In focus: Global Employment Companies vs. Shared Service Centres: A Comparative Advantage

Considering the potential costs and risks associated with cross-border deployments, organizations cannot afford to have a dysfunctional Global Mobility framework. Policies and processes must be carefully designed, accurately executed, and constantly aligned to the organization's strategies and priorities. At the same time, it is often not feasible to have the appropriate level of Mobility resources and experience in every location that either sends or receives an international assignee.

A common solution

To achieve better efficiency, many organizations chose to centralize at least part of these processes and infrastructure into Shared Service Centers, which typically focus on transactional tasks, coupled with Centers of Expertise (COEs), namely Global Mobility teams, who deliver advice to the assignees and Business Units, and primarily focus on the design, governance, strategic alignment and continuous improvement of the mobility programs. This centralization reduces the duplication of efforts and resources, delivers consistent standards of support and advice to the entire organization, helps to rationalize the investment in infrastructure, such as real estate and technology tools and, in the case of Shared Services, it often delivers savings by relocating processes to cost effective locations. In essence, the Shared Service Center aims to absorb as much as possible of the administrative burden, to release bandwidth in the Mobility team, allowing them to focus on more strategic and value-added tasks.

Some limitations of the typical model

The Shared Services + COE model above usually manages to deliver most of the objectives described above. Nevertheless, it is important to understand the limitations of such an arrangement and explore how it compares with the Global Employment Company (GEC) approach.

Much of the complexity of Global Mobility is linked to the potentially huge number of permutations of "home and host" countries, each presenting a unique set of challenges. For example, In an organization operating in 10 countries there are 90 possible permutations, while in an organization operating in 20 countries, the number of possible permutations goes up to 380. Fortunately, most organizations tend to have fewer home-host permutations, but the fact remains that complexities can escalate very quickly indeed.

Unless they are fully localized, assignees are typically employed by a "home country" and deployed to a "host country" using the applicable mobility policy. There are several challenges with this type of arrangement:

(a) Each group of employees is employed by a different country, hence on different pre-assignment terms and conditions.

(b) If the policies and processes require employees to be paid through the home country's payroll, it becomes harder to build a holistic picture of how much the organization is spending on Global Mobility programs. Each location will have part of the total information, which would need to be consolidated in a separate process step.

(c) Accounting and internal re-billing of costs can be potentially very complex, as each country may need to invoice multiple countries, and also deal with incoming internal invoices.

(d) Depending on the combination of home and host countries, the employee may or may not be able to benefit from Social Security Totalization Agreements, allowing the employee to continue the contribution in his/her home country during the assignment.

(e) Each of the "home" legal entities could potentially trigger a Corporate Tax liability in each host location where the employee is deployed (a tax construct known as Permanent Establishment, or PE). This will depend on a variety of factors, and not every assignment will trigger a PE risk. Nevertheless, the sheer number of possible home-host permutations increases the potential PE exposure and makes the monitoring and mitigation of such risk extremely complex.

(f) Despite the existence of a Shared Service Center and a Mobility COE, inevitably the HR teams in each home and host country would need to be involved in the process to some degree. However, not every location will have the right level of experience to manage the process efficiently. Typically, quite a lot of coordination and guidance may be required.

(g) Information and data would need to be exchanged between home country, host country, COE, and Shared Services team, with a great likelihood of data duplication, unless the information exchange is supported by technology tools that are consistently and accurately used by all stakeholders in the process.

(h) Due to the number of stakeholders involved in the process (Home HR, Host HR, COE, Shared Services), the processes will be "fragmented", meaning that each team will be responsible for part of the process. This is one of the most common frustrations experienced by assignees and managers, who need to interact with multiple teams as they navigate the process from start to finish.

(i) The model is generally less agile, due to the greater need for coordination. Therefore, it is typically harder for the COE to ensure governance and consistency, or to introduce changes in policies, processes, forms, templates or technology tools. The lag-time between strategy and execution becomes longer, due to the need for communication and implementation across multiple locations.

(j) Since it is harder to achieve a holistic view of all aspects of the Mobility programs and receive accurate and timely information, it is usually more challenging the COE to make decisions and recommendations on how to continuously improve the mobility programs.

In addition to the above considerations, it is also worth considering that the COE + Shared Services model also requires coordination between these two. Usually, Shared Service Centers and COEs are not co-located, hence a lot of communication is required. In many organizations, the COE itself is geographically distributed, often with regional hubs. This decentralization creates further "process fragmentation" and requires additional communication, coordination and, ideally, technology enablement. The geographic and structural separation between COE and Shared Services could result in delays in keeping the two aligned. In practice, this means that the COE may not have full, immediate and direct visibility of how the Shared Services team is performing, and it may take some time before the COE team realizes that something can be improved.

