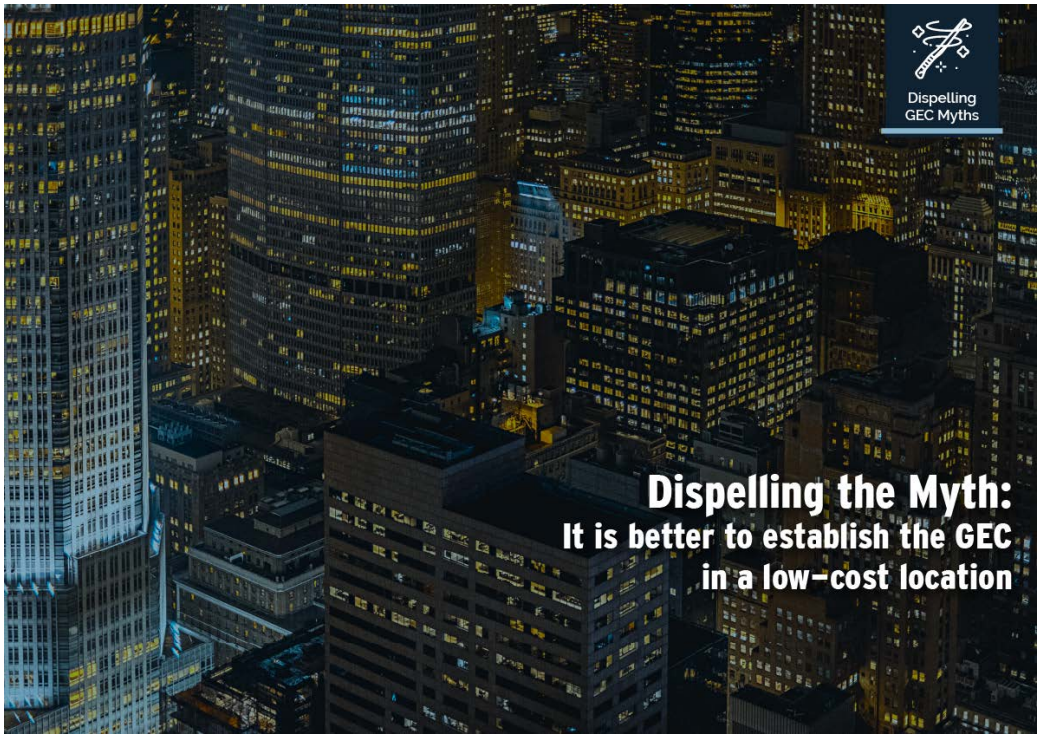
Dispelling the Myth: Establishing GECs in low-cost locations



It is a common misconception that, ideally, Global Employment Companies (GEC) should be set up in a low-cost location. While cost is always an important consideration, in this article we reiterate the essential factors beyond cost that determine an optimal GEC location.

This misconception is often drawn from the model of Shared Service Centers (SSCs), which have flourished in low-cost regions due to potential labor cost savings and streamlined operations. However, unlike SSCs, GECs must navigate complex international requirements, making low-cost labor a minor factor in the location decision.

The role of a GEC is inherently different from that of an SSC, which consolidates specific business processes, often with high headcount and relatively simple operations. The appeal of locating SSCs in low-cost regions stems from the economies of scale and operational efficiencies that arise in countries with lower wage structures and robust talent pools. However, a GEC is not a simple cost center; it is a global employment entity with a mandate to contract, deploy, and manage a multinational workforce across various legal and regulatory landscapes. Consequently, the choice of location for a GEC extends beyond just labor cost considerations and must be compatible with the company's strategic and operational needs on a global scale.

The location of a GEC, therefore, has immediate implications for employment contract enforceability, applicable labor laws, and regulatory compliance. In low-cost regions, employment laws may be more rigid or may lack the flexibility to accommodate international employment structures effectively. By contrast, countries like Switzerland, Singapore, and a few others, are better equipped to handle these complexities. These jurisdictions typically offer robust but flexible and efficient legal frameworks that provide flexibility for GEC operations and support the management of international employment contracts.

Taxation and social security agreements are among the most intricate considerations for GECs. Choosing a location with a transparent tax system, favorable international tax treaties and Social Security totalization agreements is of critical importance for both the GEC and its globally mobile employees. Low-cost jurisdictions often have onerous Employment Law obligations when hiring foreign employees, as well as during the employment, and at the end of the GEC contract. Many of these low-cost jurisdictions often also have less extensive Social Security agreement networks to address the concerns of both the employee and the employer.

