Payroll at the heart of HR Outsourcing
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A n increasing number of companies—large and small, local and multinational, and in all sectors—are outsourcing payroll to an external specialist. Certainly the complex, administrative and non-core nature of payroll “naturally” lends itself to outsourcing. Payroll however remains a critical component in labor relations and one of the most reliable source of information on human resources. The decision to outsource is therefore strategic.

Mindful that they are making an important choice, companies will find in this book the keys to understanding the different service models available for outsourcing their payroll. They will be better informed to assess the total cost of ownership of their payroll function, to determine the scope of their project and the level of responsibility to transfer to their service provider, to assess organizational changes and to embark on the transition.

Companies rightly expect outsourcing to bring them greater cost control and to free up energy and resources to focus on more strategic activities. The more international amongst them will also aim for global HR reporting, coupled with integrated business processes. But, as this book explains, the benefits go much further.

By outsourcing payroll, companies are taking steps to improve their HR performance, which is now measured at the highest level. As they strive for additional value, HR departments are also discovering that outsourcing can be a means of optimizing other talent management functions such as training, performance, recruitment and many more.

As a leading provider of HR services, ADP is in a unique position to share its deep first-hand knowledge about the opportunities and challenges involved in HR outsourcing. In this book, we have gathered the essential information on payroll and HR outsourcing for HR managers. Drawing on more than 60 years of experience, the paper examines best practices and highlights the evolution of outsourcing solutions towards new functions and multi-country processes. We designed it as a practical guide aimed at providing the key steps or advice to successfully prepare, plan and execute HR outsourcing projects.

Enjoy your reading!

Marc-Oliver Fiedler
Division Vice-President, Strategy & Marketing
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**PAYROLL: A WORLD IN ITSELF**

- The payroll paradox
- Dreaming of harmonized payroll rules
- Assessing payroll TCO

FOR A COMPANY TO RUN STEADILY AND IMPLEMENT AMBITIOUS HR STRATEGIES, PAYING EMPLOYEES ACCURATELY AND ON TIME IS A BASIC REQUIREMENT. ACHIEVING THIS IS NOT SIMPLE. IN EVERY COUNTRY, PAYROLL TURNS OUT TO BE A COMPLEX AND COSTLY ACTIVITY. ASSESSING PAYROLL-RELATED PROCESSES IS A SIGNIFICANT EFFORT THAT CAN HELP COMPANIES DECIDE ON THE MOST RELEVANT STRATEGY FOR KEEPING SUCH A CRITICAL FUNCTION UNDER CONTROL.

**THE PAYROLL PARADOX**

Employees and executives sometimes know little about payroll. Why should they learn more about it, as long as it works and everyone gets paid accurately and on time? For the majority, payroll is perceived as a recurring company commodity, at best known as a succession of standardized tasks aimed at issuing payslips on a regular basis in compliance with legal requirements.

**A matter for experts**

Behind the scenes, payroll is complex. A quick look at a payslip with its many and varied lines confirms this. And this is just the tip of the iceberg. The amount of data to be collected and processed before employees can get paid is impressive. Worldwide, payroll is about handling a wealth of information of all kinds. It turns out to be a multifaceted, fragmented, and very exacting activity.

Payroll operations are made up of multiple sub-processes combined in a consistent value chain. From data collection to reporting, from checking and controls to declarations, 14 different sub-processes can be identified, each requiring dedicated skills and expertise. This makes payroll processing a world apart and definitely a matter for experts within HR departments.

Payroll processing skills have a lot in common with those required for personnel administration. Since both are mainly administrative HR activities, they are often performed by the same HR experts within companies. Moreover, personnel administration is a key data source for payroll processing, as it handles employee fixed data (family status, bank details, etc.), variable data (absence, attendance, bonus, etc.), work contracts and social benefits.

As an essential part of their skills, payroll experts must understand and remain up-to-date on a wide variety of regulations that govern their activity such as national tax and labor laws, regional variations, industry-specific rules, company agreements.
A vital, non-core activity

When considering their different activities, companies often treat payroll as a non-core function. However, this should not conceal its vital importance. It is the main—if not the only!—reward granted by the company for the skills and work provided by employees. Paying employees correctly and punctually is more than a legal duty: it’s a prerequisite for internal stability. Payroll is actually central to the relationship between companies and employees.

It is also key from the perspective of HR management: payroll is the most reliable depiction of a company’s headcount. In fact, payroll data lay the foundation for a reliable HR Information System.

Payroll ends up being a paradox: on the one hand, it is a non-core and administrative task; on the other hand, it is mission-critical and a matter for experts. HR departments face this paradox as they aim to focus on truly strategic issues like talent management and succession planning. Can they relieve themselves of such a burden while keeping it under control?

DREAMING OF HARMONIZED PAYROLL RULES

Multinational corporations may dream of harmonized payroll in their subsidiaries throughout the world. In some regions there are efforts to harmonize labor laws—as with the “European Social Chapter”. But this has a limited impact on payroll rules. In practice, companies operating in several countries worldwide have to cope with very different payroll rules.

The many levels of legislation

Indeed, national labor and tax laws set the frame for payroll calculation. Third-party deductions and reporting (tax, social contributions and benefits), rules associated with leave and absences, working time and types of contracts are tied to national legislation.

Labor and tax laws vary significantly from one country to another. For instance, unlike most countries, France does not withhold employee income tax at the source. In the UK, employees can be paid on a monthly, bi-weekly, weekly, or even lunar basis (every 4 weeks). In Germany, a solidarity contribution created in 1991 to fund the country’s reunification efforts is one of the deductions on the payslip.

But regulations that impact payroll are not only set at the national level. They can be defined at state, region, branch and company levels. For instance, Brazil counts 10,000 union agreements across the country. There are 297 established minimum wages in Japan, 47 of which are regional (prefectural) and 250 of which are industry-specific. Some countries cumulate all possible layers. Sometimes, national legislation may be simple, but company agreements will be widespread.
Each country’s set of regulations leads to the various pay elements and lines that can be found on a payslip. A look at those issued in different countries gives an idea of payroll rules’ diversity.

**Frequency of changes**
Legislation can be more or less intricate but the frequency and predictability of legal changes may reduce or considerably amplify this complexity. Some countries manage to group once a year at a fixed date and with one-year notice. In such a case, applying changes is simple and straightforward. In other countries, legal changes are frequent and are just unpredictable. In that less favorable case, applying changes may require interpretation of unclear or conflicting laws and/or retroactive calculations.

**Pre- and post-payroll processes**
National legislation and institutional environment also strongly impact pre- and post-payroll activities. This heavily influences the complexity of the end-to-end payroll process. Four activities can illustrate this: relationships with third parties, absence and T&A (Time & Attendance) management, employee on-boarding and off-boarding processes and archiving requirements.

**Relationships with third parties**
The number of third parties a company has to deal with in a given country is, of course, a factor of diversity. But actual complexity lies more in the way reporting obligations has to be handled.

In most Western countries, significant efforts have been made to standardize and automate relationships with third parties. Companies and authorities have harmonized and unified returns, leveraging electronic exchange to limit the burden associated with the number of returns, declarations, and payments.

