



# Making Payroll work for your business

A perspective on the state and  
direction of international payroll  
solutions and services



# 1 | An overview

## Introduction

We tend to take payroll processing for granted. Somehow, irrespective of whether we are salaried or hourly paid, we assume that we will be paid at regular intervals in accordance with the terms contract of employment. Simple! As long as it works we are happy. Well, maybe not happy but at least we don't feel angry or frustrated. But is there a better way?

In truth, ask anyone working in Payroll and they will tell you that they have to manage an increasingly complex set of processes affected by changing legislation, regulation, working rules, contracts of employment, company policies and custom & practice. In many cases it is also one of the largest regular financial outgoings of an organisation. Getting it right costs money, getting it wrong costs even more money, and risks employee disengagement and damage to company reputation and brand.

Businesses today face a plethora of rules that have to be correctly applied to the employment relationship. These include requirements such as:

- Pre-employment checks, e.g. the right to work in particular country.
- Government registration of starters and leavers
- Correct application of payments and deductions, e.g. taxes, pensions, benefits, social security, holidays, working rules, working hours, time tracking, overtime, absence and garnishments/court orders.
- Financial controls, e.g. ISAE3402, SSAE16, Sarbanes-Oxley and independent financial audits.
- Exit payments, e.g. final pay settlement, redundancy payments, notice periods

And, of course, to make matters more interesting these are different in every country and require local subject matter expertise. This can be a real headache as companies grow across international borders, either by acquisition or establishing new territories. The one thing you can guarantee is that you won't be able to run payroll/employment the way you do in your home country. If you try to do that then you are likely to infringe local laws and be fined or face legal action.

The two essential elements of running good payrolls internationally are:

- 1 | Access to skilled and experienced payroll people
- 2 | A system (or systems) capable of capturing and processing all essential payroll data

Let's look at each of these in turn.

## Access to skilled and experienced payroll resources

Your payroll relies on people who understand and can correctly apply appropriate legislation, have deep knowledge of how to interpret their employers' policies and practices, and know how to process end-to-end payroll (often from first principles).

Therefore, it is important to have access to appropriately qualified and experienced professional payroll resources for each of your countries. Obviously, you have a choice. You can either hire, develop and retain your own payroll team or you can buy a payroll service from a reputable service provider. But the "make or buy" decision will be different for different organisations in different circumstances. It is driven by risk, changes in scale, and the desire to focus on core business activities. Taking these in turn...

**Risk** – An in-house payroll service relies on the employment and retention of payroll professionals. Companies with a small presence in a particular country may only need one person to run that payroll. The risk for them is that they rely more and more on the knowledge that person builds over the years. Therefore, there are often challenges coping with that payroll person's holidays and unplanned absences. Sadly, because succession planning doesn't always feature in the payroll world, companies can often find themselves at risk of not being able to run a viable payroll. In comparison, managed payroll service providers work on the economies of scale provided by having a range of clients all contracting for similar payroll services.

**Changes in scale** – When businesses experience growth or consolidation there are challenges in scaling payroll services without hiring additional resources or right-sizing the payroll team. Growth across international borders is particularly problematical. Payroll legislation and skills are generally not transferable between countries. In comparison, good international payroll service providers are able to offer a more flexible service based on demand.

**Focus on core activities** - Like many other administrative functions in a business Payroll is normally classified as a "back office" cost centre or an "overhead", also described as being "non-core". As with every other overhead, it shouldn't be a surprise that businesses want to control their Payroll processing costs and seek improvements in efficiency. In comparison, for managed payroll service providers running payroll is their core activity. They can only stay in business if they do it consistently well.

## **A challenges of maintaining a comprehensive payroll system**

We increasingly rely on payroll technology to keep us compliant with legislation, including tax rules, benefits, allowances and deductions. Even today, many payroll systems are located on the company's premises, maintained by in-house IT teams and subject to regular patches to keep them compliant. Therefore, the majority of risk sits within the company to ensure all software updates are correctly applied without affecting the ability to pay employees.

Since the days of Enron and Worldcom there have also been additional financial checks, controls and audits required first by Sarbanes Oxley (SOX 404) and later under ISAE3402 and SSAE16.

