Multiple Roles of a Global Payroll Outsourcing Partner

By Wojciech Sieczkowski and Markus Susilo

As companies grow beyond their national borders, challenges emerge to keep these overseas entities in compliance with relevant statutory requirements.

Prior to making any decisions to outsource payroll administration globally, companies should analyse their exact needs to choose a suitable payroll administration model. The objective cannot be to simply outsource payroll, but rather, make a decision supported by a strong commercial case of what can and should be outsourced. The decision to outsource, on the other hand, needs to be clearly supported by the underlying priorities of the company.

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Based on these considerations, one can identify three main dimensions to assess a company's global payroll outsourcing strategy—governance, cost, and utility.

GOVERNANCE

To ensure global and local compliance and good management of payroll administration-related activities, a company should build high-performance local payroll teams. This requires investment in in-house platforms capable of processing complex payrolls.

The company can support local resources with an outsourced business partner locally so that the local in-house resource can always be up to date with the statutory requirements.

This may also mean that the company must outsource some payroll functions, although it can only outsource the administration and processing but not the oversight. The onus always remains on the company to ensure compliance. This means that the quality of the vendor must be high in addition to devoting qualified internal resources able to coordinate with the vendor.

COST

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Although cost is often seen as the core consideration, a good analysis should always consider the bigger picture. An assessment of cost will look at exposure to noncompliance risk from penalties and fines in breach of some piece of legislation, through cost of damage repairs, to non-tangible losses such as reputational compromise both external (customers, authorities, clients, etc.) or internal (employee value proposition, frustration, morale, etc.).

An inexpensive vendor may also offer a limited scope of service and/or charge extra in numerous hidden costs. This may result in higher overall costs by virtue of the requirement to complement service gaps or appoint another resource internally devoted to coordinate the service level agreement (SLA) to track service gaps.

UTILITY

Vendor utility is the most intangible dimension and is the "touch and feel" of the global payroll solution. It may start with capable support technology, world-class customer service, flexibility, and overall trust established by years of high performance and a strong undented reputation in the market.

Taking this into account, consider the following three global payroll models (or some hybrids thereof):

1. Appointing advisors to support local payroll teams (high in governance, but also high in cost and utility provided internal mechanisms are in place to integrate and coordinate local teams globally)
2. Implementing a global standard reporting tool to meet internal deliverables for global management reporting purposes (likely to be high in utility, potentially low in cost but it only improves internal governance as it does not add local expertise to the mix)
3. Keeping the local entity in compliance with local statutory requirements while retaining minimum local resources from the company's side (this is likely to be low on cost, but possibly exposes the local entity to local compliance risk and may not be high on utility)

Naturally there are numerous variations of the above and these are but some examples.

To make an informed decision on defining priorities, the following three elements can also be useful to consider: administration, technology, and compliance.

The level of effort in these three areas need to be managed as not all effort can be exerted in one area only. Outsourcing is always a collaboration between the company and the outsourcing partner.

It is necessary to create a clear division of tasks between the company and the future outsourcing vendor. The main tasks and responsibilities of the vendor will then be translated into a request for proposal (RFP). What follows are some of the service delivery models and how they fit into the above-stated objectives.

OUTSOURCING VENDOR AS ADMINISTRATOR

Regardless of whether payroll sits under compliance, finance/tax, or HR, there is a need for a designated payroll owner. The payroll function owner (a person or a team) can be a specialist or generalist (e.g., a financial controller or an HR specialist responsible for payroll, as opposed to a payroll specialist per se).

The role of payroll has evolved from an administrative to a value-adding function, demanding that payroll personnel think about how they can add value to the company beyond administration.

In this situation, the company may consider having its payroll function delegate routine activities to a third party. In this model, the responsibilities lie with the local payroll department, which is also the ultimate owner, meaning that payroll personnel need to have statutory know-how of the local payroll compliance requirements. The local payroll department must closely supervise payroll personnel of the third-party provider in such a way as if the vendor personnel were their junior staff.

One may argue that this method is the most cost-efficient way of outsourcing a company's payroll. This can be true superficially when the company only considers the fees charged by the outsourcing vendor. However, the cost consideration needs to be taken further so that the following efforts are also part of the evaluation:

- **Continuous education of payroll personnel—**To ensure that payroll personnel can provide supervision of the outsourcing vendor's staff, the company needs to make certain that it is always up to date. If there are changes in the payroll personnel of the company, the investment made and the knowledge banks built may be lost. A further risk would be that the level of supervision of the outsourcing vendor's staff may not be as accurate and efficient as with previous payroll personnel.
- **Monthly supervision effort—**The ownership of payroll remains with the local payroll personnel of the client. The outsourcing payroll vendor is expected to perform basic administrative tasks, while the client's personnel is expected to monitor the quality of information supplied (pre-payroll processing) and the payroll result (post-payroll processing).

