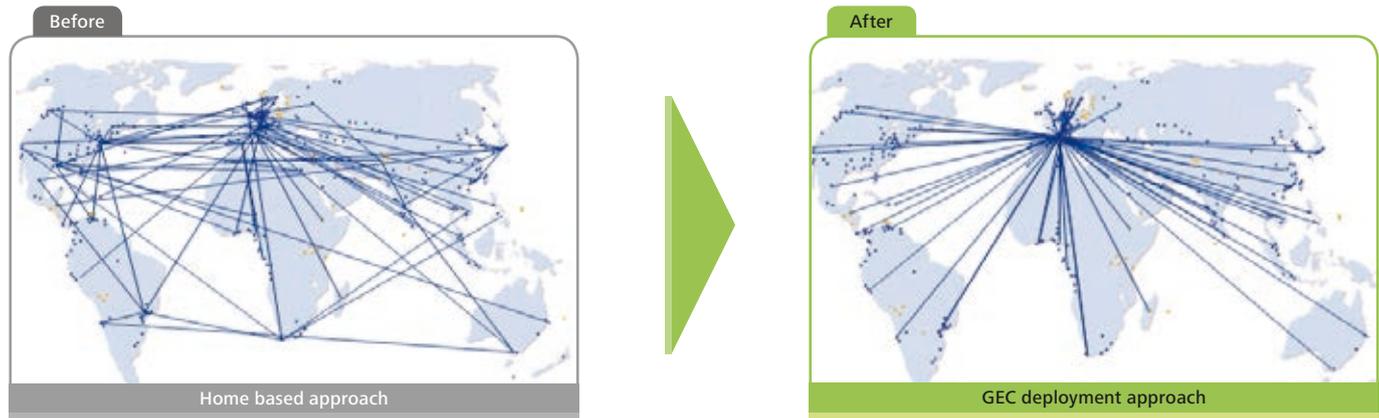
## Key issues to consider



Managing Global Talent	Establishing Global Pay Strategies & Structures	Structuring Global Reward Programmes	Addressing Global Governance, Compliance & Risk	Understanding Global Currency Considerations
<ul style="list-style-type: none"> <li>• Many companies have created global talent management models for the executive leadership.</li> <li>• One issue within global talent management of highly mobile employees is career mentorship. Global nomads who tend to feel responsible for their own carer development are at a higher risk of leaving the business.</li> <li>• A GEC can eliminate lengthy negotiations on compensation each time there is a new move. This facilitates quicker redeployment of talent for the business.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• A well-thought-out, consistent pay structure can increase a company's ability to attract, motivate and retain top talent.</li> <li>• An early step of any global workforce management model including a GEC involves establishing global pay strategies and structures for key international talent.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Local country regulations typically govern compensation such as equity, benefits and retirement programmes.</li> <li>• 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.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• A GEC model may reduce the number of legislative combinations which need to be addressed and thus limit governance costs and improve compliance while minimising risk.</li> </ul>	<ul style="list-style-type: none"> <li>• Most companies set up a GEC in a location where there are no employee payroll reporting obligations.</li> <li>• Unless the host country requires compensation to be delivered in the local currency, a GEC can choose the currency in which to deliver remuneration.</li> <li>• Most common currencies used are the US dollar and the Euro.</li> <li>• Employees are usually responsible for managing the impact of exchange rate fluctuations between the currency used by the GEC and their preferred currency.</li> </ul>

# 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?

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.

How do I define my global citizens?

Will the creation of a GEC improve operational efficiency?

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?

