The Hidden Cost of Localisation

The appealing illusion of simplicity

Local and local-plus employment contracts have become an increasingly common response to the perceived complexity and cost of traditional expatriate assignments. The logic is straightforward: by employing internationally mobile staff on terms broadly equivalent to local market conditions, organisations appear to reduce both the financial burden of the assignment and the administrative overhead associated with maintaining a distinct expatriate employment framework.

On paper, the savings can look compelling. In practice, the picture is considerably more complicated, and the consequences of getting it wrong can be significant, both for the organisation and for the individuals concerned. What local and local-plus arrangements frequently achieve is not a reduction in cost or risk, but simply a deferral of it. The liabilities accumulate quietly, often out of sight, until they are eventually crystallised in ways that are difficult and expensive to resolve.

Fragmented Benefits: The Employee's Perspective

Consider the situation facing an employee who has spent a decade or more moving between international postings on successive local contracts. At each transition, their employment has effectively restarted. Pension accruals, if these has been maintained at all, are likely to be fragmented across multiple schemes in multiple jurisdictions, with varying vesting rules, different currencies, and no coherent thread connecting one posting to the next. The cumulative retirement provision that a long and distinguished international career might reasonably be expected to generate has, instead, been parcelled into disconnected tranches, many of which may be practically inaccessible or difficult to consolidate.

Medical insurance presents a related but distinct challenge. When an employee is enrolled in a host-country medical plan as part of a local employment arrangement, they are usually subject to that plan's underwriting terms. Should they develop a medical condition during that posting, however minor, they carry that history with them. When they move to their next local contract and are enrolled in a new plan in a new country, that condition may well be classified as being "pre-existing" by the incoming insurer, potentially excluding it from cover at precisely the moment when continuity of treatment matters most. The employee, who may have served the organisation loyally across multiple postings, finds his/her medical protection has a gap at its centre that no one anticipated when the local contracts were arranged.

Social security entitlements compound the problem further. Unemployment insurance, invalidity cover, and state pension rights are all typically accrued on the basis of contributions made within a specific jurisdiction over a qualifying period. An employee whose working life has been distributed across a series of local contracts in different countries may find that they meet the contribution threshold in very few, or maybe none of them, and are therefore not entitled to meaningful protection, despite having worked continuously and contributed diligently throughout their career.

The Split-Payroll Problem

A further complication arises in organisations that employ internationally mobile staff on local contracts but continue to pay a portion of their remuneration through a home country or international payroll, a practice commonly referred to as “split-payroll”. The intention is usually to preserve some element of home-country benefit continuity, or to manage currency exposure. Too often, however, this practice creates reporting and compliance problems that grows more complex over time.

When compensation is divided across two payrolls in two jurisdictions, the question of how that compensation is reported for the purpose of income tax and social security becomes difficult to manage consistently. In many cases, organisations operating split-payroll arrangements under local contracts discover, often during an audit or a senior employee’s departure, that the reporting obligations in one or both jurisdictions have not been met correctly. The liabilities that follow, such as back taxes, interest, penalties, and the cost of remediation, could potentially far outweigh any benefit the arrangement was originally intended to generate.

More fundamentally, the split-payroll model under a local contract creates a lack of visibility that is contrary to the key principles of good governance. It is difficult to see clearly, difficult to manage consistently, and difficult to defend under scrutiny.

The GEC as the Coherent Alternative

The Global Employment Company model addresses each of these issues directly. By employing internationally mobile staff within a single, centralised employment entity, the GEC maintains an unbroken employment relationship throughout the individual’s international career. Pension accrual is continuous and coherent. Medical insurance is provided through a single international plan that travels with the employee, eliminating the pre-existing condition risk that arises from repeated re-enrolment in host-country schemes. Social security exposure is managed deliberately and consistently, rather than being left to accumulate haphazardly across jurisdictions.

Critically, the GEC also resolves the split-payroll governance problem. Compensation is structured, reported, and administered through a single employment entity with clear visibility over the employee’s total remuneration. Tax and social security reporting obligations are understood, managed, and met, not left to drift between two payrolls in two countries with imperfect coordination between them.

For organisational decision-makers, the GEC represents not merely an administrative preference but a governance imperative. The risks associated with localisation are real, they accumulate over time, and they are often not visible until they become expensive to address. The GEC makes them both visible and manageable from the outset.

If you wish to discuss how a GEC could potentially benefit your organization,please feel free to reach out to an ITX consultant for a free consultation.