Global employment companies
Time to re-think their strategic value?
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Introduction

Global employment companies (GECs) are once again becoming an operational alternative for companies to meet very different objectives. GECs are no longer being pursued mainly by the organization’s tax function – on the contrary, they are **experiencing a renaissance** due to the incredible broader value they can bestow. Consider that the new GEC can:

- serve as an employment vehicle option for a broader and more mobile workforce as well as for employees with global roles
- yield significant efficiencies and various other benefits as a centralized employment and/or administrative vehicle
- enable a greater ability to manage risk and compliance.

Why are these objectives so critical? Talent migration across borders is an important cornerstone for the operation and growth strategies of many multinationals. Strategies – like GECs – that can save time, money, and resources, standardize processes, while helping to minimize compliance risks, are rapidly being sought by organizations looking for creative ways to better support business goals.

This thought leadership explores some of the latest trends surrounding GECs by global organizations. It provides a high-level discussion of:

- what a GEC is and how it may be used
- why there is a growing necessity for creating a GEC
- some examples of why companies use GECs
- the strategic, longer-term drivers for utilizing a GEC
- the potential benefits and challenges of implementing a GEC, and
- getting started – how to determine if a GEC is a viable approach.
What is a global employment company (GEC)?

A GEC is typically a separate legal entity that provides employee services to other entities in return for a management or services fee. The GEC typically becomes the contractual employer for a specified population of globally mobile employees who may travel to and/or be seconded to other global entities within the organization. A GEC can be established in a jurisdiction with a wide tax treaty network, enabling a company to provide more cost efficient services. However, the format and location of the GEC will be driven by the company’s objectives.

A GEC can operate and function in a number of different ways: (1) the permanent legal employer for globally mobile employees and/or employees with global roles; (2) the payroll company that pays the globally mobile employees; (3) the temporary legal employer for globally assignees; and/or (4) the administration center for global assignments.

The legal employer generally refers to the entity which:
- Owns the overall employment relationship with the employee
- Retains the right to hire and fire
- Approves compensation decisions
- Drives long term benefits participation.

The legal employer may not be the same as the economic employer. The economic employer refers to the entity:
- which is responsible for the work of the employee;
- that provides day-to-day instruction to the employee;
- and that provides office space.
Is there an alternative to a GEC?

An alternative to a traditional GEC is a special purpose vehicle (SPV) that only performs administrative services relating to assignees with no intent to serve as their employer. Unlike a GEC, this type of SPV may or may not be a separate legal entity; it may, however, be an equally effective vehicle based on the organization’s objectives as well as the location that the SPV is set up in.

For example, this type of SPV may enable an organization to utilize separate terms and conditions and payrolls for a particular set of globally mobile employees where the objectives are focused on administrative ease and operational efficiency but not necessarily the requirements for using a full GEC (e.g., employment) approach.
Why do companies use GECs?

There are a variety of business drivers which lead companies to consider utilizing a GEC. Typically, organizations use GECs to:

- serve as an employment and pay vehicle for employees in global roles and/or where mobility is a job requirement
- serve as an employment and pay vehicle for employees hired from locations where the company does not have a legal entity
- align pay and benefits globally / regionally for key groups of employees
- serve as a shared service administrative center to manage globally mobile employees. This in turn enables centralized data that improves reporting and compliance and promotes consistency and ease of administration of mobile individuals.
- help manage corporate risk (e.g., permanent establishment, transfer pricing, payroll compliance, etc.)
- improve the speed of deployment of globally mobile staff
- facilitate income and social tax planning
According to PwC’s 2016 Survey of Global Mobility Policies and Practices…

- Companies believe the primary objective of their GEC is to:
  - serve as a ‘permanent’ employer to solve for hiring challenges (hiring talent in locations with no corporate presence)
  - align compensation and benefits approach for employees in global roles
  - solve payroll delivery and cross charge challenges.
- They also use GECs for alternative purposes such as a:
  - ‘temporary’ employer for traditional mobile populations
  - special purpose vehicle (i.e., GEC as an ‘administration center’ rather than a legal entity employer) for operational efficiency only.

