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Globalizing Payroll: Why Now?

By Kelley Rousayne and Tracy Micciche

EXECUTIVE SUMMARY

Multinational organizations have learned, sometimes painfully, that no single platform can process payroll in all countries. Although solutions are maturing, a global, end-to-end payroll process still requires partnering with one or more vendors for execution. Nevertheless, a single, overall approach to governance and strategy oversight is required.

Key takeaways:

- Global payroll solutions are starting to fulfill their earlier promise thanks to emerging technology like robotic process automation and advances in analytics.

- Maintaining clean, standardized data still presents challenges for most companies, despite investments in human capital management solutions.

- As the market has matured, global payroll vendors are becoming stronger partners, but need to be involved during the global payroll strategy creation phase for maximum impact.

BACKGROUND

Historically, there has never been a single payroll application that can adequately handle payroll for every country, due to the multiplicity of local laws, language requirements and data issues. Instead, companies have had to use a different vendor for each country, or even for different regions within a single country. This approach has added to the cost and complexity of the payroll process, and increased the risk of noncompliance. It also has made quick access to a unified view of payroll virtually impossible.

Even with a global human capital management system (HCM), master employee data needs to be properly maintained in order to feed into payroll applications efficiently. As a result, companies with high-quality data are best positioned to benefit from HCM systems (Fig. 1), but it is still necessary at this point to partner with multiple vendors, often regionally, to capitalize on their capabilities and expertise at the local level.

FIG. 1   Percentage of organizations with high-quality payroll data

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Peer group	**42%**
Top performers	**100%**
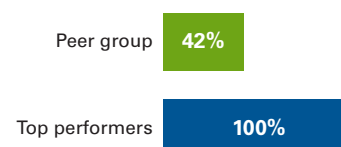
Source: The Hackett Group

EVOLVING DATA PRIVACY REGULATIONS

While most payroll organizations have controls in place to ensure compliance with data privacy laws (Fig. 2), complying with associated regulations is becoming increasingly difficult, especially with the implementation of General Data Protection Regulation (GDPR) in Europe.

In addition to being responsible for adhering to the data privacy regulations for their own organizations, employers also must ensure that their vendors are also compliant. Fines are no longer limited to the individual country but can be levied on worldwide income, as stipulated by the GDPR in Europe. Fines for data breaches can be quite substantial even if the revenue generated in the country isn't (in fact, it could be more than the amount of revenue generated). An increasing number of countries are looking to adopt stricter data privacy rules, making it more difficult to manage data locally.

It has become a daunting task to put systems in place on a country-by-country basis. Processes and controls need to be in place when transporting data from the global HCM to local payroll providers to ensure that all data privacy requirements are being met and the HCM is used as the master data system of record.

FIG. 2 Percentage of organizations with controls to ensure compliance with data privacy laws

Peer group — 76%
Top performers — 89%
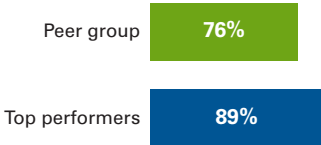
Source: The Hackett Group

COMPLIANCE WITH PAYROLL REGULATIONS

Regulations make the business case for a global payroll provider more compelling based on risk mitigation and cost avoidance advantages. More and more companies are looking to reduce risk in the process by selecting a global payroll provider that will take on the responsibility of due diligence and centralize payroll processing into regional centers. Even if the vendor's cost is more than current-state cost, companies are making business cases based on cost avoidance and risk mitigation.

Most companies have large employee populations in a significant group of countries, plus others where there are only a few individuals. This makes it difficult to keep up with all legislative changes. Many have turned to their global payroll provider to provide additional support in maintaining and understanding how each rule applies to their organization. It doesn't remove the need for a legal ruling from the organization's own legal department but will help employers put the legislation in context, allowing for better dialog.

BETTER SUPPORT OF GLOBAL OPERATIONS

Business is driving global payroll through global expansion, divestitures, mergers and acquisitions, and the restructuring or transition of services or processes from one country to another to consolidate operations. Time-consuming and costly implementation of payroll operations in a new country could delay other business operations, especially where there is a low concentration of employees. In order to meet business objectives, organizations need to establish the foundations, such as technology and global partners, to support expansion without having to add substantial resources.

