Beyond borders: Understanding GECs and EORs

In the complex landscape of global employment, organizations often face critical decisions regarding the deployment and management of their workforce overseas. Two prominent models, the Global Employment Company (GEC) and the Employer of Record (EOR), offer distinct approaches to address the challenges of international assignments. This article aims to outline the key differences between GECs and EORs, shedding light on their unique characteristics, uses, and considerations.

Key aspects of GECs and EORs

One of the key differences between a GEC and an EOR is that the GEC is not a third-party service provider, but a wholly owned entity. In some cases, a GEC can be a branch of an existing subsidiary, rather than being a separate legal entity. The GEC is the legal employer of the assignees and manages many of the activities related to their HR Administration. A GEC provides full control and visibility of the Mobility programs, leading to improvements in cost management, compliance, deployment timelines and assignee experience. Today, some of the world's leading organizations use a GEC model to manage their international assignments.

Typically, a GEC would be used to host employees who are expected to be internationally mobile and/or senior executives. More recently, GECs are being used to support some "virtual" assignees.

By contrast, an EOR is a third-party service provider, who takes on the full employment of the staff on behalf of its clients. EORs are generally used when an organization needs to deploy its staff to a location where it doesn't have a local subsidiary. In such cases, the organization uses a third-party provider to act as the local legal employer for that employee.

Usually, the EOR provider is responsible for payroll, statutory tax, social security, and compliance with all statutory employment requirements of the local legislation in each location, as well as being responsible for employer insurances, sick leave, and more. Usually, the EOR provider will try to align the employment contract to the client's requirements, while ensuring compliance with local laws. The EOR provider can also give guidance and advice, to ensure adherence to local market practices.

The EOR arrangement has implications for some standard HR processes, such as performance reviews, salary increments, disciplinary procedures, terminations, etc., since the individual is legally employed by a third party. In this respect, it is often difficult to extend Long-Term Incentive Plans such as stock options or private retirement schemes, to employees who are legally employed by an EOR provider.

Some considerations regarding EORs:

When using EORs, it is advisable to look carefully into a number of considerations regarding the concept of "Economic Employer", in other words, who is the "de facto" employer? There are a few factors that could potentially trigger a "contract requalification" and, consequently, also potential corporate tax exposure (Permanent Establishment).

The cost of having employees on an EOR arrangement needs to be evaluated against the cost of setting-up a wholly owned entity in that location or, alternatively, the possibility of registering the overseas company as a foreign employer. This means that the EOR model becomes harder to justify as the number of employees in that location exceeds a certain threshold, or in cases the EOR model makes it difficult for some employees to fully represent their parent organization, for example signing contracts that are legally binding in that location, on behalf of their parent company.

GECs and EORs are not mutually exclusive.

It is important to emphasize that GECs and EORs are not mutually exclusive, but can co-exist within the same organization. In fact, if an organization already has a GEC in place to manage and monitor assignees deployed overseas, it is strongly advisable to have this GEC as the entity that holds the contract with the EOR service provider. Such an arrangement ensures that the GEC has full visibility of all employees working overseas, regardless of whether they are deployed to overseas subsidiaries or to locations where there are no subsidiaries, i.e. where an EOR is the local employer.

A possible third option

It should be mentioned that in many countries it is possible to register an overseas entity as a "foreign employer" with the local authorities. Such an arrangement involves longer timelines but, where possible, it allows the organization to retain a direct employment relationship with the employee, which allows the employee to continue participation in all the applicable compensation and benefit plans of the parent company.

In conclusion

Both GECs and EORs are useful options to deploy employees overseas, under different circumstances. GECs are mostly suited as employing entities for employees who are physically working in countries where the organization has a legal presence, and in many cases a GECs can also be registered as a "foreign employer" in locations where there is no legal entity. EORs offer a quick and convenient solution for deploying employees to countries where the client's company is not legally established, and their suitability should be evaluated against the costs and limitations implicit in their model. By strategically leveraging both models, organizations can tailor their approach to meet the unique requirements and complexities of their global workforce, ensuring efficient and confident management of international assignments.

GEC or EOR? Do you want to know what's the best solution for your organization? Please do not hesitate to contact ITX.