In this delivery model, the SLA is expected to be that the vendor appoints more junior staff to deal with the payroll tasks assigned. In a less dynamic organization, in terms of payroll-related activities, the error margin is expected to be low to none, meaning that the model can add value to existing local payroll personnel, as appointing an outsourcing vendor can ease administrative work without adding a full-time employee to their budget.

In a different scenario where the employee structure is very dynamic, such as where there is restructuring within the organization or when there is regular movement of employees from one entity to another or from one country to another, local payroll personnel need to dedicate significant amounts of time to the supervision of the outsourcing vendor. In some cases, local personnel may end up dealing with the payroll calculation themselves.

OUTSOURCING VENDOR AS TECHNOLOGY PARTNER

Although we highly recommend using local payroll software to ensure the payroll calculation is carried out in compliance with local laws and regulations, multinational companies may encounter challenges when trying to standardize certain payroll aspects globally. These may be the input into the local payroll software and/or the output for management reporting purposes. Significant investment in technology is required to maintain a certain level of standardization.

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Due to the size of some local entities, an international organization may choose to have a full-fledged local payroll department. Apart from size, another consideration would be the control of global payroll policy implementation and costs. In order to maintain a certain level of standardization, the company needs to have uniform payroll software across all countries. In most cases, such a payroll module is offered within the enterprise resource planning (ERP) system already in place (i.e., SAP, Oracle, Workday), but it may require extensive configuration efforts on a global as well as local level. The function to configure and maintain the system can be outsourced to a vendor. In this case, the vendor is usually a system expert with in-house local payroll experts or a cooperation partner acting as a local payroll advisor.

As support in this delivery model can be very limited, users are expected to be well-versed in local payroll laws and regulations. Such a vendor may provide, from time to time, thought leadership inputs as a marketing campaign of their local payroll knowledge and expect users to use them as local payroll guidelines.

In this scenario, payroll processes are automated in as efficient a manner as possible, as the system needs to understand the information supplied without any human interference. However, one should not ignore the fact that the information cannot be free of human error, especially the quality of the input data. Thus, it may be that additional processes and staff resources are necessary to capture errors that the system is not pre-programmed to recognize.

There may be challenges in localizing global payroll software where a full customization cannot be completed without additional integration with the local payroll software. As a technology partner, the outsourcing vendor is expected to have payroll expertise in each country. Moreover, constant updates from laws and regulations also should be maintained.

Finally, it is worth mentioning that some vendors specialise in the provision of global standardization reporting tools, but this does not preclude the retention of local payroll software. Again, any decision in this matter is a combination of many factors with the key ones suggested above.

OUTSOURCING VENDOR AS COMPLIANCE PARTNER

Another model for consideration would be to give the outsourcing vendor the task of ensuring compliance of the payroll administration locally. In this approach, the vendor is not only acting as administrator and system provider but also as advisor to the client. The major disadvantage with this delivery model is that the client relies heavily on the vendor's ability to keep local entities in compliance with the local laws and regulations at all times. As such, the company may not see the necessity to build its own local payroll expertise and infrastructure. In this case, the local payroll function can concentrate more on talent management or accounting rather than administration of the payroll. However, this can pose a challenge when an HR strategy or a tax policy needs to be created and implemented for which knowledge of local laws and regulations is essential. The outsourcing vendor needs to be an integral part of the local department and be a payroll partner rather than just a vendor.

In the case of centralised Shared Services Centers (SSCs) or headquarters models, the vendor effectively becomes a local department.

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One of the main functions of a payroll department is to be a "bridge" between the tax/finance, compliance, legal, and HR departments. The majority of payroll tasks sits under HR or finance, though, implying that payroll team members must have know-how of not only statutory payroll or HR but also need to be savvy in financial accounting. To have such an in-house function may require more than one individual and the cost may not be justifiable in small to medium-sized organizations (the definition of small or medium may be relative, depending on the jurisdiction and industry). This delivery model can deliver a significant advantage as it can offer a team with both HR and finance know-how. In addition, team members will be able to communicate with both the finance and HR teams in their respective ways.

Another aspect to be looked at when considering this delivery model is the vendor's capability to provide a system that can integrate with the global management reporting system of the client and at the same time communicate with the local payroll software. In an era where specialization is the means to achieve high-quality deliverables, a vendor should not be expected to have all capabilities available in-house. However, a vendor in this delivery model should be expected to have global and local partners where it does not have its specialisation.

In conclusion, there is no one-size-fits-all approach. However, the analysis should include a holistic assessment of the company's administration, technology, and compliance needs, otherwise, it may simply result in bad design of the global payroll operations in a multinational company.

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