We have also seen growth in statutory requirements in different countries in areas such as compulsory pensions, shared parental leave, healthcare payments, affordable care, and average holiday pay rates.

On top of all this, organisations often have their own enhanced policies in areas such as sickness & absence, holidays, maternity, paternity, adoption and military service. All of these require a payroll system to be highly configurable against a unique set of rules.

This constantly changing set of demands has led to the growth of payroll systems offered as Software as a Service (SaaS) or Business Process as a Service (BPaaS). These tend to be hosted and maintained in the Cloud. In comparison with the need to patch and update every single instance of on-premises systems, the "...as a Service" only has one set of code to update, shared by all customers.

## **So what are customers looking for?**

During SD Worx dialogue with customers, prospective customer and our own payroll staff we have identified three common themes when it comes to successfully providing payroll services.

1 | Better control of costs

2 | Peace of mind

3 | Improved employee experience

In the next three parts of this white paper we will explore each of them in more detail.

# 2 | Better control of costs

We shared our view above that there are three common themes when it comes to successfully providing payroll services.

**Cost** is not the same as **price**, and neither is **value**. If you judge an international payroll solution purely on price it may well look expensive compared with a local mishmash of systems. Price has two components. Firstly, the one-time charges associated with implementing the new service, and secondly, the ongoing charges associated with delivering the service. In effect, you paying for a sustainable system and service configured and maintained to your exact needs. In comparison, the cost of such a service needs to be compared with the cost of what you do currently. The latter can often be underestimated, or indeed, unquantified.

## What does it cost you today?

When gathering “as-is” data you should include the following areas:

- a | The cost of software/systems currently used to process payroll
- b | The cost of hardware used to hold the systems and your data
- c | The cost of IT support to maintain and patch/upgrade the solutions
- d | The cost of annual legislative updates
- e | Payments made to current suppliers involved in payroll processing, e.g. bureaux, outsourced payroll providers, payslip printers, payslip distribution, electronic funds transfer to banks
- f | The cost of your own payroll administration resources, including “on-costs” of company contributions and office overheads.
- g | The cost of “hidden” payroll processing, i.e. activities performed by non-payroll resources to make data usable for payroll processing, e.g. timesheet administration, holiday and absence tracking, line manager interventions and intermediate calculations.
- h | The cost of rework, i.e. payroll errors, missing data, unapproved time, untracked absence, and any overtime claimed to resolve issues.
- i | Cost and time consumed managing a large number of local payroll partners and contracts.

Additionally, you may wish to quantify the level of risk associated with non-compliance with legislation, tax rules and regulations, infringement of financial controls, data privacy leaks and potential fraudulent activities. This is the area where value comes in.

So, when businesses talk about better control of costs there is a need to financially model:

- 1 | The true costs of operating a variety of solutions and services by country
  - 2 | The potential costs of managing the risks associated with poor controls and lack of end-to-end visibility
- And compare with the simpler cost model of moving to a standardized and automated international payroll service.

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Summary

**Over five years:**

You should achieve cost savings in the region of: ..... £3,029k

Percentage reduction in operating costs will be: ..... 54%

The project starts to pay back (break-even) in year: ..... 1

Your resource savings will be in the region of: ..... £3,442k

**Over three years:**

You should achieve cost savings in the region of: ..... £1,826k

Percentage reduction in operating costs will be: ..... 54%

Your resource savings will be in the region of: ..... £2,071k

**Potential cost savings on annual payroll bill (WFM only)**

You should achieve cost savings in the region of: ..... £610k

An annual saving on your hourly-paid salary bill of: ..... 1.6%

An annual saving on your total salary bill of: ..... 1.1%

Five year costs

Cost type	As-is Customer	SD Worx Solution	Cost savings
Totals - recurring costs	£5,511k	£2,481k	£3,029k
Totals - implementation	£133k	£133k	£0k
<b>Total Cost of Ownership (TCO)</b>	<b>Before £5,644k</b>	<b>After £2,614k</b>	<b>£3,029k</b>
	Cumulative	Cumulative	Savings

