

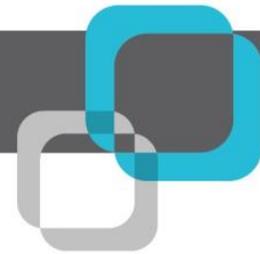
Global Payroll? A Few Planning Considerations...

Human Resources Globalization



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Today's businesses operate in an increasingly global environment. As a result, globalizing operations has become a key focus area for progressive HR organizations in order to be responsive to the company's needs. The focus has evolved from ensuring basic services are in place or being hands off to country operators to developing an enterprise-wide model that better positions the company for global success. For HR, this means improving services, reducing costs, increasing compliance adherence, and being a better advisor to the business on needs like talent management.

Global payroll is one service that is driving today's HR transformations. It has become an increasingly popular opportunity, which may be linked to the increase in corporate service global delivery models, the push for global process ownership, and the search for that next layer of improvement opportunities. Additionally, the quality and availability of global payroll solutions has improved, making the jump to a global operational approach to payroll more palatable.

Whether HR is responsible for payroll or is a partner to finance in the delivery of payroll, it may be time to evaluate a new global payroll solution for your organization. While not being exhaustive, this article touches on some important considerations for HR organizations looking at this opportunity.

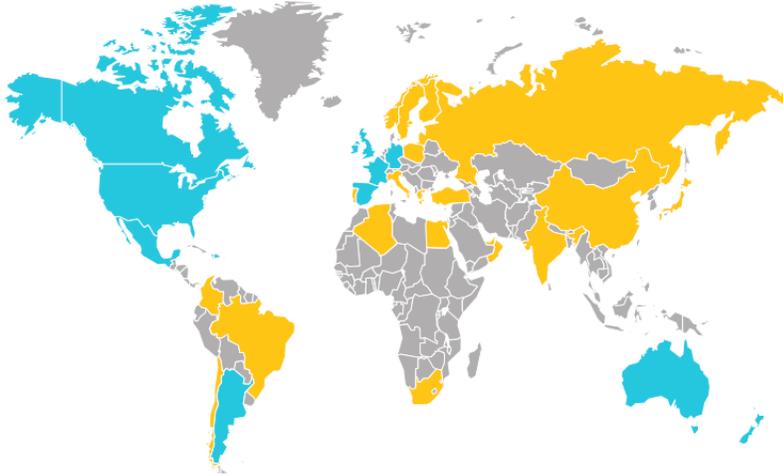
GLOBAL PAYROLL SOLUTION LANDSCAPE

The solutions available to support multinational or global payroll have been steadily increasing in number and improving in quality over the last five to seven years. Much of this can be attributed to application and technology improvements that have increased functionality, expanded to more countries, become better integrated, and shifted to software-as-a-service models. Larger solution providers have extended their service offerings and deepened their aggregated payroll network. Smaller providers have been able to quickly and dynamically enhance their offerings and extend their market coverage, while new niche players continue to rise where the cost of entry is limited and the market is underserved.

Despite significant improvements, the global payroll solution landscape appears fragmented to many buyers. It can be difficult for organizations to find a solution that provides the multicountry coverage desired and meets the business drivers sought by the organization. While continuing to mature, the solution market is a byproduct of unique customer demands and country-based requirements on the global scale in which it operates. The national influences on payroll at both the corporate and regulatory level ensure requirements are as diverse and waning as economics and politics can engender, necessitating local knowledge and constant system changes to meet these requirements. These external complexities, as well as internal challenges like global technology and global staffing, has slowed and limited the number of viable global solutions. Therefore, organizations looking for a global solution often find a patchwork of options; one example is represented in Figure 1 below.

Figure 1: Example Global Payroll Coverage Findings¹

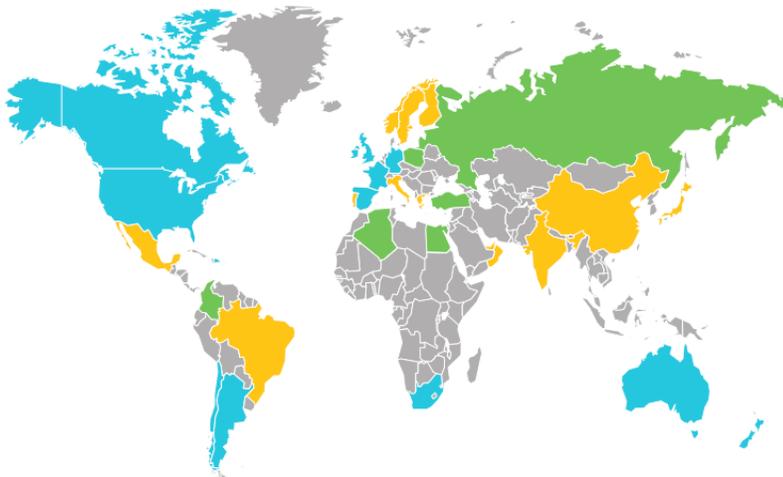
A. ERP/internal coverage limitations



- Company's ERP and existing staff meet global payroll requirements
- Countries where a new solution is needed to meet requirements

In this scenario, the organization could leverage their existing ERP solution for only part of their global footprint. An alternate global solution or a third-party partner to cover remaining countries is needed.