### Typical current structure

<table>
<thead>
<tr>
<th>Subsidiary Company Process</th>
<th>Home location</th>
<th>Host location</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR support</td>
<td>Home location</td>
<td>Host location</td>
</tr>
<tr>
<td>Employment terms</td>
<td>Home location</td>
<td>Host location</td>
</tr>
<tr>
<td>Tax issues</td>
<td>Home location</td>
<td>Host location</td>
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<tr>
<td>Recharge arrangements</td>
<td>Home location</td>
<td>Host location</td>
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<tr>
<td>Payroll responsibilities</td>
<td>Home location</td>
<td>Host location</td>
</tr>
<tr>
<td>Administration budgeting</td>
<td>Home location</td>
<td>Host location</td>
</tr>
</tbody>
</table>

### Global employment company structure

- Captured global tax planning
- Central cost & budgeting
- Central recharge mechanism

- Central HR, Payroll & Accounting Hub
What current trends are driving the use of GECs?

**Rapid change in the global tax landscape**

In the past, GECs were sometimes driven by Corporate Tax function objectives focused on the reduction of permanent establishment (PE) risk and the potential for tax cost savings. Globally mobile employees frequently work and live in countries where a PE risk exists for their employing company. If these employees were instead employed through a GEC, at least permanent establishment risks could be reduced or centralized.

GECs were often established in tax haven locations to drive cost savings through corporate tax, personal tax and social security management strategies. In many cases, these strategies have led to challenges for companies, specifically in the area of social security. GEC employees found themselves not eligible for any actual social security benefits and companies looked to creative design features in international pension plans to close this gap, but with eroding cost savings.

Additionally, we are seeing a fundamental shift in the international tax environment as a result of the OECD’s Base Erosion and Profit Shifting (BEPS) project, that could make certain structures set up primarily to gain tax savings and with minimal substance no longer tenable.

**Expanding need for employee mobility around the world**

The nature and scale of employee mobility is changing. Current and future talent is coming from non-established locations. As a result, companies are now looking to use GEC structures for wider talent management purposes as well as to seek cost savings and efficiency gains.

The reason is that organizations may not have existing employment structures within their employee’s country of origin and so the existing ‘home based’ employment and assignment models may not work. Companies are being forced to push these employees into other employment vehicles and this may lead to inefficient processes, inconsistencies, and higher costs. A GEC can be used by companies to house employees in a common structure, using a common compensation and benefits model as well as common human resource technologies and process systems.

**Demands for greater talent management**

The war for talent has companies sourcing jobs from non-established locations. Companies expanding globally are requiring skilled workforces from both existing and
emerging markets. Employing individuals in a region which a company does not have a presence causes a variety of issues – GECs can help mitigate some of these challenges. Today’s HR teams are being asked to find new ways of attracting and sourcing talent to meet the needs of the business. For example, the business may need to:

• employ key groups of employees where the traditional point-to-point home based policy is not suitable for developing future global leaders

• implement global performance evaluation and mentoring system

• align compensation and benefits packages of key groups to the strategic business needs of the future

• employ global services teams to support customer needs with frequent travel.

Given these dynamics of today’s environment, GECs are often driven by these HR requirements and goals.

**Existing GECs: Where have companies typically located them?**

Activities performed by GECs are evolving to meet overall business and HR needs.

**Shifting business needs also affecting location and activities of GEC**

More recently, GECs tend to be established in locations where the organization already has a presence due to shifting business and HR drivers. According to PwC’s 2016 Managing Mobility in a Changing Landscape Survey, participants noted 16 different locations in which their GEC was located, with the most popular locations being the United States (currently favoured by US based organizations) the UK, UAE, and Singapore.
A well-designed and thoughtfully-located GEC with engaged stakeholders and a clear business purpose can be a very robust platform from which to achieve:

- Permanent and/or temporary employment alternatives for different types of globally mobile employees
- Improved speed of deployment of globally mobile employees
- Mobility service excellence to both business units and employees
- Cost management/transparency with respect to corporate tax, VAT, personal tax and social security
- Lower compliance risks – both at a corporate tax and employee tax level
- Consistent pay and benefits for certain groups of mobile employees
- Enhanced visibility over particular mobile employee populations
- Robust global mobility policy management and global consistency.

Potential challenges of a GEC need to be considered for any future state solution including: lack of clarity as to business purpose and creating substance; location selection and ‘offshore’ concerns; sustainability; migrating and/or replicating compensation and benefit plans and employee acceptance.
The benefits and challenges of different GEC models can include the following:

<table>
<thead>
<tr>
<th>Overview</th>
<th>Transfer to GEC</th>
<th>Second to GEC</th>
<th>Hybrid (transfer and second to GEC)</th>
<th>Other special purpose vehicle (SPV)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overview</strong></td>
<td>GEC is a separate legal entity</td>
<td>GEC is a separate legal entity</td>
<td>GEC is a separate legal entity</td>
<td>SPV may or may not be a separate legal entity (administrative cost center)</td>
</tr>
<tr>
<td></td>
<td>GEC is employer for legal and tax purposes</td>
<td>Home country entity is generally viewed as the legal employer, although GEC</td>
<td>GEC is generally viewed as the legal employer as well as the ‘economic’ employer for tax</td>
<td>Home country entity is the legal employer</td>
</tr>
<tr>
<td></td>
<td>Transfers can be used for all long-term assignees</td>
<td>is viewed as ‘economic’ employer for tax purposes</td>
<td>GEC can employ some long-term assignees as well as new hires from locations where no</td>
<td>SPV can provide administrative services for all assignees</td>
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<td></td>
<td></td>
<td></td>
<td>Company entity</td>
<td></td>
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<tr>
<td><strong>Benefits</strong></td>
<td></td>
<td>Secondments can be used for all / some long term assignees</td>
<td>Multiple compensation approach for various types of assignees</td>
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<td></td>
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<td>Maintain home country employment relationship (and compensation and benefits structure) for</td>
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<td></td>
<td></td>
<td></td>
<td>some assignees</td>
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<td>Can help manage PE exposure</td>
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<td></td>
<td>One location for charge-out purposes</td>
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<tr>
<td><strong>Challenges</strong></td>
<td>Terminate home country employment relationship</td>
<td>Not an ‘employer’ solution for new hires where no Company entity</td>
<td>Terminate home country employment relationship for some assignees</td>
<td>Administration and payroll delivery</td>
</tr>
<tr>
<td></td>
<td>Replicate/migrate compensation and benefit plans</td>
<td>Some tax authorities may not respect the secondment for tax purposes (PE risk for</td>
<td>Replicate/migrate compensation and benefit plans</td>
<td>PE risk (same as home country secondment)</td>
</tr>
<tr>
<td></td>
<td>Potential currency fluctuation concerns</td>
<td>home country)</td>
<td>Potential currency fluctuation concerns</td>
<td>Not an ‘employer’ solution for new hires where no Company entity</td>
</tr>
<tr>
<td></td>
<td>Re-entry to home location may be difficult (compensation and benefits)</td>
<td></td>
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More organizations exploring the role of a GEC

PwC’s 2016 Survey of Global Mobility Policies and Practice found that about 13% of companies (cross-industry) currently utilize a GEC. Here is a rough break-out by industry:

- 25% of companies in the Energy and E&C sector
- 21% of companies in the Fortune 100 (cross-industry)
- 16% of companies with Diversified Businesses (cross-industry).

A rising trend is for organizations to explore the potential benefits of a GEC as they relate to supporting mobile workforces. Under another PwC 2016 Survey (Managing Mobility in a Changing Landscape) various organizations are now considering the implementation of a GEC. The survey included businesses in 26 countries, representing over 25 industries. Of the 224 responses, at least 15 organizations are currently considering the implementation of a GEC.
Getting started: How can a GEC help facilitate strategic goals?

The ability of an organization to recruit, employ, and deploy new talent for global business operations is an overarching, key success factor to maintain and grow the talent pool and the business. Implementing a GEC can be a critical part of a long-term talent and mobility strategy – one that provides an efficient and broader platform for an organization to provide services to the wider business than in the past.

Success begins with a clear, consistent understanding of the organizational drivers for a GEC. This includes a thorough analysis of how a GEC would facilitate the overall strategic vision of the business. Is there a key project site that requires rapid deployment of talent? Is the company planning for future expansion projects that would require movement of talent to a certain area? Is the company wanting a more globally aligned performance evaluation system, rewards strategy, and pay/benefits structure for key talent?

Once these drivers are understood, a collective determination as to the viability of a GEC as a solution must be made. As part of this process, companies may want to consider:

- a feasibility study as well as a comparative analysis of all potential methods to ensure the required functionality
- a location analysis for the GEC
- proper due diligence in host jurisdictions (e.g., employment law, immigration, tax, and social security)
- obtaining buy-in and collaboration from various internal stakeholders (e.g., other corporate functions such as the Tax and Legal functions)
- clearly defining roles and responsibilities across functions
- an analysis of how mobility and other processes will operate while implementation of the GEC occurs
- an upfront plan for annual health checks after implementation to ensure that the GEC continues to fit the business’ purposes.
Leading-edge mobility professionals are seeking creative ways to better support the business. Integrating a GEC should be considered if there is the potential for efficiency gains and other benefits particularly where an organization is managing rapid change in the near term. GECs can also pave the way for longer-term strategic value – such as increased capacity for larger mobile workforces in the future – that will benefit the organization for years, even decades, to come.
Let’s talk

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