**Direct cost saving over 5 years** 54%

**Break even (payback) in year** 1

Cumulative TCO

Assumptions

- Modelled on a 5 year contract and contracting to Ceridian's standard terms of business
- Based on SD Worx standard configuration
- Based on online payslips
- Based on standard outputs
- Modelled on current employee numbers

Realistically, you should seek to break even during the second year of a multi-country payroll contract, once all implementation charges have finished and the solution has fully tested and “bedded down” as part of your normal operating practices. Actual results will depend on the duration of the roll-out, the number of countries, the currently level of complexity and the variation in “as-is” service delivery.

If a vendor’s proposal suggests it is easier than that then we recommend you establish what they are offering and whether it really meets your future needs. Some early outsourcing contracts were delivered on the basis of “lift and shift” or “your mess for less”. Typically, the supplier moved the work to a lower cost location to achieve labour arbitrage, but carried on using the customer’s existing country-by-country processes, including all the manual steps and workarounds. In the long term this solves nothing and actually increases the risk to your business.

Overall value comes from knowing that you have successfully removed all the hidden costs, the rework, complexity and risks, and replaced them with a value-for-money payroll service that will continue to meet your needs in the future. Choosing the right international payroll provider will give you **better control over end-to-end costs**.

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# 3 | Peace of mind

## Introduction

In this part we've concentrated on what businesses are looking for when it comes to "peace of mind".

One of the main reasons companies mention when seeking a multi-country payroll solution is the need to improve control. Sadly, since the days of Enron and Worldcom, it isn't unusual for international organisations to feel exposed when it comes to compliance, cost and complexity. At one end of the scale this can be a simple question such as "How many people do we really employ globally?", and at the other end it can be, "What evidence do we have that the necessary financial controls are in place to ensure legal compliance?".

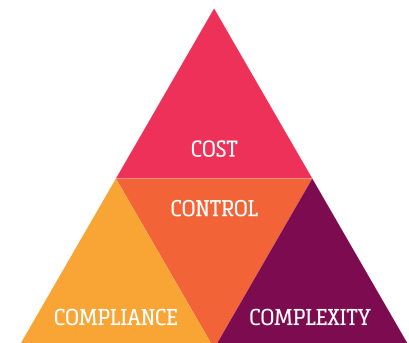
Among key criteria mentioned we nearly always see are:

### Control of Compliance

- Local legislation and regulation in each country
- Global financial controls (ISAE3402, SSAE16, SOX 404)
- Internal audit
- Physical and logical security policies
- Clear accountability and levels of authority

### Control of Complexity

- Single version of the truth
- An integrated solution
- Better visibility via simpler reporting tools
- End-to-end process management, i.e. no functional silos
- Uniform global data definitions
- Reduced number of systems used
- Reduced number of local unique training needs and skills
- Remove non-standard ways of working



### Control of Cost

- Reduced overhead costs, i.e. resources, hardware and software
- Predictable charges based on payroll volumes and countries
- Pay only for the services you use
- Standardize, streamline and automate manual steps
- One maintained interface from your HRIS instead of building and supporting country-specific solutions
- Economies of scale from using a multi-client service provider



Finding the right international payroll service provider, such as SD Worx, who can consistently deliver on these criteria helps build trust in the end-to-end payroll process. This gives peace of mind not to your corporate headquarters but also to your local workforces. Wherever they work in the world, your workforce will be paid and taxed correctly in accordance with local laws.

A trusted partner brings deeper subject matter expertise that will keep you legally compliant in all your jurisdictions, at the same time ensuring your company's controls are rigorously applied. You benefit from a single contract, a central point of contact and consistent service levels across the globe. This leads to **peace of mind** for your business.

In the next article we will look at improved employee experience.

# 4 | Improved employee experience

It may come as a shock to think of a payroll service having a direct impact on employee engagement. But, when you think about it, getting paid is an essential part of the employment contract. Getting paid accurately and on-time is a basic expectation, a so-called hygiene factor. If you get it right no one is likely to say thank you, but if you get it wrong it will have a major impact on your workforce's view of your business. Thanks to the power of social networking and employer review sites such as Glass Door, it could well damage your employee brand. Not being paid overtime or sickness allowances, not being paid commission, not being paid on the agreed date can all have a major influence on your employee's lives.