Having a partner that can help the payroll organization move as fast as the business is important, a fact that is well known to leaders of top performers in our payroll performance database (Fig. 3). Establishing a process to properly enter a market will reduce the cost and provide efficiencies in the future. In addition, payroll organizations must understand alternatives such as using global employment outsourcing (where it is not required to establish a legal entity before entering a market), and where the outsourcer is the employer of record (varies by country). An experienced global provider can support and speed expansion while avoiding compliance issues.

FIG. 3 Percentage of organizations that leverage their payroll vendor's subject matter expertise

Peer group — 20%
Top performers — 56%
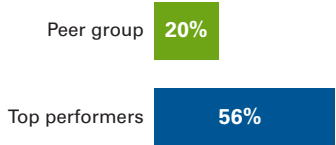
Source: The Hackett Group

About global payroll

Global payroll is not a single system that processes payroll in all countries around the globe. Rather, the term refers to the enablement of payroll processes globally, made possible by partnering with a limited number of vendors to gain efficiency and effectiveness in the end-to-end payroll process. A global payroll process has both governance and an approach that provide overall strategy oversight.

IMPROVED PROCESS PERFORMANCE

Top performers avoid the high cost of complexity by keeping the number of payroll systems to the minimum needed. This reduces the number of resources required to complete each process, minimizes potential points of failure, and creates economies of scale. All of this strengthens the business case for automation. Where handoffs of data between systems are necessary, automating the reconciliation improves quality, accuracy of pay, and ultimately employee satisfaction.

Global solutions can help with managing cross-border staff and provide a standard look and feel across the company regardless of the employee population size. Having a single-entry point into payroll (e.g., utilizing a payroll consolidation tool) allows for more process standardization and automation. While country-specific variations are unavoidable, standardization of common activities is required to achieve maximum efficiency and analytics excellence. Top performers are far more likely to enlist the efforts of vendor partners to achieve maximum efficiency and effectiveness (Fig. 4).

FIG. 4   Percentage of payroll vendors that regularly recommend process improvement initiatives

Peer group   **24%**

Top performers   **75%**
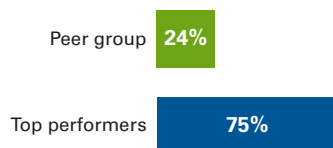
Source: The Hackett Group

EMERGING TECHNOLOGIES

Emerging technologies such as robotic process automation (RPA) offer help in process optimization, error detection and correction, and are key to achieving cost savings. While they take time and funding to implement, their ROI includes cost savings of 25% to 50%, as well as measurable improvements in staff productivity, cycle time and error rates (Fig. 5).

But sufficient scale (i.e., single solution, single process) is needed to maximize this investment. Globalization of processes allows the use of RPA and other technologies to identify errors and missing data, make comparisons and create executive dashboards. For top performers, RPA can increase FTE capacity by 40%, allowing teams to scale up without additional resources and helping them focus on higher-value activities without sacrificing quality. Mergers can be completed more quickly with global targeted solutions and processes already in place.

FIG. 5   Benefits of robotic process automation

Benefit type	Benefit range
FTE reduction per robot	10-30%
Decrease in cycle time	40%
Fewer FTEs needed	40%
Reduction in error rates	Up to 100%
Average overall cost savings from RPA	25-50%

Source: The Hackett Group

GLOBAL ANALYTICS

Standardized data, in one system and with one format, is the required foundation for any analytics initiative. Waiting for regional data in various formats that must then be consolidated means lost opportunities for analysis. With accurate and timely information at their fingertips, leaders at all levels of the organization can make better decisions. As their analytics model matures, businesses can unlock predictive modeling and AI capabilities, which will be key business differentiators. Data analytics has the power to answer crucial HR and payroll questions such as those listed in Fig. 6 on the next page.

FIG. 6   Questions that payroll analytics can help answer

Operations strategy	Staffing strategy
• Are my managers executing toward organizational productivity goals? How do regions/countries/facilities track against each other? • What is driving overtime costs – business needs or lack of management oversight? • What is the total cost of an employee in a particular location (salary, employer expenses, overtime, leave, termination, etc.)?	• Do we have the right mix of employment types for my business model (full-time, part-time, contractor)? • At what point should I hire an additional employee vs. paying overtime? • Do I need to hire additional staff based on current productivity and future sales demands (using predicted turnover and ramp-up time)? If yes, what type of employees do I need?
Customer experience	**Employee experience**
• Are our managers scheduling accurately based on business demands and customer patterns? • Are we losing revenue opportunities because we do not schedule the right skills at the right times? • Will increasing (or decreasing) staffing affect my customer experience scores?	• Are there correlations between turnover rate, schedules, type of work and overtime? • Are employees working their preferred schedules? And how does that affect employee experience? • Can I predict when an employee is nearing burnout (overtime hours, number of direct reports, etc.)?

