

Proservartner Thinking: How do we globalise our Payroll function?

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We live in an age of globalisations with organisations increasingly reviewing their global options for shared services and outsourcing. This whitepaper will focus on the globalisation of Payroll and recommend a solution that clients seeking globalisation should follow.

Payroll is the underestimated function that sits between HR and Finance. In organisations that operate in numerous¹ countries, the Payroll function can look very different from country to country, and certainly when comparing that function to the same function in other organisations. It is common for the following questions to exist when reviewing the globalisation of payroll.

- Should Payroll be part of the global HR function or the global Finance function, and should this be consistent for each country?
- Should we operate a globally centralised payroll process or a largely decentralised model? Or go for “hub and spoke”?
- How do we ensure we mitigate against the legal risks?
- Is Payroll a sub function that we should consider outsourcing?

¹ Numerous in this paper is defined by operating in more than 30 countries

PAYROLL TO BE IN HR OR FINANCE

It is staggering to consider the number of companies that are unable to clearly articulate the exact number of people that actually work in the company at any point in time. This fundamental puzzle is largely because of the fact that the HR systems, do not always completely integrate with the Finance systems.

Many argue that the best way to answer this question is to understand how many individuals the organisation is paying, as the true number of people that work at the company is likely to be closest to the individuals receiving financial income from the company. Although this may get us closest to the answer, it still is not an exact science.

For a Payroll function to be optimised, the cash disbursement and the controls around the disbursement should be (and usually are) owned by Finance, and a clear handover between the HR function and the Finance function should exist for additions, amendments and removals (working with a 3rd Party provider if necessary).

HR activities should include dealing with employees, understanding issues, additions and amendments and updating payroll information as required (working with a 3rd Party provider if necessary).

We would recommend that so long as the Payroll activities are controlled in the appropriate manner by Finance and HR, it is less important where the reporting line lies.

However, whether Payroll will be owned by HR or Finance does need to be consistent within an organisation and across countries. Therefore each organisation needs to make a decision about where the global Payroll function should sit and ensure that this is consistent across geographies. This will enable like for like comparison of people, process and performance data and facilitate the movement to standardisation and globalisation of the function.

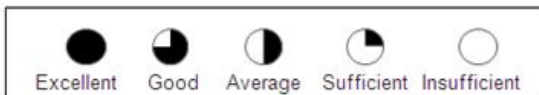
GLOBALLY CENTRALISED, LARGELY DECENTRALISED OR “HUB AND SPOKE”?

When entering into large scale Finance and / or HR transformation programmes, Payroll is often an after-thought for executives. However, this can be a complex area for which the effort in structuring and the benefits in getting “the right” structure can be significant.

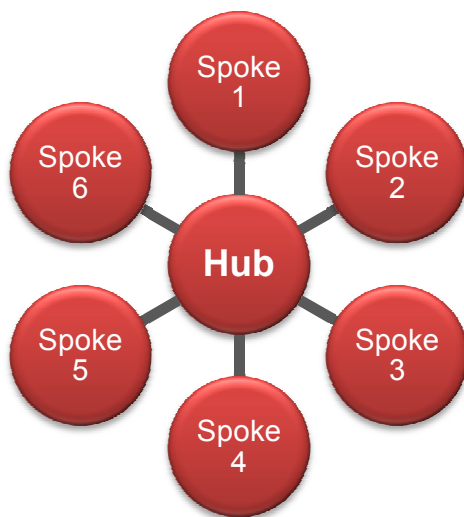
The considerations for global organisations with regards to centralisation v decentralisation can be summarised into people, process, and technology:

- **PEOPLE PERSPECTIVE:** A number of countries will each have less than a handful of staff handling the payroll processing, and given the statutory and organisational risk in any changes to the payroll sub function, it is always a temptation to leave things as they are! Whilst for larger countries with sizeable payroll functions, it may be cost effective to migrate to a low cost location, for smaller countries this may not be economical.
- **PROCESS PERSPECTIVE:** Each country will have the same outcome for Payroll, as each aims to achieve the delivery of payslips and payments to the employees in the company. However, there will be a number of different ways to achieve this outcome due to the legal and statutory requirements, as well as due to the evolution of the function in Payroll. When looking to globalise Payroll, the local requirements and the language dependencies need to be balanced with the benefit of centralisation.
- **TECHNOLOGY:** Global organisations have a huge number of payroll systems that support the process. This can be due to inconsistencies with utilising a standard internal payroll solution, local decisions made without considering the global organisation, or because of a host of different outsourced solutions are utilised across countries. Either way, the decision on centralising or otherwise has tremendous technology implications. The most important decision lies on which payroll application to select: one multi currency system or a number of systems customised for local requirements. The initial technology landscape, and the journey towards the future model is an essential consideration and can impact significantly on the timeframes of globalisation.

CRITERIA	DECENTRALISED	CENTRALISED	HUB AND SPOKE
COST REDUCTION	●	●	●
STANDARDISATION	●	●	●
ECONOMIES OF SCALE	●	●	●
FLEXIBILITY	●	●	●
RISK	●	○	●
LANGUAGE	●	●	●
OVERALL	●	●	●



Given the need to reduce costs for organisations combined with the disparate state of many payroll functions, and the legal and statutory requirements for payroll we would recommend a hub and spoke model be introduced to enable the globalisation of the payroll function rather than a complete centralised or decentralised model.



The hub centralises payroll activity as much as possible across countries. Typical processes that are centralised in the hub include: streamlining payroll data into employee files, company gross and net payroll files, data warehouse files and reports; and electronic funds distribution.

The local spokes then manage the policy decisions, and the complicated customised country requirements usually related to statutory needs. The model allows for cost savings to be

achieved through consolidated the transactional, repeatable and measurable activities whilst managing the local requirements.

When setting up the “hub and spoke” model six key factors must be reviewed:

1. **OBJECTIVE:** When considering the objective of globalising payroll many organisations consider standardisation, automation and optimisation but the primary driver more often than not is cost reduction whilst managing local risks. It is important to have the objective set out prior to designing the solution.
2. **STAKEHOLDER MANAGEMENT AND COMMUNICATION:** It is important to manage the employee and stakeholder perception of the globalisation of Payroll. In particular, illustrate that the data protection requirements have been considered. The pay of company employees is an emotive topic no matter which geography, service or industry that organisation resides, the messaging in the globalisation of payroll will need to address the sensitivity.
3. **LOCATIONS OF HUB AND SPOKES:** With the objective in mind, the hub location would need to be in a low cost country / city, and employee costs would have to be considered along with overhead costs both today and in the future.
4. **LANGUAGE REQUIREMENTS:** The challenge with language is to ascertain which language requirements can be removed through technology and which are required in a spoke to ensure the smooth running of the process.
5. **SCOPE:** The scope can be consistent across each country or a principle be agreed to migrate as many payroll processes as feasible into the hub location. In our experiences the latter is more fruitful in meeting the objectives of globalisation; however, this will mean that there are differences from spoke to spoke as to what is retained and what is migrated to the hub.
6. **PROCESS:** Simply repeating current processes in an offshore environment will not do, as there will invariably be issues with getting information offshore – notably the set up of scanning centres and authorisations. It is better to review the process BEFORE moving to a globalised model, and implement enabling tools such as self service or e-forms. Moving to a hub centre will then become far simpler and the changes will minimise the impact to employees.

A further consideration can be the development of regional centres to combine spoke locations. This is useful to investigate when there are plenty of spokes, and there is a

geographic linkage between spokes, together with a clear business case rationale to consolidate into regional centres.

MITIGATE THE LEGAL RISKS?

In globalising payroll, one must consider the legislative requirements in each of the countries that the organisation operates. Either a central team in a centralised model is abreast of all local legislative changes, or the management of these requirements be kept local.