A well-constructed international pay service can guard against these risks in many ways, such as:

- Improved automation and end-to-end data workflow
- Clearer approval steps and levels of authority
- Better visibility of where the process is at any time
- Faster reconciliation, identification of variances and reporting
- Easier access to pay statements via a wider range of devices – browser, tablet or smartphone.
- Improved explanation of pay elements and deductions
- Better integration with national tax and social security authorities
- Better integration with third parties such as benefits providers
- Services, support and global technology based on local expertise and local languages

Building employee trust and confidence in accuracy and timeliness of payroll contributes to a happier workforce, and a happier workforce can have a major impact on your customer's experience. Therefore, it is possible to identify an international payroll service as a contributing factor to end-customer satisfaction. It certainly isn't the only one, but getting pay wrong can have a major impact on both employee and customer satisfaction. By investing in the right service provider and technology you can protect your **employer brand** by enhancing **employee experience**.



# 5 | Bringing it all together

In the material above, we shared our view that there are three common themes when it comes to successfully providing payroll services.

1 | Peace of mind

2 | Better control of costs

3 | Improved employee experience

We've also outlined the key reasons that businesses decide to move to a standardised multi-country payroll service. This final part will attempt to summarize our findings and recommendations.

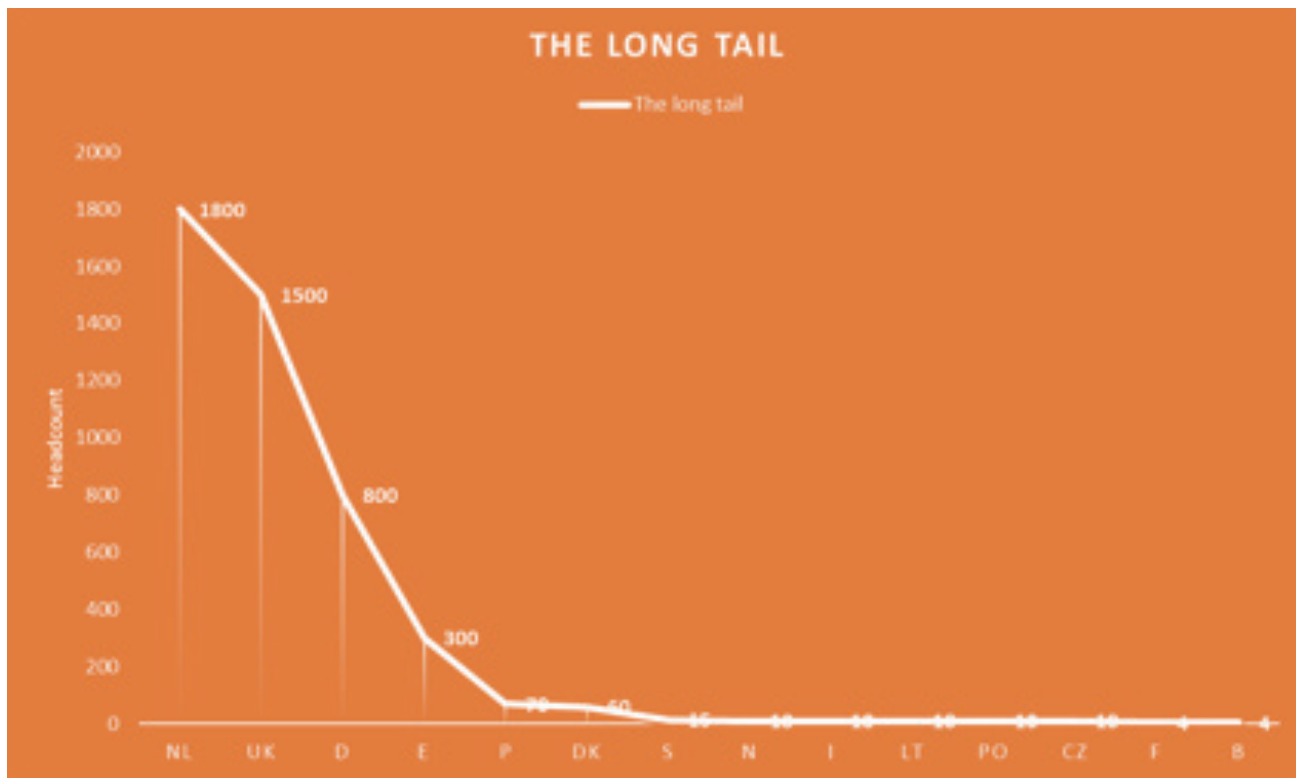
## The other side of the coin

It's worth saying that moving to an international managed payroll service is not the right answer for every organisation. If you have no requirement to:

- capture and report payroll costs globally
- impose and audit financial controls internationally
- standardise payroll-affecting processes
- reduce risk and exposure to fraud

then the advantages offered by moving to a single international payroll provider may not justify the level of investment.

There is also the issue of what is known as the "long tail". This describes a business where a few core countries have large headcounts but the rest of the countries have very small numbers of employees. It is a general fact that as headcounts go up the cost per employee per payslip goes down. Large headcounts attract processing discounts due to economies of scale. Small headcounts can result in processing costs being much higher compared with a local direct payroll solution. In such cases it may be sensible to apply the 80:20 rule and concentrate on engaging an international service provider who can provide a cost-effective solution for the 20% of countries that have 80% of the workforce. However, this is not a hard and fast rule and will depend on a particular business's financial control requirements and in-country capabilities.