In other countries, the process of declarations remains heavy and complex, paper-based, manual, sometimes requiring hand-delivery of documents in person and getting a signature or a stamp. This adds to payroll complexity.
Absence and Time & Attendance
Absence and Time & Attendance management is an area where rules vary the most by country, industry sector and even by company.

Overall, categories of time off, leave and absences, working time, overtime and part time can be found in most countries: vacation, bank holidays, overtime compensation, shift work, night work, etc. But rules managing entitlements, accruals, credits, and calculations vary greatly. As an example, the number of absence types that require calculation of accruals and deductions vary from 10 to 50 from country to country.

Registration and archiving requirements
Like third-party returns, administrative duties tied to employee on-boarding and off-boarding processes range from a minimal set of documents or certificates to be provided electronically by flexible deadlines to a high number of documents printed on paper by strict deadlines.

As concerns archiving—years during which payroll data archives must be kept in the enterprise—legal requirements vary from 5 years in electronic format to 50 years in paper format, accessible to former employees.

These selected pre- and post-payroll examples illustrate how differences in regulations from country to country create a wide diversity in payroll processes around the world.

ASSESSING PAYROLL TCO
Evaluating the cost of a function like payroll, which shares data and tools with several HR processes, is not an easy exercise. But it is a prerequisite for creating possible savings. Different studies conducted by HR consulting firms and ADP have helped assess payroll’s Total Cost of Ownership (TCO) more clearly.

$250 per employee per year
These studies converge around an HR cost average of $1,500 per full time equivalent (FTE) in many countries. But this hides a wide diversity. HR costs particularly depend on the HR maturity of companies. They are much lower in enterprises focusing on administrative tasks than in those investing in their people’s career management. They also depend on other factors such as countries’ costs of living and companies’ industry, size, and history.

Still at a high level, studies commonly show that payroll combined with personnel and benefits administration accounts for 35% of total HR costs—thus an amount of $525 per FTE. Payroll costs, which represent nearly half of this, reach an average of $250 per FTE per year.

THE HR COSTS PYRAMID
Varying by country

As expected, this average payroll cost varies by country and studies reflect these variations. In Europe, payroll costs range from $100 to four times more in countries with complex rules. This logically impacts the relative weight of payroll in overall HR costs.

Another way to approach payroll cost diversity at a worldwide level is to look at the time spent by companies to comply with labor taxes, as provided by PwC and the World Bank. The annual “time to comply with labor tax” corresponds to the time spent by a medium-sized company in a given country to prepare, file and pay labor taxes and social contributions levied on employees and from employers. In the world, it ranges from 10 hours in Singapore up to 490 hours in Brazil. In Western Europe, the time required to comply is 45 hours in the UK, 148 in Germany and 214 in Italy.

Beyond time spent, the labor costs of resources involved in payroll production can be very different from one country to another. Cost of living in the places where payroll is produced is therefore a fundamental parameter influencing payroll costs.

Varying across companies

In addition to country-specific elements, payroll costs also vary across companies according to four additional major factors: industry sector, company background and culture, company size, and company organization and structure.

Industry sector

Payroll cost by FTE can be significantly different in labor-intensive industries with a high percentage of blue collar workers, sometimes associated with high turnover and varying work schedules, compared to sectors with white collar workers paid on a monthly basis. In the first case—retail, construction, catering, processing industries—payroll has to cope with a large number of hires and leavers, and complex time and absence management. In the second case, payroll data are more stable between cycles.
Background and culture

Companies’ backgrounds and cultures also have an influence. Traditional, long-settled industries—metallurgy, public sector—are governed by sophisticated collective agreements made up of an accumulation of rules—salary grids, seniority, etc.—which make payroll more complex. This will not be the case in lighter and younger companies, such as startups in high tech industries.

In the same fashion, the company’s history or development mode also impact payroll activity. Mergers and acquisitions increase the variety of contracts and statuses, thus limiting process standardization. On the other hand, companies growing organically, or by replicating the same organization model everywhere (such as some retail chains) will benefit from more harmonized rules.

Company size

Payroll cost is naturally correlated with company size, but not in the way one would think. Of course, the larger the company, the more sites, locations, collective agreements, and contracts it handles, the more complex its payroll will be. But as a trade-off, large groups benefit from economies of scale when the number of employees increases, with major thresholds at 1,000 and 5,000 employees. In fact, observations show that payroll TCO tends to be higher in small- and medium-sized organizations with fewer than 500 employees.

Organization and structure

The number of locations and affiliates of a company will be a factor amplifying complexity if payroll is managed on a decentralized basis. To avoid this, large companies, whether national or multinational, strive to align HR policies and processes across their subsidiaries. This also serves their reporting needs.

Yardsticks for assessing payroll TCO

Assessing payroll Total Cost of Ownership starts with identifying processes and tasks as well as components contributing to payroll production. The challenge is twofold: to determine the scope of payroll and to detect hidden costs.

Such a cost analysis requires breaking down the payroll processes into detailed components, from data collection to final distribution to employees, management and relationships with third parties. It is also key to decide which pre- and post-payroll processes are included in the study.

As a rule of thumb, data collection combined with data integration usually represents over 30% of payroll cost across companies and countries, as these sub-processes consist of multiple decentralized actions.
This is where the organization and structure of a company actually come into play. If payroll-related tasks are decentralized to business units and even carried out by employees and managers themselves, the detailed TCO analysis should take such distributed, indirect labor costs into account.

But the measurement of payroll TCO too often includes direct visible staff labor costs only, while indirect invisible costs or non-formalized activities are left out of the picture.

Invisible costs
IT components are the greatest part of the hidden costs of payroll. They include software fees, maintenance and upgrade fees, system integration and interfaces, hardware and subcontracting costs, time spent by staff on payroll systems.

The costs of risk should not be forgotten either. Any disruption of the payroll process leads to additional expenses—fines, back-up plans, reinforcement using temporary employees—for which provisions must be made, and which of course are integral to overall payroll costs.

As a guideline, studies commonly indicate a one-to-two ratio between perceived and actual payroll TCO. An ADP study conducted in France showed that, whereas people believed the cost per payslip was $20 per month, the actual costs amounted to $45 per payslip per month. That is $540 per year, far above the average of $250.

Four components
A comprehensive payroll TCO study therefore will include four key components summarized in the formula below. An on-line tool for a high-level payroll TCO assessment is available at http://www.tco.adp.com. Additional information on TCO studies can also be found at http://www.es-international.adp.com/tco.

\[
\text{Payroll TCO} = \text{payroll labor costs + IT labor and systems costs + outsourced costs + other costs (e.g., risk and compliance management)}
\]

Such an exhaustive approach leads to better estimates and a clearer perception of what payroll cost really represents. However, benchmarking payroll cost is and will remain complex.

HR and payroll specialists have acquired enough experience and developed methodologies to assess payroll cost in complex organizations. The resulting TCO analysis remains essential to companies as they investigate optimization options and possible alternative organization of payroll as a non-core but mission-critical function.
PAYROLL OUTSOURCING: TRENDS AND PRACTICES

A well-established practice
A map of contrasts
Embracing the multi-country challenge

PAYROLL OUTSOURCING WAS INVENTED BEFORE 1950. HISTORICAL DRIVERS REMAIN VALID. NEW MOTIVES HAVE APPEARED OVER TIME. TODAY, DEMAND FOR SUCH A SERVICE IS STILL INCREASING AND OFFERS ARE CONSTANTLY MATURING. PAYROLL OUTSOURCING IS NOW AVAILABLE AS A GLOBAL SERVICE, ADDRESSING THE NEEDS OF MULTINATIONAL COMPANIES.

