

GLOBAL PAYROLL CHAOS

Bringing
Order to
Global Payroll
Chaos

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Like so many organizations, you manage employees around the globe, ranging from a handful of remote sales representatives in outlying countries to large concentrations of employees in factories, headquarters, or other key locations. And likely your payroll systems and providers are all over the map as well. You know there must be ways to simplify and improve payroll, but what are these opportunities, and how can you tap into them? The broader your global workforce, the more daunting it may seem to make order out of chaos. Yet it is possible to organize and develop a global payroll strategy with just some basic information.



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While there is no such thing as a single "global payroll" system or provider in today's market, that should not prevent you from formulating a global payroll strategy. Rather than seeking order by issuing global vendor RFPs or country-by-country enterprise resource planning (ERP) build-outs, more and more global companies are starting with a purposeful global payroll strategy and governance model. Visions of a single provider or system are replaced with a global framework that is designed to identify optimal payroll delivery models and the service providers best suited to your scale, complexity, and regional footprint. Specific goals of this approach often include consolidated data and interfaces, harmonized processes, leveraged payroll relationships, and reduced risk – all with greater corporate visibility and control.

If a deep-dive examination of payroll operations around the globe makes you queasy, ISG suggests taking an iterative approach that begins with high-level design and a principle-based structure to engage your own regional and country payroll leads. Global payroll strategy and governance should be used to engage in-house expertise while guiding payroll decisions at the global, regional, and local levels.



SCALE AND LEVERAGE – GLOBAL VERSUS LOCAL

Paying employees is among the most critical tasks of any business. As a back-office, repetitive, and time-sensitive process, payroll work is ideally suited to process efficiencies that are driven by automation and scale. Yet payroll is also a high-stakes activity that must address local standards, laws, and regulations – all of which vary from place to place. Distinct opportunities exist based on your global, regional, and local scale. A successful global payroll strategy aims to advance payroll leverage and efficiencies across countries without an adverse impact on the local need to ensure timeliness, accuracy, and regulatory rigor.

More than any other single data point, the number of employees in each country provides the best insight into the likely payroll scope and available systems and providers. Large countries are better suited to fuller-scope, centralized solutions that may include in-house ERP systems or outsourced, fully managed payroll services. Beyond sheer size and location, you can explore other opportunities to leverage payroll assets across your organization. The most obvious of these payroll “assets” is a multicountry ERP platform or an existing payroll-provider relationship spanning several countries or regions. However, there are a number of other payroll attributes that you may want to leverage across countries or regions. Consider, for example, current similarities in pay practices, any instances of centralized payroll oversight, existing requirements for aggregate reporting, and the adoption or readiness for multi-country collaboration.



Payroll administration may seem mundane and repetitive, but it is not simple.

While a first pass to assess your payroll scale and leverage can be completed centrally, enlisting the participation of in-country payroll experts will ultimately help you balance central ideals with local delivery requirements. As you develop the local payroll perspective, you will refine your perspective on where payroll services can be broadened, what systems can be leveraged, which vendors can be consolidated, and where to stand up active governance and reporting of payroll across multiple countries or regions. Scale and leverage alone do not predispose a company to either an outsourced model or in-house delivery using corporate ERP or shared services assets. Before choosing between the two, you will need to understand another key dimension of payroll delivery – complexity.

COMPLEXITY AS A DRIVER OF COST AND RISK

Payroll administration may seem mundane and repetitive, but it is not simple. A sound payroll strategy requires flawless local execution and an intimate familiarity with the more complex aspects of payroll, including ever-changing compliance concerns and regulatory agency requirements. In-country pay practices are largely dictated by these officiating agencies, causing great variation among countries that mandate custom calculations and processes – by country and even by locality. Addressing payroll complexities is not optional, and there is reason to be concerned for the risk and expense of non-compliance in each

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and every location of operation. In-country providers, including specialized payroll, tax, and accounting firms, offer some assurance that key local activities are compliant. They also become part of the cost structure for your current payroll delivery.



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Many important payroll complexities can be inventoried by country by undertaking a data request process – the key to making this process manageable is knowing what to ask for and whom to ask. Consider the following key indicators of payroll complexity: frequency of pay cycles, percentage of electronic funds transfers, number of taxing authorities and banks, number of interfaces, and types of special pay runs (such as bonus, off-cycle, and manual checks). Attributes such as these are indicators of the payroll complexity for a given country, and they reveal the specialized knowledge you must have to consistently meet the most basic payroll requirements.

Payroll complexity becomes a direct consideration when contemplating build versus buy strategies. Centralized control, systems, and processes frequently take a back seat to local requirements. In-house ERP builds are disadvantaged when multi-country service providers already have country templates built to accommodate calculations and processes for specific countries. And niche sourcing, to round out geographic coverage or ensure sufficient regulatory oversight, is a common strategy used by companies and payroll providers alike.

HR PAYROLL STRATEGISTS, TAKE HEART

Considering these dimensions – scale, leverage, and complexity – ISG has developed a global filtering model to help organizations sketch a delivery framework that provides a straw-model for payroll strategy in each region. As you engage your payroll leaders and identify new opportunities, additional levels of detail are added to refine the initial results and to support collaborative decision-making that fits your global payroll objectives. Whether you move aggressively or opportunistically toward implementing your global payroll strategy, you can point to an overall roadmap for achieving a greater payroll vision of enhanced visibility, leverage, and risk control.

If you once thought your only option was to buy into a costly global platform that would push countries large and small into a one-size-fits-all model, think again. You can right-size and regionalize your strategy. If you believed that setting direction in the region and around the globe meant choking down a one-time edict to “buy or build,” you were mistaken. You can design a payroll strategy with iterative and opportunistic transitions toward established models. And if you once felt overwhelmed at the prospect of sorting through the global minefield of payroll systems, staff, and providers around the world, you can rest assured that strategic design can begin with available data to engage your payroll leaders around the globe.



Will a global payroll strategy will create savings? The candid answer is "it depends".

The burning question for many organizations is whether instituting a global payroll strategy will create savings, and the candid answer is "it depends." Savings at the individual country level are difficult to realize – unless the strategy displaces costly processes or systems, or unless the global organization taps into its greater purchasing power. Savings from consolidating interfaces, vendors, and reporting are often easier to value, followed by the "softer" savings of increased compliance, greater visibility, reduced risk and leakage, and enhanced decision-making. Applying global payroll filters works hand-in-hand with your business case development, often requiring several iterations to identify the optimal trade-off between what is least expensive and what offers greatest value.

ISG global payroll filtering provides a framework for bringing order to what can feel like payroll chaos, in a region or across the globe. Whether you advance in bold, giant leaps toward a defined strategy and quick transition or you take baby steps to gradually navigate the payroll landscape, now is the time to get started.

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With more than 25 years of industry and consulting experience, Julie is an invaluable advisor for enterprises needing to evaluate and assess alternatives for multi-process HR service delivery, including workforce administration, payroll, benefits, compensation, recruiting, technology, learning, and talent management. Julie leads complex global HR assessments and transactions around the world. Prior to joining ISG, Julie worked for nearly a decade as an independent consultant, providing market research, vendor assessments, systems testing and implementation consulting to a broad community of benefits administration vendors and human resources departments. Julie started her career in human resources outsourcing, establishing shared service centers for a national benefits consulting and administration firm. She is a well-published thought leader in her field.



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