One other scenario that doesn't appear to benefit from a multi-country payroll service is where management control is primarily at an individual country level with minimal corporate oversight or governance. In such cases the pre-work required to go to market for an international payroll solution will fail to get sufficient key stakeholder engagement to progress much further. In such a situation, should an international service provider be selected and appointed then the rate of implementation and go-lives is likely to be much slower. The overall effect is that one-time costs will increase and break-even may never occur.

Having shared all these scenarios, it is still important to realise that, for the vast majority of companies that are seeking to better control costs, reduce risks, and ensure financial and legislative compliance, moving to an international payroll provider is a sensible strategic move.

## Holding the gains

Over the course of this series of articles we have discussed three of the major advantages of moving to a robust international solution for your payroll. While very organisation is different these themes have regularly appeared in our discussions and are seen as key drivers for future business growth.

We have emphasised the importance of control of costs. This is the area with the most quantifiable and visible results and should form the core of any business case for change. As a minimum a good business case should compare the impact of moving to an international payroll service against the costs of doing nothing, i.e. staying with a range of local processes, resources, services and solutions by country.

We then went on to look at the demand for "peace of mind". While this may be seen as more abstract than "better control", we expanded the idea of better control from the previous article so that it included increased compliance and reduced complexity. We determined that compliance, complexity and cost can be visualised as the three key points of control and that by controlling costs, reducing complexity and increasing compliance we can deliver enhanced peace of mind to our business leaders, keeping them on the right side of employment law in all operational jurisdictions.

Finally, we turned our attention to improving employee experience globally by utilising the improved standardisation and automation an international payroll service can offer. The advantages provided by a cloud-based solution, accessible to your employees anywhere anytime on the device of their choice provide an opportunity for reinforce employee engagement leading to a stronger employer brand and the potential to enhance customer satisfaction. While this may seem a tenuous connection it is one that has been identified in several independent studies. We also know that failure to achieve this, i.e. paying people badly or later than expected, results in a negative impact on the workforce and its loyalty to the company.

Taken as a whole, these three themes should be central to your plans for multi-country payroll services. Not only should you make sure that they feature in your payroll service selection criteria, it is also important that you track them throughout the relationship in terms of benefits realisation. The ideal international payroll service is one where the customer and the service provider work together to ensure that the benefits continue to be delivered as the business continues to evolve.



**We at SD Worx are very interested in hearing your views and experience.  
Please write to us at [WeAreGlobal@sdworx.com](mailto:WeAreGlobal@sdworx.com).**



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