A WELL-ESTABLISHED PRACTICE

Payroll outsourcing has been around for many years, long before the IT era. One of the initial rationales for companies was to prevent disruption. Should the key person in charge of payroll be absent for any reason, the provider was expected to deliver payslips accurately and on time.

The foundation was thus laid for payroll outsourcing to become a market. As early as 1949 in New Jersey, Automatic Payroll Inc. (ADP’s previous name) started helping local businesses to process their payroll. Today, ADP is cited as the first payroll outsourcing provider.

AROUND 150 MILLION PAYSLIPS

In some countries, payroll outsourcing has even been supported by local authorities. In Belgium, employers’ associations created the “Secrétariats Sociaux” in 1945 to assist small businesses fulfill their legal obligations—which include payroll. And these institutions still process payroll for 80% of the employees in Belgium (99% in small businesses). In Italy, the “Consulenti del lavoro” were created in 1965 to deliver a comparable service.

In Japan, companies must call on Certified Social Insurance Labor Consultants (CSILC) for labor and social insurance declarations. These local experts who hold nationally administered qualifications provide payroll services to 50% of Japanese companies with fewer than 100 employees (ca. 5 million people).

Innovation from service suppliers combined with changes in businesses priorities boosted the development of payroll outsourcing, which has become an industry. According to analysts, it represented a market worth over $15 billion worldwide in 2011. Around 150 million employees have their payroll processed by an external service company. Payroll outsourcing is now a well-established practice.
Historical drivers

Right from the start, companies discovered multiple reasons to outsource payroll. Most of them are still valid today. Among these, risk reduction comes first. On-time delivery of accurate payslips proved to be a critical contribution to business continuity.

Enterprises also figured out that outsourcing payroll would relieve them from keeping up to date with ever-changing legislation, as the service provider assumed responsibility for guaranteeing legal compliance. Such benefits increased with the emergence of IT. By choosing to outsource, companies avoid the need to upgrade and maintain payroll systems and software required to reflect changes in laws and rules.

Over time, payroll complexity has not decreased. This certainly stimulated thought about the nature of the payroll function—core or non-core—eventually leading more companies to outsource. In addition, enterprises saw the opportunity to turn fixed payroll costs into variable costs—more flexible and easier to adjust.

A last but rarely mentioned driver towards outsourcing is confidentiality. Regardless of the size of a company, preventing disclosure of people’s wages can be a challenge: the best way to protect sensitive information can be to keep it in an external, securely locked place.

Sustained demand

Today, demand for payroll outsourcing remains sustained, as many recent studies indicate. Payroll represents 50% of HR BPO spending and will remain the most outsourced HR process.

Next to historical drivers, new reasons to outsource have emerged. To adapt to a fiercer and more globalized competitive environment, a majority of firms have deployed strategies to focus on—or get back to—their core business. This has accelerated the transformation of non-core functions like IT, finance, purchasing, and HR—including payroll.

## PROPENSITY TO OUTSOURCE BY HR FUNCTION

<table>
<thead>
<tr>
<th>Service</th>
<th>Plan to Outsource</th>
<th>Currently Outsourcing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pensions administration</td>
<td>55%</td>
<td>13%</td>
</tr>
<tr>
<td>Health &amp; welfare benefits</td>
<td>47%</td>
<td>13%</td>
</tr>
<tr>
<td>Expatriate and relocation</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>Stock options administration</td>
<td>30%</td>
<td>12%</td>
</tr>
<tr>
<td>Training/development</td>
<td>14%</td>
<td>23%</td>
</tr>
<tr>
<td>Recruitment/selection</td>
<td>22%</td>
<td>15%</td>
</tr>
<tr>
<td>Leave</td>
<td>24%</td>
<td>10%</td>
</tr>
<tr>
<td>Assessment/performance appraisal</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Compensation</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Career &amp; succession planning</td>
<td>7%</td>
<td>6%</td>
</tr>
<tr>
<td>Employee communications</td>
<td>4%</td>
<td>9%</td>
</tr>
<tr>
<td>Entire HR function</td>
<td>5%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: “Global HR Transformation 2010” survey, ADP/SharedXpertise
New HR missions
HR objectives have more specifically been reshaped. HR departments are now expected to have a direct impact on the overall performance of their organization. They have gradually established themselves as business partners whose mission is to cost-effectively provide and manage talent, with measurable results.

As an outcome, HR departments concentrate on a few core value-added functions: recruitment, training, performance management. Is payroll processing part of that list? Most HR managers don’t think so. Outsourcing payroll allows them to secure a transactional function and free up resources for more strategic tasks. It’s even more true in countries which experience a payroll specialist shortage.

As they rely on an outsourced environment, HR departments gain flexibility. Having sometimes been considered poorly by their internal IT department, they become real clients facing a real provider.

In large organizations, all these business drivers have led HR departments to pool resources in Shared Services Centers (SSC). These SSCs bring centralization, sharing and better control at the domestic or regional level. SSCs turned out to be very complementary to payroll outsourcing. They actually provide an efficient interface between the company and its payroll provider, enabling a clear split of responsibility.

Leveraging digital technologies
Outsourcing payroll opens the door for a more efficient management of information systems. Companies can leverage application hosting models and architectures such as cloud computing, that are secure, shared, and designed to deliver services at a competitive cost. In-house payroll systems are no longer required, leading to maintenance and operating cost savings.

Payroll outsourcing provides the opportunity to optimize HR processes workflow. Suppliers offer Employee Self Service (ESS) and Manager Self Service (MSS) solutions, leveraging enterprise web-based or mobile connectivity to optimize access to HR and payroll information. For instance, managers can directly receive requests and approve time entries prior to the payroll cycle on a smartphone. Employees can update their personal information themselves or check their pay statements on the company’s intranet.

Lastly, outsourced payroll services quickly integrate technological innovations or regulatory changes. As an example, companies relying on outsourcing have been able to introduce digitized payslips shortly after country regulations allowed it.

Supporting growth and reducing costs
Payroll outsourcing has its roots in helping companies face internal disruption in “trouble mode”. But it has also been adopted by many enterprises operating in “growth mode”, regardless of their size. Payroll outsourcing brings them flexibility to move ahead with strong corporate growth or geographical expansion.

Standardization leads to faster deployment and updating, while giving access to an efficient service with best practices and consistent quality. Companies take advantage of economies of scale and consequently reduce their payroll Total Cost of Ownership (TCO).

A MAP OF CONTRASTS
Definitely a well-developed practice, payroll outsourcing is also a territory of contrasts. North America represents over 70% of the worldwide market—which is valued over $15 billion—and EMEA (Europe, Middle East, Africa) accounts for 25%. Asia-Pacific and Latin America respectively amount to 3% and 2%. But these last two regions show the highest expected growth rate for the years to come.

One reason for these differences lies with national cultures. Historically, North American organizations were more likely to outsource than those in Europe, where the trend is to be more traditional and keep things in-house. As for the countries with emerging economies in Latin America and Asia-Pacific, they embraced the trend more recently.