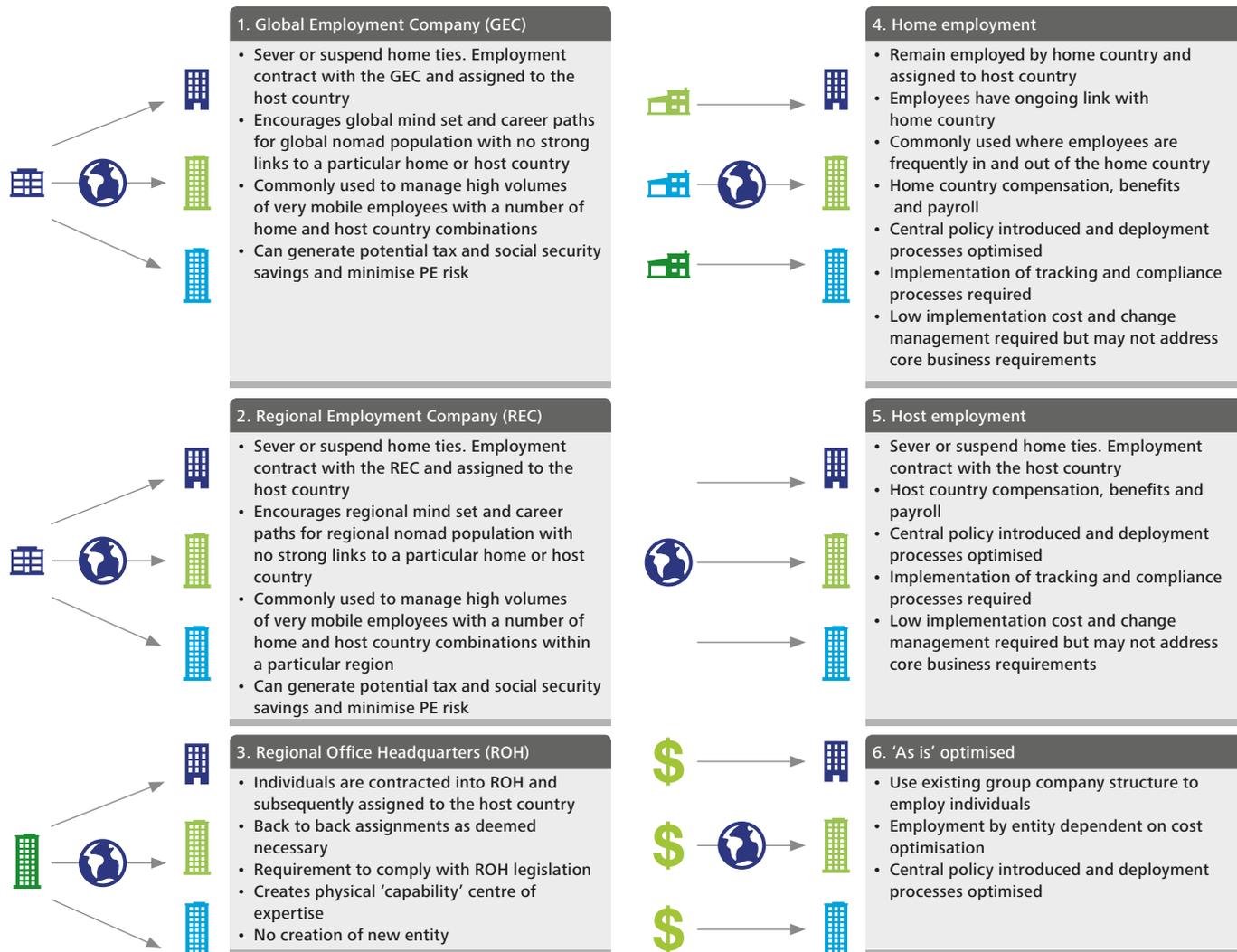
Can a GEC provide a more consistent, integrated view of how to evaluate personnel who are not aligned to a specific geography or business unit but will instead be in a global talent pool?

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?