It is also worth mentioning that some lower-cost locations, despite their economic advantages, may raise concerns or hesitations for internationally

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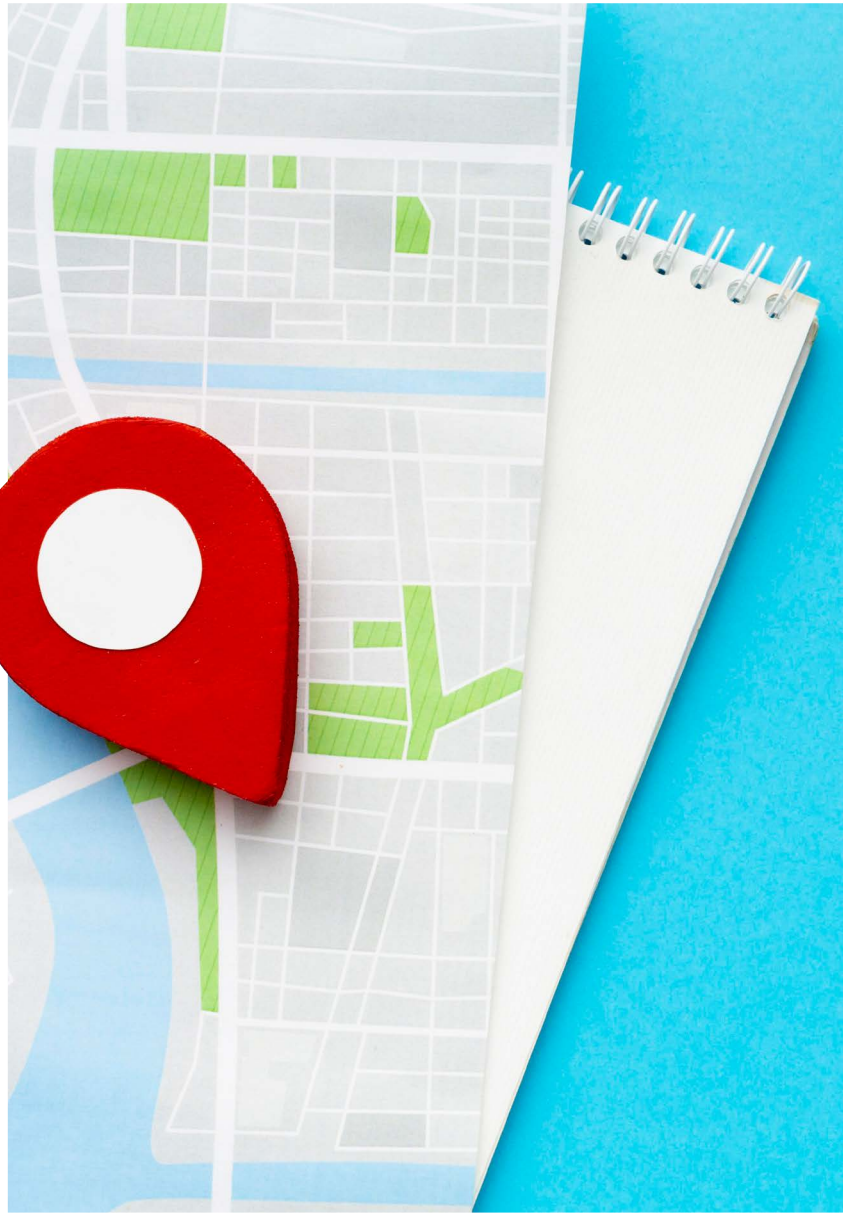

mobile employees when presented with an employment contract based in that country. Factors such as regulatory stability, social security structures, and healthcare systems can vary widely, potentially creating uncertainty for assignees accustomed to other systems. Establishing a GEC in a location known for robust legal protections and transparent regulatory practices can alleviate these concerns, providing employees with a greater sense of security and predictability.

In conclusion, when viewed from a holistic perspective, the selection of a GEC location is a complex decision influenced by legal, regulatory, tax, and immigration factors — with labor cost playing an important, but not priority role. The goal of a GEC is to support the business by facilitating international mobility, ensuring compliance across multiple jurisdictions, and providing a seamless employment experience for globally mobile employees. Choosing a location based solely on labor cost can lead to reduced talent attraction, operational inefficiencies, legal complications, and added expenses resulting from more burdensome employer obligations. By prioritizing a location that aligns with the full spectrum of GEC requirements, companies can ensure their global employment entity serves as a robust platform for international growth and employee mobility.

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.