Outsourcing adoption rates
According to the International Labour Organization (ILO), the world counts 1.5 billion waged and salaried workers. The estimated 150 million employees who have their payroll outsourced represent 10% of those. Beyond this average figure, significant disparities exist. In the world, outsourcing adoption rates across countries actually range from close to zero up to 80%.
In North America, the payroll outsourcing rate varies between 20% and 30%. In the Asia-Pacific region, it is still below 5% in China and India, while over 30% in Japan. In Latin America, Brazil was the first to hit the 10% barrier.

Europe illustrates how disparities in payroll outsourcing adoption can appear across countries. Being culturally closer to the USA, the UK and, to some extent, northern countries became the Europe’s early adopters. The UK is also traditionally the primary location for US companies that set up business in Europe. Payroll outsourcing has therefore spread across Europe as a wave originating in the UK, moving southwards and eastwards where it is steadily growing and sustained by the geographical expansion of multinational companies.

As a result, payroll outsourcing rates in Europe range from 1% to over 80% (in Belgium and Denmark). The map confirms that northern Europe is more open to payroll outsourcing, while southern and eastern European countries have significantly lower adoption rates.

**Dynamism of payroll service providers**

The local presence and dynamism of service providers certainly play a role in the adoption of payroll outsourcing. New offers stimulate new demand for service just as national culture stimulates a vendor’s momentum.

Vendor innovation comes as another driver. By introducing well-tailored solutions and consolidating relevant business cases in the French market, GSI (now part of ADP) succeeded in convincing companies of all sizes that payroll outsourcing would be of value to them.

**Different drivers by company size**

Enterprises of different sizes may consider payroll outsourcing in different ways.

Small companies with fewer than 50 employees generally don’t have payroll expertise in-house. They generally obtain a package of services from accountants that includes a payroll solution. Small companies might not be aware of it, but they may benefit from the expertise of large payroll service providers that have developed back-office offerings for accountants, resulting in a two-tier outsourcing model.

Mid-sized companies have reached a size that generally justifies hiring internal HR resources, including payroll specialists. They tend to integrate and keep functions in-house and primarily consider outsourcing if they face disruption. But as they also compete on a global scale, mid-sized companies are re-thinking their structure and organization. They are therefore more and more inclined to leverage the benefits of payroll outsourcing to optimize efficiency.
In large companies, outsourcing is promoted as a strategic practice as they make a rule of focusing on core business and streamlining costs. HR’s mission is to contribute to company performance by managing its human capital. Payroll is considered a non-core transactional function and consequently very frequently outsourced.

Multinational companies are raising and significantly accelerating their outsourcing adoption rate. Outsourcing primarily offers them the flexibility to expand internationally without having to deal with the complexity and subtleties of different national regulations.

**Drivers for Outsourcing by Company Size**

<table>
<thead>
<tr>
<th>Company Size (Employees)</th>
<th>50</th>
<th>200</th>
<th>1,000</th>
<th>10,000</th>
</tr>
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<tbody>
<tr>
<td>50</td>
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<tr>
<td>10,000</td>
<td></td>
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</tr>
</tbody>
</table>

**Drivers**
- Demand
  - Strategic
    - Access to Expertise
  - Transformation
    - Multi-Country Standardization
  - Urgency
    - Disruption
      - Staff/Solution/Service
    - Efficiency and Cost Reduction
    - Organizational Change
    - Focus on Human Capital

**EMBRACING THE MULTI-COUNTRY CHALLENGE**

In the past 20 years, the number of employees working for a subsidiary of a multinational corporation (MNC) has more than tripled, reaching around 70 million in 2011. Including home countries, we can extrapolate that over 150 million individuals work for an MNC. These multinational businesses include major global companies with large production facilities spread across the globe as well as SMEs that are growing fast by opening small sales offices to break into new markets.

Companies operating internationally are globalizing cross-functional services such as finance, purchasing, IT, etc. HR is also on the list. The move began in the 1990s with an initial wave of HR functions that are “global by nature”: stock options, expatriates, high-potential profile management, closely followed by the HR Information System (HRIS). Today 35% of multinational companies say they have globalized those functions.

Payroll, however, is not global by nature. But payroll data is the most reliable source for a multinational to assess its headcount and control HR costs. So it is no surprise to find payroll on the list of HR processes a company would internationalize. Within HR, payroll globalization is expanding fast.

**Outsourcing on a global scale**

In the early 2000s, outsourcing started to emerge as a solution to globalize HR processes. In these days, large multinationals would sign multi-country full HR Business Process Outsourcing (HR BPO) deals. Payroll was part of such deals.

Over time, more standardized models for global payroll outsourcing—relying on a single platform—emerged. This met the expectations of a growing number of multinational companies, as they developed and expanded into new territories. Today, the payroll function is a central component in 95% of HR multi-country outsourcing projects.

**Ensuring compliance**

Outsourcing payroll globally to a single supplier actually helps handle the complexity of managing payroll in multiple countries. Companies free themselves from having to deal with a host of different regulations, employee policies, labor conditions, currencies, languages and directives. They rely on their supplier to ensure compliance with local regulations and accounting standards like Sarbanes-Oxley.
Payroll at the heart of HR outsourcing

Alignment
As they globally outsource payroll, companies consolidate consistent processes for all the countries in which they operate. This reinforces internal alignment and the sharing of best practices across all subsidiaries using the same HR policies and reference data. Everyone speaks the same language: company management obtains consistent indicators, resulting in easy-to-consolidate reports and greater accountability.

Efficiency
Multinational payroll services helps companies support their global workforce with optimized investment in infrastructure, software maintenance and systems consolidation. Having a single supplier for many countries reduces vendor technology costs.

Enabling flexibility and growth
Global payroll outsourcing offers multinationals of all sizes additional flexibility as they grow. Emerging businesses are relieved from acquiring local payroll knowledge as they settle in new countries. They simply ask their supplier to “open another country”.

Payroll outsourcing: trends and practices
For larger businesses, global payroll outsourcing may speed up integration in the event of an acquisition or merger involving foreign entities. Thanks to globally consolidated processes, companies can deliver a more consistent service to employees in all subsidiaries, guaranteeing the same standards everywhere in the world.

Models: a single platform...
Two models for multi-country payroll outsourcing have emerged, both with the goal of supplying clients with a unified process and a single contract for their subsidiaries around the world.

In the first model, suppliers rely on a single platform—generally an ERP—and the organization of regional Shared Service Centers as the basis for their multi-country offering. Implementation for each country is managed using a template-based approach, which drives methodology and reduces start-up times. The call on an ERP may also facilitate integration with client’s HR systems. Some providers alternatively chose to rely on a proprietary platform, which may generate additional maintenance, country customization and integration costs.

As the supplier is capable of serving different clients at the same time on the same platform, its technical and human resources are optimized. At the end of the day, this generates economies of scale. This model is aimed at large multinational organizations combining large subsidiaries—generally over 500 employees.

...or an aggregated solution
But an ERP system may be too heavy for a subsidiary with only a few employees. A small set of suppliers have therefore opted for an alternative aggregated solution model. They offer their clients a central tool aimed at managing payroll workflow for all countries. Calendars, deadlines, cut-offs dates: companies know where they stand with payroll in each country at a single glance.