# 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.

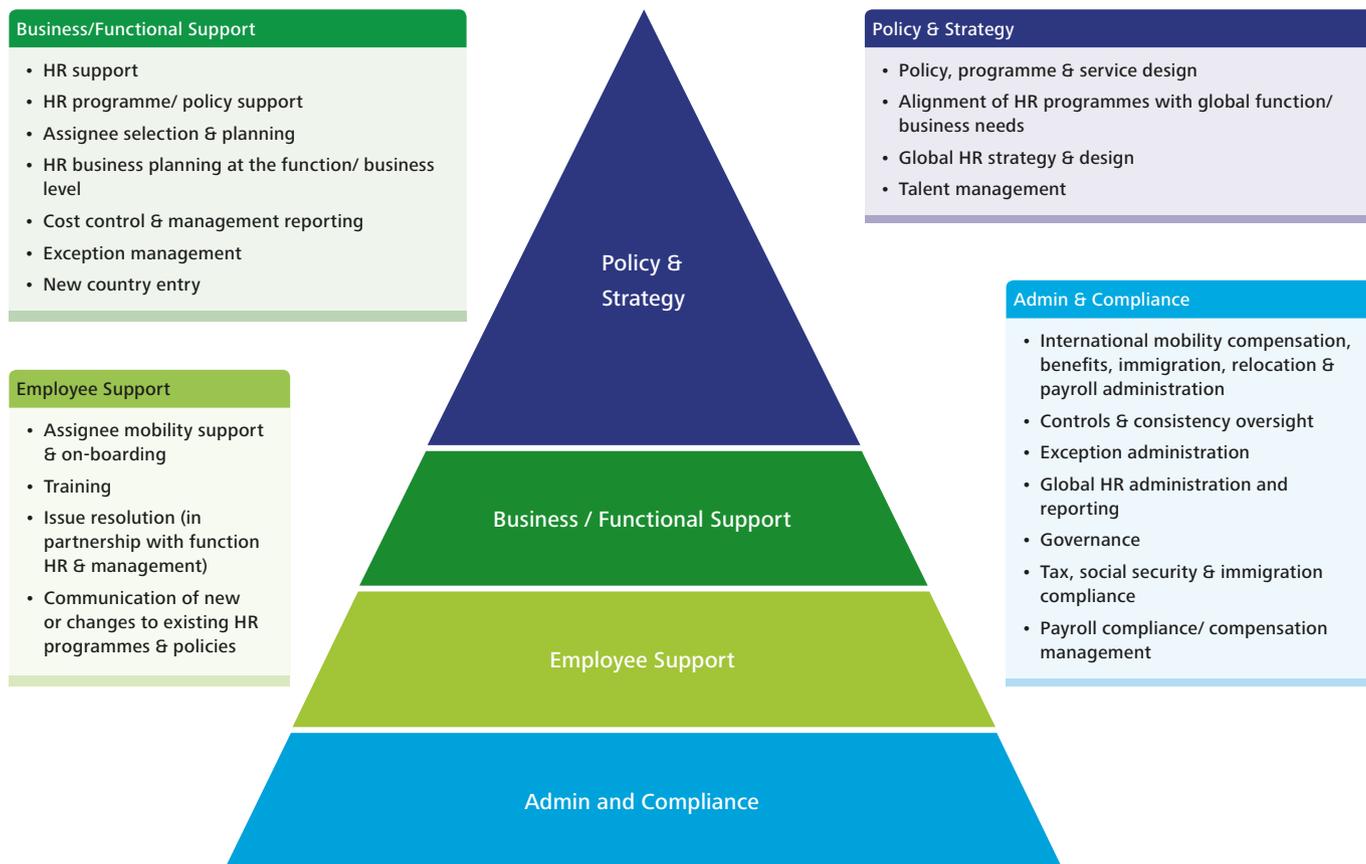


# Global Workforce Management

## 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?



# 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

Phases	1 Data Analysis and Mobility Impact Lab	2 Design Build new mobility model/ GEC and global payroll	3 Implementation	4 Ongoing Admin & health check
High level activities	<ul style="list-style-type: none"> <li>Review current operating model and mobile worker demographics</li> <li>Analyse and validate the key business drivers and needs of the new model</li> <li>Recommendation of optimisation opportunities or new model and plan for next phase for business sign off</li> </ul>	<ul style="list-style-type: none"> <li>Undertake due diligence and agree future model and supporting structure</li> <li>Prepare detailed model architecture including the identification of key workstreams, activities and resources</li> <li>Develop transition plan for implementation</li> </ul>	<ul style="list-style-type: none"> <li>Finalise transition plan</li> <li>Implementation of new model, per recommended and agreed workstreams</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing administration of the new model including the implementation and review of KPIs, SLAs and other performance related measures</li> </ul>
Deliverables	<ul style="list-style-type: none"> <li>Report outlining key drivers and priorities and recommended optimisation priorities or model for business review and sign off</li> </ul>	<ul style="list-style-type: none"> <li>New deployment model and GEC design blueprints; implementation project plan for business review and sign off</li> </ul>	<ul style="list-style-type: none"> <li>Various (to be documented in detailed project plan)</li> </ul>	<ul style="list-style-type: none"> <li>6 month health check and review of GEC administration to include the evaluation of performance related measures</li> </ul>

# 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 new model which stands up to current and future scrutiny on the international taxation of companies.

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.

### 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.



# 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

<p>Strategy</p> 	<p>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</p>
<p>Entity Structure, Tax, Social Security and Governance</p> 	<p>How has the GEC been set up? Consider factors such as the location, governance structure, the number of employees and their roles</p>
<p>Reward and Remuneration</p> 	<p>What is the reward structure of the GEC? Does this continue to align to business and talent objectives? Consider a global reward strategy</p>
<p>Payroll and Employment Tax</p> 	<p>Are there regular compliance checks? Consider these to address potential non compliance and mitigate financial and reputational risk</p>
<p>Programmes and Processes</p> 	<p>Have programmes and processes been kept up to date with changing assignee demographics? Consider the use of technology</p>

# Global Employment Companies

## Potential benefits and challenges

### Potential Benefits



Single standard employment agreement



Separates employees from assets



Facilitates internal equity amongst mobile employees



Simplifies global mobility administration



Enhances ability to implement change by centralising control



Provides internal controls to enhance employee and employer compliance



Creates a mobility P&L to facilitate proactive cost management



Manages alignment of talent with opportunities



Can be set up to make use of favourable tax and social security locations



Minimises permanent establishment exposure



Facilitates global reward structure

### Potential Challenges



Creation of a new legal entity



Requires a change in employer



Transfer of employees to new entity



Requires staffing of new entity



May require a change in compensation and benefit plans (e.g. retirement, healthcare, social security, etc.)