B. Solution provider coverage is limited



- Company's ERP and existing staff meet global payroll requirements
- Countries covered by favored solution partner
- Countries where favored solution partner aggregates from multiple third parties

In this scenario, the organization could leverage their existing ERP solution for only part of their global footprint. A preferred alternate solution provider and the provider's network would cover the remaining countries.

¹ Example only. Not intended to replicate actual client or market conditions.

C. Multiple provider coverage



If the solution options and approaches are truly this varied, what should an organization consider prior to scoping a global payroll project or reaching out to vendors with requests for information? To prepare for this assessment, it is important to begin by looking inward to identify the business reasons for such an endeavor. What is most important to the organization—cost, service, vendor consolidation, reporting consolidation, and/or speed of availability? Each organization will need to evaluate the marketplace options and find a solution that suits their unique situation and preferences.

BUSINESS DRIVERS

The approach to multinational or global payroll is not unlike other important organizational projects. It should begin with an understanding of the problem that needs to be solved or the objectives that need to be achieved. Knowing and agreeing on the business drivers creates priorities for the project. The business drivers can be used to establish a set of more detailed guidelines that can be used to calibrate decision-making, scope, and direction of the project.

Establishing the drivers and agreeing on related guidelines is not an easy task. Simply gaining global agreement on what constitutes the basic end-to-end payroll process can be a challenge for many organizations. If the process and rightful owners are difficult to define, how will cost, governance, or end-to-end service quality be evaluated? With the right knowledge and facilitation, these challenges can be overcome. The most important thing is to get agreement on the core drivers (i.e., the answer to, “why are we doing this?”) and establish a mechanism to maintain alignment with the core drivers and handle challenges outside of the immediate scope of work.

When speaking to professionals who have implemented global payroll or are currently looking at a new global payroll solution, they commonly identify the business drivers in Figure 2 (shown below).

Figure 2: Common Global Payroll Business Drivers



Determine the key business priorities for your organization and ensure these are pervasive in design and decision-making throughout the transition effort.

Some organizations squarely focus on one or two drivers, while others focus on a handful in order to ensure a balanced approach in meeting the needs of the entire organization. Business drivers vary for different organizations; therefore, certain solutions will be a better fit for the priorities of one organization over another. For example, a large organization with extensive global operating expertise, an aversion to relying on third parties, and strong technical and financial capabilities, might want to standardize their global payroll process internally on an existing ERP platform. If an organization has experienced compliance or control issues, the best option may be a managed solution provider who will absorb compliance responsibility and the risk of certain compliance liabilities. Where one organization prefers access to face-to-face service at the local level, another is strongly aligned to improving controls and reporting, and yet another is focused on being agile.

All business drivers are typically not equal; thus, prioritizing the business drivers and related sub-components of the business drivers is essential in the decision-making process. Staying true to the business drivers in the evaluation of various solutions will help an organization choose the option that will best meet its goals.

OPERATIONAL ASSESSMENT

Unfortunately, it is easy to underestimate the variances and nuances that exist on a global scale in payroll. To avoid gaps in understanding, an appropriate level of discovery should occur prior to initiating a project of this nature. At a minimum, information on stakeholders, operating structure, local technology, processes, business requirements (i.e., HR, accounting, and payroll), existing solution providers, population size and types, processing cycles, leave management, contributions, deductions, taxes, and reporting should be collected, reviewed, and analyzed.

A detailed discovery process will clarify the true gaps between current state and business objectives, identify common themes across the organization, and help to determine the challenges and appropriate timing for the proposed transition effort. The discovery needs to provide enough information to support design of a future delivery model and develop a business case but should not be confused with the detailed data gathering required during the implementation phase of a project. Our experience shows that organizations struggle getting a project off the ground, stall, or become misaligned during implementation when they do not complete a reasonable discovery and business case.

HR AND FINANCE INTEGRATION

The clarity of payroll roles and responsibilities (e.g., HR inputs, reporting requirements, and finance entry requirements) is critical when implementing an effective global payroll solution.

The process of gathering and approving the employee data that feeds payroll is closely linked to the accuracy and timeliness of payroll processing. Most organizations have a core HR information system and other supplemental systems (e.g., time and attendance) to leverage, but these systems may not be consistent and/or standard across the globe. If global HR process and system standardization has not occurred, unique methods and tools to collect and pass employee benefit, compensation, time and attendance, and leave management information to payroll will exist in every country. This is not ideal because variable processes and systems in areas like leaves management and statutory employment reporting can significantly impact the ability to manage payroll processing efficiently and accurately. For this reason, many companies embark upon standardizing the model when implementing global payroll and unfortunately, the process of modifying existing payroll processes and technologies onto a standard platform becomes a significant, and often unexpected, change effort.