In this model, payroll processing segment is delegated to local selected payroll specialists. It guarantees access to in-country expertise and compliance with regulatory changes. The expertise of the global outsourcing supplier lies in the ability to guarantee a consistent quality of service from its network of partners through process compliance policies and performance monitoring.
Combined models to fit all sizes

Designed with small- to medium-sized subsidiaries in mind, the aggregated solution model makes the integration of a new small subsidiary within a company’s global payroll processes a no-brainer. Leveraging the model’s momentum, suppliers have also developed tools and processes to handle greater numbers of subsidiaries, with greater numbers of employees—in the range of 500 to 1,000.

The single platform and aggregated solution models can be combined, resulting in a hybrid aggregated model. That makes it possible to manage thousands of employees in one country and two or three employees in another one. Companies just choose the model that best fits their subsidiaries’ sizes and keep the benefits of having one supplier, one contract and one common HR database.

Finally, providers’ global footprint and capability to deliver around the world determine their ability to keep up with their clients’ growth and geographical expansion. By building up a two-tier organization, at the regional and country level, suppliers organize themselves to serve their global clients around the clock on a long-term basis.
MODELS AND SERVICE LEVELS: CONSTANTLY EVOLVING

- BPO, SaaS, AMO, cloud... behind terminology
- Differentiating one-to-many models
- Outsourcing is breaking through the HR space

PAYROLL OUTSOURCING IS AN ESTABLISHED INDUSTRY. SOLUTION PROVIDERS KEEP ON INNOVATING TO MEET THE GLOBAL NEEDS OF THEIR CLIENTS AND COMPLY WITH REGULATORY CHANGES. AS DEMAND EVOLVES, AS NEW TECHNOLOGIES EMERGE, NEW SERVICES ARE INTRODUCED IN THE MARKET WITH THEIR OWN NAMES, TERMINOLOGY AND ACRONYMS. SOME DECIPHERING IS REQUIRED BEFORE EVEN BENCHMARKING SOLUTIONS.

BPO, SAAS, AMO, CLOUD... BEHIND TERMINOLOGY
Outsourcing is a planet on its own, with diverse lands, seas, mountains, and countries. Application Management Outsourcing (AMO), Software as a Service (SaaS), Managed Services, Comprehensive Outsourcing Services, Business Process Outsourcing (BPO), cloud-based services... A rich vocabulary, a lot of acronyms and almost as many dictionaries. Even experts are sometimes confused. How can we obtain a clear definition of each term?

Carrying on with the image of a map, we would add that frontiers between outsourcing models are blurred, but territories have been identified. Let’s attempt to build an operational nomenclature of outsourcing models by reviewing the available solutions in the market. Two criteria will serve as our prism: the nature of the transfer and the type of environment used.

First criterion: what is being transferred?
The first criterion concerns what is actually being transferred from the enterprise to the service supplier. Is it just IT infrastructure? Will the outsourcing partner provide application management? Will the service provider run processes—such as payroll processing—on your behalf? Will they run only a part of the process, or will they manage it end-to-end? Ultimately, is there a complete transfer of a function or a department to a supplier? Is this supplier taking over personnel, or an entire HR department as in some cases?

Outsourcing can actually occur at four different levels. Those levels are represented vertically on our graph (next page) where added value increases with the outsourcing level.

- **Infrastructure** – the service supplier hosts the IT infrastructure. The client is buying the service of installing, running and maintaining its applications. Invoicing is based on computing resources consumption—CPU, memory, storage or network usage. **IT hosting** and **IT outsourcing (ITO)** are at this level.
• Application – the service supplier hosts the infrastructure and the applications and commits to their availability and maintenance. The client makes use of these applications and remains responsible for operating activities correctly. Invoicing is based either on infrastructure and resources engaged or on application usage (pay per use). Application Management Outsourcing (AMO), and Software as a Service (SaaS) fall under this definition.

• Process – the client outsources the management and execution of a single business process. Service performance metrics are primarily tied to accuracy, timeliness and efficiency. In the case of payroll outsourcing, invoicing is based on the number of payslips produced: the delivery of results begins here. Processing Services are a typical outsourcing offering at the process level.

• Function – the entire function is outsourced. This is Business Process Outsourcing (BPO) or, in a more standardized and industrialized approach, Business Process Utility (BPU). The service provider takes responsibility for the end-to-end payroll value chain for its client, and is fully committed to results. Both "lift & shift" outsourcing and Managed Services belong to this category. In the case of "lift & shift" approach, invoicing is based on a due diligence assessment. In the case of Managed Services, invoicing is based on the number of employees managed.

Figuring out the unit base for invoicing is a straightforward way to clarify the actual nature of the transfer. To some extent, the outsourcing invoice holds the answer to a key question: is the service supplier committing to provide means or results?

A matter of responsibility
Behind the nature of the transfer, the dimension of responsibility actually becomes apparent. A supplier that provides access to an application assumes responsibility for its due delivery, but does not commit to the outcome of its usage. On the other hand, should a function or a department be outsourced, the supplier is accountable for the achievement of measurable functional results. Assuming responsibility for the deliverables of an outsourced function is of a totally different scale than performing a given task.

Second criterion: a shared or dedicated environment?
The second criterion deals with the environment set up by providers to deliver their services. This important differentiator is depicted horizontally on our graph.
The service environment is **dedicated** – this is the one-to-one model. The provider sets up one fully specific environment for each client. Only a good learning curve and the streamlining of internal processes will generate economies of scale and, hence, cost savings.

The service environment is **shared** – this is the one-to-many model. The provider serves multiple clients with the same platform and application environment. Using shared and more standardized means can be a significant source of cost effectiveness.

**One-to-one versus one-to-many**

Let’s illustrate the difference. At the application level, with AMO the provider maintains one application instance and one customized data definition for each client. With SaaS, the provider relies on the same applications to deliver services to all contracted clients at the same time.

At the process or function level, in the “lift & shift” or BPO approach, teams and infrastructure remain dedicated to a client as per the one-to-one model. On the other hand, BPU services—as an industrial approach to BPO Processing Services—and Managed Services are built according to a one-to-many model: they rely on shared infrastructure, application, and teams for delivering service to multiple clients. Such models offer a combination of commitment, strong expertise, and economies of scale.

**Cloud computing**

Rather than being a service model, **cloud computing** is an advanced way of managing, organizing and hosting information systems to offer services. Cloud computing provides secure applications, computing power and storage from the Internet—“the cloud”—and does not require the user to know the physical location of the systems. Cloud computing is a possible infrastructure for all kinds of outsourcing services.

**DIFFERENTIATING ONE-TO-MANY MODELS**

As one of the key drivers for payroll outsourcing, cost control has generated interest in solutions designed according to the shared, one-to-many models like SaaS, Processing Services and Managed Services.

**The fine line between Saas and Processing Services**

Both SaaS and Processing Services are online solutions, performed within a shared environment, and billed on a per-transaction basis. Payroll SaaS suppliers develop, maintain, and run online applications that cover the two central blocks of the payroll value chain (see fig. page 40). Their clients use these applications to produce their payroll. Thus SaaS is a way of providing access to a software application.