The advantages of the GEC model

GECs are very versatile structures, which can be used in a variety of ways, provided that all the compliance requirements are observed. In principle, GECs can be used to support all long-term international assignments, including "global nomads", i.e. assignees who spend a considerable part of their career away from their home country, and/or to act as the employing entity for employees hired on fixed-term contracts for specific overseas projects. Some organizations also host their top executives in a GEC, for confidentiality reasons and, in specific cases, GECs could also be used to support some Remote Employees, including in locations where the organization has no legal entity.

In terms of internal procedures, the GEC typically bears the cost of the assignees and re-charges this cost to the appropriate Cost Center in the host location, plus a Management Fee based on an internal Service Agreement.

Under a GEC model, the number of home-host permutations is significantly reduced, since all assignees are deployed from the same legal entity, which makes it easier to monitor and mitigate the costs and the risks, especially since the GEC is often a centralized function, integrating the COE and the Shared Services.

In fact, since the GEC is both the employing entity and the home country, as well as the COE and the point of coordination of administrative processes, it will enjoy much better governance, control and holistic visibility of every aspect of the Global Mobility programs, leading to better analysis and decision-making. From an operational standpoint, policies and processes are interpreted and implemented consistently and correctly, with less involvement from individual home locations.

Furthermore, consolidation of all the assignee headcount in a single entity makes it easier to introduce a single international payroll. This, in turn, makes it easier to build a global picture of the overall mobility spend, and it greatly streamlines the internal re-billing of the costs to the relevant cost centers. Management reports become more accurate and easier to produce, especially if an adequate technology tool is in place, integrating payroll, expenses management and invoicing. The aggregation of the headcount into a single entity also creates economies of scale and critical mass which is useful when designing and negotiating some benefit plans, such as International Retirement Plans or Global Medical Plans.

Depending on its design, the GEC can also provide better harmonization of terms and conditions between assignees of different nationalities, especially those who are in highly mobile roles. In addition, if the GEC is established in specific countries, it may be possible for GEC assignees to leverage existing bilateral Social Security agreements under certain conditions.

The key differences between a Shared Service Centre and a GEC

	Shared Services	GEC
Is a legal entity or a branch employing the assignees	No	Yes
Facilitates the payroll, expenses management and internal re-billing from a single entity	No	Yes
Can aggregate headcount into a single entity, creating critical mass and potential volume discounts on benefits	No	Yes
Helps to reduce the number of home-host permutations	No	Yes
Simplifies the monitoring and mitigation of Permanent Establishment risk	No	Yes
Can be established in a location that benefits the assignees and/or the business in terms of Employment Law, Social Security agreements, etc.	No	Yes
Could potentially act as the employing entity for fixed-term contract employees and/or some Remote Employees	No	Yes
Provides centralization of administrative processes and technology infrastructure	Yes	Yes
Can act as the COE for Global Mobility	Maybe	Yes

Global Employment Companies vs. Shared Service Centres: A Comparative Advantage

As we ponder on the key differences between a Shared Service Center and a GEC, it is worth pointing out that it is often difficult to convert a Shared Service Center into a GEC. This is because the location of the GEC needs to be very carefully selected, and many Shared Service Centers are unlikely to be in locations suitable for GECs. In addition, the skills and competencies typically found in Shared Services are only a subset of what a GEC would need.

Nevertheless, Shared Services and GECs are not mutually exclusive, and it is perfectly possible to have both within the same organization. In such cases it is important to ensure that the processes do not become unnecessarily fragmented and that the assignees and managers have a clear Case Manager for each assignment.

In summary, Global Employment Companies have the potential to deliver outstanding benefits to most organizations that hire and deploy employees across borders, beyond what is normally achieved through the combination of Shared Services and COEs. Organizations that have a Global Employment Company typically enjoy a greater simplification of their Mobility programs. Managers and assignees have a clear point of coordination and accountability for the entire end-to-end process. The GEC has full visibility of every aspect of the Mobility Program, as well as each individual case. Ultimately, managers receive better support, faster deployment timelines, better governance and compliance, enhanced risk mitigation, and more effective cost management.

That said, before establishing a GEC, it is critically important to perform a detailed Feasibility Study in order to define the company-specific objectives, anticipate the potential benefits of such an initiative, and build a solid business case for internal discussion.

If you have GEC and wish to explore the potential advantages of alternative locations, feel free to reach out to an ITX consultant for a free consultation.