Source: The Hackett Group

Answering these types of questions can lead to better allocation of resources and outcomes (financial results as well as customer and employee experience). Companies can build standard reports and dashboards for various levels of management to allow real-time, data-driven decisions. The first step toward a fully functioning analytics program is consolidation of systems, processes and data elements, allowing for consistent data to be fed into a global reporting tool. Top performers are far ahead in implementing global reporting capabilities (**Fig. 7**).

FIG. 7   Percentage of organizations that have a global reporting system for payroll data

Peer group **22%**

Top performers **100%**
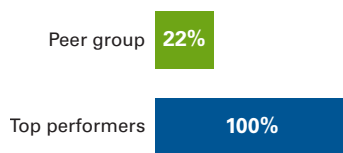
Source: The Hackett Group

CONSIDERATIONS FOR MOVING TO GLOBAL PAYROLL

Global payroll models can vary by organization. Using an aggregator model* with a combination of internal and external capabilities increases efficiency and reduces the number of payroll relationships that multinational companies must manage.

To achieve a true global payroll, start by creating an appropriate strategy and framework. Unfortunately,

many organizations start implementing a global HCM, workforce management or payroll solution without first clearly defining strategic goals. Our research shows that 86% of top performers assign responsibility for defining the strategy to a single, global process owner.

Furthermore, the following steps will ensure the odds of successful implementation:

• **Engage with a global payroll partner instead of trying to handle the process entirely in-house.** Global vendors are investing in new technologies and understand the global complexities. Having vendor relationships in various regions will enable faster implementation and reduce the risk of fragmented processes. These partners should be involved in all stages of planning to ensure a successful implementation.

• **Define what success means.** Identify criteria at the beginning of the project, making sure strategic goals and objectives align with those of the enterprise.

• **Define governance during the planning stage.** All organizations identified as payroll top performers in our database have a formal governance process. Responsibilities include overseeing the implementation process and evaluating any requests to deviate from the global model.

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* Uses in-country providers with expertise in each country to process payroll.

- **Establish data governance.** Define data management principles and assess data quality. Any questionable data should be cleansed before implementation. Create a global data template to ensure that the system configuration meets the company's global data needs.

- **Simplify and standardize.** Harmonize performance structure, pay plans and time elements to reduce cost to maintain, allow for centralization of staff, and facilitate automation and analytics. These actions will also help to reduce process cost as well as documentation and training needs.

- **Don't neglect change management.** It is important for the business to understand the benefits of the change and how to use the new data to make better decisions. Many locations may be resistant to the loss of control, so it will be imperative to have executive support and clear, consistent messaging about the change to ensure full adoption.

CONCLUSION

Globalization, digital technology, and a host of regulatory and workforce trends are dramatically changing the face of payroll. Failure to master these developments is not an option.

Depending on the nature of the company and the size of the payroll organization, it may take years to build a solid foundation for analyzing payroll data for use in making business decisions. Companies that start globalizing their payroll operations now will have a competitive advantage over those that continue to limp along with fragmented, outdated and error-prone processes and systems.

ABOUT THIS RESEARCH

Metrics included in this report are from The Hackett Group's ongoing Global Payroll Performance Study, which captures data on a wide range of cost and productivity metrics. Key focus areas include organization, governance, service delivery, technology, data and analytics and talent.

In this report, "top performers" refers to payroll organizations in our performance study database that excel in a range of efficiency and effective metrics. The remainder of the organizations are called the "peer group" (or simply, "peers").

Our most recent data analysis found that most payroll organizations are becoming more efficient and improving their operations. At the same time, a multitude of opportunities still exist for optimizing processes, increasing standardization and enhancing delivery performance.

RELATED RESEARCH

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Microsoft: Conquering Global Payroll, October 2018

The State of Payroll in 2018, August 2018

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For nearly 20 years, Ms. Micciche has helped companies achieve world-class performance in global systems for payroll, mobility, travel expense and human resources. Her experience includes leading global transformations through creation of end-state visions, evaluation of sourcing strategies, redesigning operational processes, evaluating software products, and managing large-scale global implementation projects. A certified payroll practicioner (CPP), Ms. Micciche's specialties also include expatriate management. She is a frequent lecturer on the topic of global payroll.