With Processing Services, the suppliers performs additional tasks, which include checking pre-payroll calculations, verifying that data has been successfully integrated, editing, and distribution. It also usually ensures compliance with collective agreements. SaaS and Processing Services further differ in the roots of their business: product for one and service for the other. Suppliers of Processing Services are primarily focused on service provision.

**A matter of commitments**

Processing Services correspond to the outsourcing of the central and most transactional part of the payroll value chain. Processing Services suppliers therefore commit to service levels and to the fulfillment of legal obligations:

- payroll is processed on time and accurately, in compliance with legislation, collective agreements and the client’s rules;
- service providers ensure payroll conformity with ever-changing legislation;
- the client company benefits from a support consultant bringing payroll expertise—and not only software knowledge.

Processing Services were one of the leading initial models in payroll outsourcing that evolved toward end-to-end coverage of the payroll function.
Managed Services: extending the scope of responsibility

Managed Services encompass the entire payroll value chain and are a comprehensive model for payroll outsourcing. The supplier manages every step of the payroll cycle from data collection to results validations and declarations.

Managed Services minimize risks and relieves organizations of legislative and compliance concerns. Adoption of Managed Services is growing across countries and size segments.

With Managed Services, the client outsources all the activities associated with payroll production. But he/she keeps control of remuneration rules, welfare policies, time and absence management, etc. Providers operate within Service Level Agreements (SLAs) defined with their client company. In addition some actions—such as declarations to statutory third parties—performed by the service providers still require final validation by the client.

Adjustable to clients’ needs

Managed Services can be adjusted to suit clients’ organizations. Should some processes such as time and labor data collection remain decentralized, the service provider assumes responsibility for checking data, thus playing its full role as defined in the Managed Services model.

OUTSOURCING IS BREAKING THROUGH THE HR SPACE

As HR departments entrust payroll production to an external supplier, they assess outsourcing benefits in terms of performance optimization and focus on core functions. They may then consider broadening the scope of outsourcing, starting with tasks that are closely related to payroll.

Employee queries, payroll disbursement

Among the ongoing responsibilities of payroll, answering employee queries about their payslips is another administrative and critical task. Some providers have enhanced their Managed Services capabilities to handle employees queries, thus delivering what is sometimes called COS—Comprehensive Outsourcing Services. As this activity directly affects staff relations, it requires suppliers to commit to high levels of efficiency and demonstrate a strong service culture.

Once payroll is processed, why not take it a step further and outsource the payment itself? Outsourcing suppliers offer payroll disbursement services to handle payments to employees and third-parties. The client is left with one payment transaction to its service provider and spared the management of large numbers of financial transactions.

Optimizing workflows, leveraging mobile devices

Employee Self Service (ESS) and Manager Self Service (MSS) tools offer the opportunity to optimize processes and foster collaboration. These applications deployed by service providers give direct access to payroll and HR services, within the frame of predefined workflows. Employees can enter time and absence information, check their pay statements and days off credits, as well as update personal information. Managers involved in payroll processes receive notifications, with the ability to approve or reject requests.

Towards B-to-E services

With the support of outsourcing providers, companies have begun offering a new category of services to their personnel—called Business-to-Employees (B-to-E) services, as HR and payroll information is now heavily, and even sometimes entirely, digitized.
Service providers have added mobile access to their ESS and MSS applications so as to take advantage of the wide adoption of smart devices. Employees and managers maintain secured access to payroll and HR services when away from the office.

In a growing number of countries, companies can deliver digital-only payslips to their employees. But such files must be stored in secure protected storage. Payroll outsourcing suppliers have expanded their solutions to offer filing and archiving services, not only to employers but also to their clients’ employees. Employees may be provided with a secure storage area for their payslips, but also for all kinds of HR-related information and possibly other personal files.

**HR administration**

HR administrative functions other than payroll are natural candidates for outsourcing, with personnel administration processes coming first. For instance, tasks such as handling employee registration and deregistration processes—often weighed down with many documents and certificates to produce within tight deadlines—or managing employee data and data files are time consuming and constraining. Outsourcing absence, sickness and leave management relieves a company from a significant administrative burden.

Beyond payroll and personnel administration, companies can leverage outsourcing for deploying Time and Labor Management solutions. Because they focus on planning, collecting and qualifying attendance data, such solutions also benefit from a good integration with payroll.

**HR management functions**

HR back-office functions are not the only administrative tasks handled within an HR department. Strategic HR management functions—performance management, training, recruitment, compensation, reporting, succession and organizational development—also include transactional dimensions: recording training plans, storing and managing appraisal schedules, keeping track of job applications and candidate interviews, etc.

Most HR outsourcing providers offer solutions to manage training, recruitment, performance and compensation. They rely on advanced integrated HR platforms to provide broad functional coverage that they usually deliver in a SaaS mode. With these tools, HR managers can drive their HR processes effectively and efficiently and monitor the implementation of their policies.
HR value services

Outsourcing service providers have extended their services to assist HR departments in producing dashboards as well as in monitoring and optimizing the performance of HR processes such as training, performance management and hiring. Such value-added services are especially appealing to companies with limited HR resources. They can then rely on outsourced services to achieve talent management objectives.

Having started by relieving HR departments of administrative responsibilities, outsourcing services now expand in supporting HR managers as they contribute to corporate strategic goals.
Looking beyond technology

The business case

Future design

Optimizing the transition

Governing the relationship

BEFORE MOVING AHEAD WITH AN OUTSOURCING PROJECT, COMPANIES SHOULD ASSESS THE CURRENT SITUATION OF THEIR PAYROLL FUNCTION, THEN DETERMINE THEIR FUTURE ORGANIZATION, DEFINE THE STEPS ALONG THE WAY AND SET A BUDGET. THIS PREPARATION PHASE CAN BE STRAIGHTFORWARD IN SMALL BUSINESSES. CONSIDERING ORGANIZATIONAL ASPECTS IS A KEY SUCCESS FACTOR IN A PAYROLL OUTSOURCING PROJECT.

LOOKING BEYOND TECHNOLOGY

Every payroll outsourcing project has a significant technical side associated with transforming the company’s HR Information System, but the project objectives go beyond technological changes. Outsourcing regards people and processes and carries organizational changes.

Factors such as people skills and the organization of the HR department—whether centralized or decentralized—must be considered. In small organizations, it may simply be about assigning new responsibilities to the staff in charge of payroll. In large and multinational businesses, it will be about designing optimized organizations to support harmonized multi-site or multi-country payroll processes.

The preparation phase of an outsourcing project will include at the minimum the production of two major deliverables:

• The business case evaluates outsourcing scenarios from an economic standpoint to justify the investment and assess the added value of the project.
• The future design describes the target organization once the payroll function has been outsourced. It is meant to anticipate changes.

These two deliverables are not necessarily produced in sequence. They are highly interdependent and likely to influence each other through successive iterations as they are refined.

Once the decision to outsource is confirmed, two other deliverables will help guide the transition and the relationship with the selected partner over the long-term.

• The transition plan schedules the different phases for rolling out the project while optimizing the use of the budget and other resources.
• The relationship governance model establishes organizations and rules for successful and lasting collaboration between the company and its service provider.
THE BUSINESS CASE

The objectives of the business case are to identify the cost reduction opportunity and highlight the value added brought to the organization by the introduction of outsourcing services. It should enable project owners and decision makers to make a fully informed decision.