Plan for It!

Changes to the payroll-processing model will impact HR activities upstream (i.e., payroll inputs) and finance activities downstream (i.e., general ledger reporting and banking activities). Assess and understand the depth of integration challenges before implementation begins.

If HR is leading the global payroll initiative, it is critical to understand the importance and enabling capability of the finance organization. A global payroll transformation typically uncovers a range of non-standard processes and activities executed at the country level to meet local requirements (e.g., duplicate finance systems). The challenges will vary depending on the existence of a global accounting system, the ability to establish interfaces with the payroll solution, standardization and compliance with the chart of accounts, and whether finance has centralized general ledger posting. Having a contributing member on the project team to interpret and resolve issues with policies or processes attributable to the Controller or to obtain resolution on taxation requirements will keep the team on track and aligned with the needs of the finance organization. Avoiding confusion at financial close periods, inaccurate accruals, or retroactive cleanup can be avoided or at least managed with the right level of project participation.

CORPORATE STANDARDS

Dealing with employee and financial data across the globe significantly increases exposure and regulatory requirements. Therefore, corporate and local owners with responsibility for standards like Sarbanes-Oxley (SOX), IAS/IFRS, Information Security, Employee Relations, and Workers' Councils will be interested in the project. All of these standards have requirements and conventions that must be complied with. Not approaching these challenges appropriately could lead to the introduction of additional complexities or setbacks during implementation and cause schedule delays.

It is well advised to involve subject matter experts from these standards organizations during discovery and design, but also during implementation. Their opinions and suggestions may ultimately affect how the global payroll model is designed or at least how a global payroll implementation should be approached. Unfortunately, these standards can be rigid and nebulous at the same time; therefore, it is advisable to not just obtain the advice of the owners of these standards but also to assign responsibility to standard owners to achieve project objectives (e.g., obtaining SOX approval, achieving Safe Harbor, getting Workers' Council approval). To accurately assess your potential challenges with such standards, take a minute to assess the clarity of ownership within your organization, the availability of resources to assist with these standards, and successes and failures of past projects.

CHANGE MANAGEMENT

Change management for a global initiative that touches every employee, deals with sensitive data, and requires the input of most corporate service functions is very difficult. We believe the effort should begin with effective sponsorship. Executive sponsorship and change management are critical success factors in making decisions along the way and gaining buy-in from various business units around the world. An executive or guiding coalition of global representatives (e.g., HR, finance, and information technology) that is passionate about the project's business drivers and is well versed about the anticipated benefits can continue to create momentum that will be sustained throughout the project and ensure the global reach necessary for success.

At the same time, to ensure a smooth transformation, the messages, communications media, tools, and timing should be tailored and targeted to specific geographies or constituencies. For most of the organization, this change will be seen as more tactical than strategic.

A change management work stream separate from project management is recommended. The amount of change management work will depend on several factors, including the complexity of the organization, solution design, corporate culture, and project pace. It is not uncommon for several resources to be required to plan and develop the change management approach and toolkit at the outset of the project. These resources can be reduced over the project life cycle as implementations and cutovers progress. Some concerns the change management team can anticipate include language capabilities of the system and solution provider, concerns over loss of local control, lack of local expertise and responsiveness, changing roles and approval processes, and sensitivity to payroll and personal data.

Targeted Effort

A key to success is the ability to focus on the tactical nature of this change while considering the unique cultural and local concerns of each country.

It is also important to look at the changes to payroll roles and responsibilities and the impact of these on the various stakeholders. For example, a previously independent payroll manager may now need to coordinate with a new solution provider and adhere to oversight from HR, finance, and information technology. Many organizations will realize broader efficiencies, enabling the consolidation of payroll execution to regional or global hubs. This consolidation may result in a change of position or reporting relationship for current employees. These changes may be easier to implement if an HR transformation to a leading practice service delivery model is already complete or in motion but should not be underestimated either way.

Ultimately, the change management work or activities related to a global payroll model transformation will be similar to other major HR transformations, but the approach needs to be tailored to each geography and set of constituents. If using phased rollouts, the team cannot become complacent during subsequent country launches as each country brings a new set of business and people challenges. We have found that using a network of country stakeholders and change agents to provide guidance and feedback on the approach will increase the success of change management and the initiative. Overall, a sensitivity to culture, nationalism, time zones, language, holidays, work habits, and other conventions will go a long way to ensuring a successful project.

ABOUT SCOTTMADDEN'S CORPORATE & SHARED SERVICES PRACTICE

ScottMadden has been a pioneer in corporate and shared services since the practice began decades ago. Our Corporate & Shared Services practice has completed more than 1,100 projects since the early 90s, including hundreds of large, multi-year implementations. Our clients span a variety of industries from entertainment to energy to high tech. Examples of our projects include business case development, shared services design, and shared services build support and implementation.

ABOUT THE AUTHOR

Jerred Crosby (jcrosby@scottmadden.com) is a partner in ScottMadden's Atlanta office.