Given the “risk of getting things wrong” which has a financial consequence and impacts an organisations reputation, we would highly recommend that a completely centralised model be rejected, in favour of a mixed economy of centralised and decentralised activity. This enables the local management of risk pertaining to changing regulations, whilst the central governing of policy across the global firm.

OUTSOURCING

Outsourcing payroll is a real consideration for organisations that are reviewing options to reduce costs, improve service and globalise. There are many advantages of outsourcing payroll:

- **COST**: Traditionally the payroll function includes staff that have presiding in the role for a number of years, which tends to lead to salaries larger than expected for the role carried out. Outsourcing allows the appropriate level to be applied in a lower cost location, together with savings from consolidation and automation. These savings can be negotiated and recognised much earlier than in an internal captive solution.
- **PRODUCTIVITY**: With the methods employed by your outsourcer, you should find an overall improvement in productivity with your back office becoming their front office. More often than not an outsourcer is able to drive productivity improvement on a continual basis.
- **ACCURACY**: Payroll mistakes can be painful, angering employees and - more ominously - the government. A good payroll-services provider is far less likely to make a serious error than your in-house staff. Furthermore, if a big mistake is made, you can seek financial restitution from the provider - something you can't do with your own employees.
- **RELIABILITY**: There is always a risk with In-house payroll activities that difficulties will arise when individuals are on holiday or off sick. With a payroll service, output speed and

quality won't vary in accordance with vacations and illnesses. You also won't have to spend time helping new hires understand your business's payroll system.

- **ECONOMIES OF SCALE**: Since payroll-services providers have the scale to justify investment in robust methods, they have the technical resources and the industrialised training methods to enable them to process even complex payrolls at faster speeds, and can manage peaks and troughs across the client base.
- **INSIGHT**: The leading payroll-service providers will know the challenges in globalising payroll and have a series of lessons learnt in previous transactions. They can act as advisers to ensure that you avoid the mistakes of others for a number of payroll-related tax laws and regulatory mandates.
- **FLEXIBILITY**: Organisations can find it challenging to motivate staff carrying out “boring and repetitive” payroll work, and this can lead to a lack of flexibility in staff or overqualified staff carrying out transactional activities and more often than not means that an organisation is overpaying for the skills required. Outsourcing enables flexibility of role, and a clear training and career plan for the individuals carrying out the processing activity.
- **SECURITY**: Whilst decentralised country structures may not have the scale or the maturity to manage segregation of duties and other control risks within the payroll function, most payroll services firms have technologies that can spot and alert clients to various types of payroll fraud, such as payment manipulation and "phantom workers."

However, even though there are a number of advantages, the outsourcing of Payroll is significantly more complicated than application outsourcing and Finance and Accounting outsourcing. The main issue relates to the vendor community as there are few vendors that provide global solutions and no supplier that operates in a large number of countries such that they are likely to cover all of the local requirements of a global organisation.

With this in mind, we would recommend our clients to leverage the “hub and spoke” model, and consider outsourcing only the hub and certain spokes where the provider has the capability, the presence and can carry out the service at a competitive price.

The challenge is then selecting the right provider.

ABOUT THE AUTHOR

Rakesh is a strategic advisor, solution architect and implementer of transitions and transformations. With a specialism in BPO, Shared Services and Offshoring, Rakesh has worked with CFOs, FDs and senior client executives in the private sector (including at Ernst & Young, Pitney Bowes, Orange, Barclays and RBS) and the public sector (across Health, Police and Government markets) in improving efficiency, effectiveness, cycle times and profitability.

Rakesh is a qualified chartered accountant, holds practitioner status in Prince 2 and MSP and is certified Lean Six Sigma. He was trained by Andersen, Deloitte and Accenture and is now a partner at a social enterprise management consultancy Proservartner providing strategic advice and focusing on operational solutions for leading FTSE 100 and Professional Services firms.

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ABOUT PROSERVARTNER

Proservartner are strategic advisors, research analysts, solution architects and buy side implementers of transitions and transformations. With a specialism in BPO, Shared Services, Offshoring and Transformational Improvement, under a collaborative approach we provide game-changing solutions.

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