The business case comprises:

• “Current” assessment/analysis: an assessment of the current payroll organization
• “Future” criteria: the benefits expected from the future payroll organization
• “Future” assumption and scenarios: description of the different organizational options
• Key findings from comparison of “Current” and “Future” organizations: in terms of costs, total cost of ownership, tangible and intangible value added
• Financial data: payback, cash flow, project funding and financials
• Roll-out plan: the plan for transitioning from the current to future organization

A payroll Total Cost of Ownership study, as described in chapter 1, is one of the tools used to build the business case.

The right information at the right time

The business case content can be gradually enriched to meet expectations from different audiences. In the preliminary research phases, a high-level business case will evaluate different scenarios and the corresponding benefits, targeting executive management to justify the investment and secure funding for the project.

Once the go-ahead is given, a detailed business case shall provide an in-depth cost study to confirm the expected savings. It will rely on a precise description of the future organization. The detailed business case is often produced during the contract development phase, with the assistance and expertise of the service provider.

A business case “life cycle”

Targeting large and multinational organizations, specialized consultants have developed a four-stage approach for producing business cases in outsourcing projects. During preparation, the project scope is defined and any resources that will be involved are notified. The data gathering phase then helps collect information such as descriptions of existing process, the current internal cost structure and the projected cost of the service. It is followed by an analysis to calculate the cost savings and return on investment generated by the project. Finally, the key findings include a summary of the cost study, a description of the retained organization and the roll-out plan.

A BUSINESS CASE APPROACH

Preparation
• Kick-off-project
• Identify project team
• Introduce approach and confirm scope
• Alert regions and local players.

Data Gathering
• Confirm assumptions to be used in the business case
• Questionnaires
• Conference calls/web conferences
• Supplier pricing.

Analysis
• Calculate savings & ROI / Roll-out plan
• Data consolidation
• Review value add assessment.

Findings
• Final presentation of findings & recommendations
• Future vision & retained organization
• Cost comparison
• Next steps.

Small and medium businesses can adapt that “life cycle” with a simpler process. For instance, they may be able to collect all the data about existing processes and related costs through simple questionnaires or short meetings with key stakeholders—payroll administrators, IT managers for instance.
Add value!
During a business case study, costs (and cost savings) will garner a lot of attention. But, decision makers and project stakeholders are also interested in strategic benefits, such as increased flexibility in the event of acquisition or international expansion, as well as risk reduction, process harmonization and compliance with accounting standards (Sarbanes-Oxley). All these aspects of the value added by an outsourcing project shall be reflected in the business case.

FUTURE DESIGN
Designing the future payroll organization is another key step in preparing an outsourcing operation. This phase first aims to formalize the division of responsibilities between the company and its service provider. It also sets forth the description and design of the retained organization—including what should be kept in-house—with the skills and staff size required for the processes and activities to work properly. This phase goes hand in hand with the business case and is truly crucial to prevent redundancies and optimize resources.

Retained organization roadmap
Designing the retained organization can be extremely straightforward in small enterprises, where only a few people are involved in the payroll processes. On the other hand, it relies on a structured approach in large and multi-country organizations.

The first step is defining the project scope from a geographical and functional standpoint.

Once the functional scope is defined, it must be decided which part of the corresponding activities will be outsourced and which will remain in-house. The goal is to establish a new organizational model with a clear responsibility matrix between the company and its future supplier. This requires a good understanding of outsourcing models (see chapter 3). In addition, the new organizational model will indicate whether retained resources remain local or are grouped at the country, regional or global level (e.g. in shared services centers) to achieve significant efficiencies.

Skills, opportunities and staff size
With the implementation of outsourcing, the roles and tasks of the HR staff kept on hand will evolve. Companies must assess which skills and competencies are needed in their new organizational model and create the corresponding job descriptions. The transfer of transactional tasks to a service provider shall offer opportunities to develop new value-added missions within the HR departments.

Companies should then scale their retained organization, considering the overall volumes to be handled for the tasks that remain in-house. Direct comparisons of staff sizes before and after outsourcing may not always be meaningful as jobs and functions will change.

Outsourcing in-house functions—typically payroll—implies changes in technology. As they scale their new HR organization, companies must also specifically adjust IT staffing and skills.
OPTIMIZING THE TRANSITION
A payroll outsourcing project starts with a transition phase, called “implementation” or “set-up”. Its purpose is to put the new organization in place with the help of the service provider. It is only after this stage has been completed and validated that payroll production can be shifted to the new environment.

Three parallel transition streams
Viewed as a whole, the transition to an outsourced environment comprises three parallel streams. Each stream is a sub-project with its own steps, delivery milestones and approvals.

Plan thoroughly
Planning this transition phase is crucial. It must also take into account the scheduling of other projects by the company at its different sites (relocation, restructuring) that could already be using HR, IT and management resources.

In the case of multinational firms, it would be wise to organize the transition in waves. Payroll outsourcing would begin with the smallest subsidiaries, where the organizational impact is, in theory, lower. The transition may be faster in these entities, making it possible to build momentum with a series of “quick wins” that immediately deliver the expected benefits.

At the same time, preparation will begin for the more massive and delicate transitions at the larger subsidiaries and headquarters. This will be carried out in a second wave that will begin with a “big” pilot country. The project managers will, of course, draw on the success and experience gained in the smaller entities.

A matter of people
The success of the transition to an outsourced environment ultimately hinges on people and their commitment. The project must have a sponsor at the company executive management level; this person must have acknowledged credibility to carry the vision.

In large or multi-sites organizations, it is crucial to build a robust, lasting team at the corporate level and to involve local coordinators in the different sites or subsidiaries.

This team and the service provider’s team must be aligned. The service provider should spell out how it is organized and what kinds of counterparts it needs. Moreover, it should list the skills that it expects to be provided by the company in the various transition phases.

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The “Process Conversion” stream refers to the design, deployment and testing of new processes.

The “Service Implementation” stream covers the technological dimensions: converting systems and applications on the one hand and migrating data on the other hand.

Finally, the “Change Management” stream consists of supporting and preparing the teams for the new organization. It is founded on communication and training plans.
GOVERNING THE RELATIONSHIP
Before switching to service on a recurring basis, it is mandatory that all the implementation steps have been completed and validated. Service can then begin at the “go-live date”. Depending on the size of the company and the scope of the outsourcing project, this changeover will take place all at once, site by site or subsidiary by subsidiary.

Once the service has begun, the relationship with the service provider will continue, but in a different vein. Two aspects of governance—operational and strategic—must be considered.

Operational committee
The operational aspect is the regular monitoring of the service and its operations. It is based on regular service reviews, which provide an instant assessment of the most recent payroll cycle thanks to monitoring tools and performance indicators. An operational steering committee will meet quarterly to decide on any enhancements and take stock of any improvements underway.

Operational oversight will involve the client’s HR and payroll staffs and the service provider’s service delivery manager. For multi-site or multinational companies, the monitoring will occur at several levels: local/corporate or local/regional/global.

Strategic perspective
The second aspect of governance is strategic. It entails analyzing service performance over the long term, reviewing the satisfaction surveys carried out by the provider, examining the effective return on investment and seeking functional or organizational updates beyond the scope of the current outsourcing contract. These topics will be addressed at bi-annual meetings of an executive strategic committee, involving HR management or another member of the company’s Excom.