Resource intense implementation, as impact of change must be communicated to stakeholders



Operate mobility as a business



Revisit tax positions on intercompany payments



Will not resolve recruitment issues, e.g. where to find appropriate talent pool



Does not encourage assimilation with local markets, employees or company



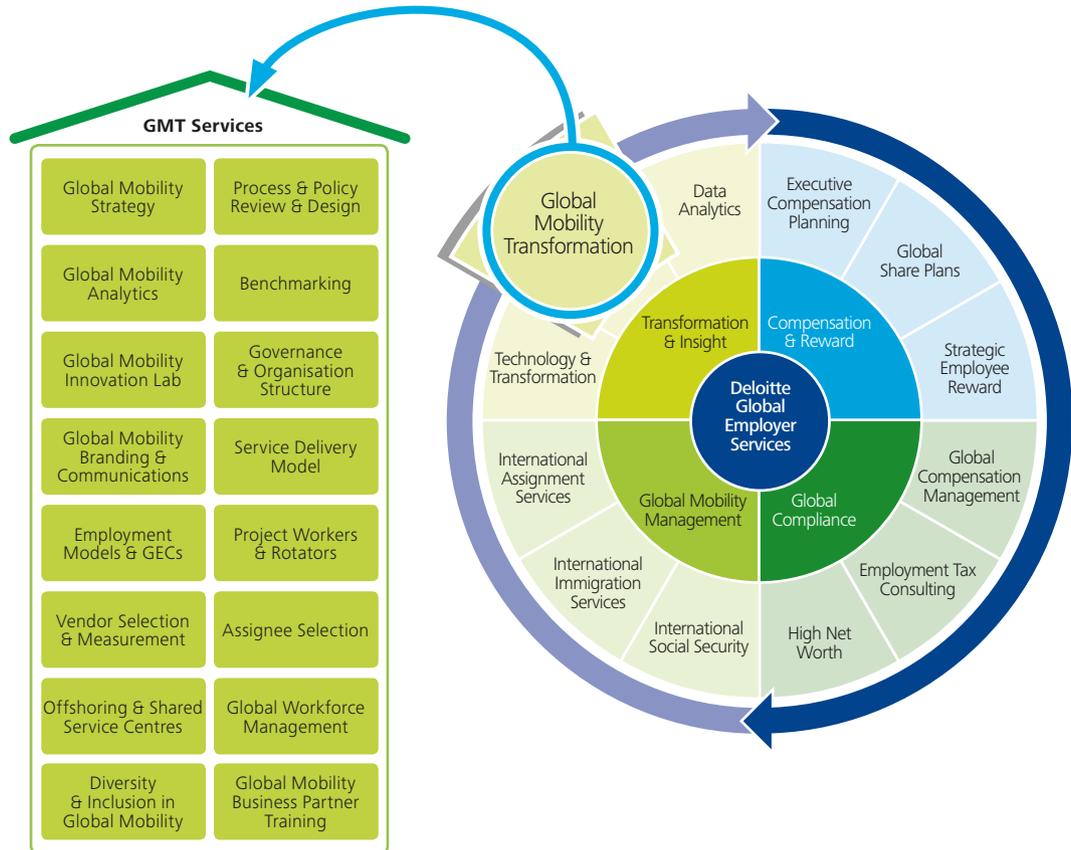
Can involve loss of home country social security benefits

# Our Global Mobility Transformation Practice

Our Global Mobility Transformation (GMT) practice, a market leading offering, was formally established over 10 years ago and has worked with over 500 organisations across the globe to assist them with their global mobility programme goals. We have partnered with each of these organisations to achieve a wide range of outcomes unique to that organisation's strategic and business objectives.

Our dedicated team of full time GMT professionals span the globe and come from a variety of global mobility and talent specific backgrounds from tax, technology, reward and HR consulting. The team consists of GMT consultants located across EMEA, America, and APAC regions. Our unique GMT approach offers not only industry and functional knowledge, but also wide ranging experience through our unrivalled track record in delivering GMT projects and providing market leading insights.

## What we do



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