Managing the relationship with a service provider requires that the various points of contact be identified and known in advance. This is why it is useful to have a responsibility matrix that sets out the different roles for operational and strategic governance. The company and its service provider must find the most appropriate model by aligning (mirroring) their respective organizations.
THE ULTIMATE FACTORS

Rational motives
You said “outsource”?
Those who take the step

5

WITH SO MANY LONG-ESTABLISHED, WELL-FOUNDED REASONS TO OUTSOURCE PAYROLL, ALL COMPANIES SHOULD TAKE THE STEP. GRANTED, MORE AND MORE COMPANIES DO, BUT THERE IS VISIBLE UNCERTAINTY AND SOMETIMES EVEN RESISTANCE. TO UNDERSTAND THE UNDERLYING REASONS FOR THIS PHENOMENON, IT IS NECESSARY TO LOOK BEYOND THE WORKINGS OF RATIONAL MOTIVES AND FIND THE ULTIMATE FACTOR OF DECISION.

RATIONAL MOTIVES
This book could have ended with Chapter 4. After all, it describes the paradox of payroll and shows how today’s fine-tuned models for outsourcing of this function, with its proven track record, ensure successful outcomes. Could there be any lingering doubt about the relevance of a solution that guarantees a company’s compliance with legal requirements yet does not burden it with undue charges?

How can uncertainty exist when the motives that led early-adopters to outsource have lost none of their compelling rationale, ranging from legal compliance to business continuity, from the need to streamline administration to the urgency to focus on core business?

How can there be resistance when globalization and the consequent need for agility and optimization are added to the customary motives? Outsourcing clearly leads to mastery of the maze of legislation, enables solutions to be scaled to headcount levels and, ultimately and structurally, cuts costs!

Relevant offerings
The flip side of demand is supply. These days no sector of activity, from catering to banking and chemicals to automobiles, can claim of a lack of suitable offerings. Suppliers have succeeded in segmenting their services to meet the needs of businesses large and small, multinational and local. They have also managed to extend their solution portfolio to cover key HR functions.

Lastly, outsourcing services can be picked à la carte—from simple data processing to the complete transfer of responsibility for a payroll department, from payslip production to financial flow management, and from overtime recording at the workplace to answering employees’ questions on their net salaries. In the HR space, companies can rely on outsourced platforms and services to deploy performance-driven HR policies in areas such as recruitment, training management, succession planning, time and labor management, etc. In brief, the demand is there, the motives are many and interlocking, the offering end-to-end and scalable, the milestones set, the pitfalls and best practices known. And now?

The unanswered question
Well, if this story had ended with chapter 4, one question would have remained unanswered. If every company has not outsourced, it is because the countless objective reasons for doing it do not automatically trigger the decision. Beyond these rational motives, each of which seems sufficient, one critical condition must exist. The unanswered question is perhaps the most important of all: What is the ultimate wellspring of decision?
YOU SAID "OUTSOURCE"?
The wellspring is fed by two sources. One reshapes the in-house function with its close links to social issues. The other creates an environment where confidence in the partner is strong enough to take the step. And these two actions can occur simultaneously. Many companies, especially those of a certain size, have been convinced of outsourcing’s benefits by a provider whose initial mission was to conduct an audit. The audit phase obviously fosters mutual understanding. For weeks, even months, teams share the same stakes and work closely together throughout tense meetings and urgent presentations while senior management demands accountability, performance metrics and decision support tools.

In the same time, trust increases between the client and the provider and the latter progressively becomes the natural choice to be the outsourcing partner. This way shows that the wellspring of the decision to outsource can be found in both rational conclusions and the trust that develops between individuals.

Service minded people
What emerges from this formative period is the realization of commitment to service. As industrial as it is, as it must be to deliver optimum returns, the outsourced payroll service can fulfill its promise of timeliness and readiness only if the provider’s engagement is shared wholeheartedly by all its people, meaning not just committing to the means, but to the results as well. From this moment, the client is not only served but also mobilized. It is understandable that such a promise has greater credibility when it is made by service companies who themselves experience their employees’ commitment to the corporate mission each and every day. Moreover, it is difficult to anticipate this radical transformation that will replace the usual contacts between the company’s own services with a client-provider relationship. In large companies where sometimes the level of prudence is in direct proportion to their size, the discovery process that takes place between individuals can last for months, even years. Over time, a paradox will emerge, echoing the payroll paradox described in chapter 1: to outsource is first to let the partner in!

THOSE WHO TAKE THE STEP
After the courtship, hesitation waltz and long march toward establishing trust, it’s time to say a word about those who no longer waver and have outsourced their payroll. once they take the step, they rarely look back.

First, economic performance. The case in point is a prominent Europe-based chemical company that has been deeply affected by the crisis in its sector. Now it enjoys renewed growth and strong performance driven by its high-stakes strategy to focus all forces on the core business. The result: payroll is part of its global outsourcing plan. Next, standardized performance metrics. In this case, a global leader in IT signed with the world leader in payroll outsourcing to have all its subsidiaries adopt best practices and a world-class data model.

Last, offering all employees the same service and administrative guarantees. This is what has been done by a major name in real estate that is centralizing payroll in spite of the fact that its employees are scattered across dozens of countries. By entrusting the production of all its payslips to a single provider, it guarantees the same standards for all.

Proof of maturity
Above all, this is the case of countless small and mid-sized companies whose high potential arises from their passion for their businesses and the turbulent forces of growth. Beyond the opportunities of their business models, a key success factor is management readiness to outsource an outlying yet critical function. It is certain proof of the maturity of the company’s leaders, and investors are sure to notice.

Timing is everything
It has been seen that the decision to outsource can make the difference between make or break. Now it’s time to act.
Chapter 1
DREAMING OF HARMONIZED PAYROLL RULES

ASSESSING PAYROLL TCO
• Pages 13-14, 17-18: ADP internal research, “HR Processes Time & Cost”, July 2011
• Page 15: © 2011 PwC. All rights reserved. Extract from “Paying Taxes 2012” publication, available on www.pwc.com (joint publication from the World Bank, the International Finance Corporation [IFC] and PwC)
• Page 16: ADP internal research “Payroll Complexity Factors by Country”, July 2012

Chapter 2
A WELL-ESTABLISHED PRACTICE
• Page 21-22, 25: ADP internal research. Market size figures in $ value derived from industry analysts’ research.
• Page 23: chart from the “Global HR Transformation 2010” survey, ADP/SharedXpertise

A MAP OF CONTRASTS
• Page 26: ADP research and IDC graphic “The Outsourcing Wave”
• Page 28, 30: ADP research

EMBRACING THE MULTI-COUNTRY CHALLENGE
• Page 29:
  §1: “World Investment Report 2012”, UNCTAD (United Nations)
  §2: “Global HR Transformation 2010” survey, ADP/SharedXpertise
  §5: ADP research and industry analyst reports
ABOUT ADP

Automatic Data Processing, Inc. (NASDAQ: ADP), with more than $10 billion in revenues and approximately 600,000 clients, is one of the world’s largest providers of business outsourcing solutions. Leveraging over 60 years of experience, ADP offers a wide range of human resource, payroll, tax and benefits administration solutions from a single source. ADP’s easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world.

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