Global payroll
Myth or reality?

Global payroll survey
April 2013

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Introduction

The global payroll landscape has continued to change dramatically over the last 10 years. New providers, technology, vendor service delivery models and global capabilities have made payroll administration possible, at least conceptually, across complex global organizations.

Given this environment, our clients often ask us if one organization can provide a truly global payroll solution. In other words, is global payroll a myth or a reality? We decided to seek some answers by starting with just a single question on LinkedIn to find out if client and vendor organizations believe a single, consistent global payroll model exists:

Do you believe there is a single provider in the market today, regardless of the service delivery model, that can support the payroll needs of a global enterprise actively engaged in 90+ countries?

The responses were almost evenly divided: while service providers strongly believe that global payroll was a reality, most organizations (or buyers) strongly disagree.

One could easily debate the point from both sides. Organizations (buyers) are looking for the confidence delivered by a truly global service delivery model using standard, consistent systems and processes that are compliant with local regulations delivered by a single global company. Service providers (vendors), however, argue that they can deliver the best solution for their customers by diligently managing and overseeing their global network.

As a result of these opposing perspectives, Ernst & Young sponsored this survey to gain a better understanding of how organizations perceive global payroll within the context of their cultures and governance models. The survey focused on the experience of organizations with delivering payroll either in-house, via external vendors, or a hybrid of both. It was designed to understand the operations and processes currently in place in multinational organizations and to explore what might be needed in the future.

The Ernst & Young Global payroll survey was conducted via live telephone interviews targeting global service providers (vendors) and organizations (buyers) in 16 countries across 5 continents.

Whether global payroll is a myth or reality, the fact is organizations, both public and private, need to pay their employees in a timely, accurate and compliant manner. Thus a question remains: what are the best practices for multinational organizations, especially those entering new or perhaps emerging markets? This report seeks to address this question and reveals that some global organizations are moving to adopt a standard approach. Other companies, however, show a strong reluctance to transform payroll operations to adopt a single global approach.

Our survey also determined the payroll function is housed primarily in human resources (HR) or finance. Regardless of where it is located, however, payroll represents a vital function to the organization and its reputation cannot be understated.

This report will assist HR, Finance, Tax and Payroll directors in determining the right questions to ask within their organization when assessing the business needs of their payroll model. It also addresses expectations of the payroll outsourcing market. We will address the following questions and more: what will the continuing complexity of business expansion plans and the resultant impact on payroll reporting have on future operating models? Will increasing automation and employee self-service and mobile technology expectations drive the next wave of technology development? This report shares the results of this survey together with insights from experienced Ernst & Young payroll professionals.

Finally, we hope this survey and insight provide you with information to assist you with your payroll delivery model. This report and others are part of our series of Human Capital research thought leadership. Other Human Capital research can be found at www.ey.com/gl/en/services/tax/human-capital/services---human-capital.

We'd also like to thank everyone who took the time to respond to the survey. Your contributions are greatly appreciated. If you would like to discuss the results in greater depth or talk about your efforts to align payroll delivery across countries, then please contact either Jeff or Stuart or one of our colleagues in Human Capital. You can find our contact information on the back page of the report.

Jeff Brown
Principal, Human Capital
New York

Stuart Steele
Partner, Human Capital
London

Global payroll survey

Organizations are continually expanding and improving their global operations and service offerings. Many businesses responded to the initial wave of expansions and acquisitions by working with in-country payroll providers as needed but with little or no connection established with the company headquarters. This has led to a challenging environment for many companies due to the lack of vendor governance, compliance, process standardization and reporting. Regional delivery models represented an early attempt to address the issue by consolidating vendors and access to information. However, cost-cutting pressures have led to further centralization and a higher degree of standardization, which is clearly reflected in our survey results. These findings show that regional variations further highlighted the need for planning that accounted for cultural and regional sensitivities in the process of compensating a global workforce in a timely, accurate and cost-effective manner.
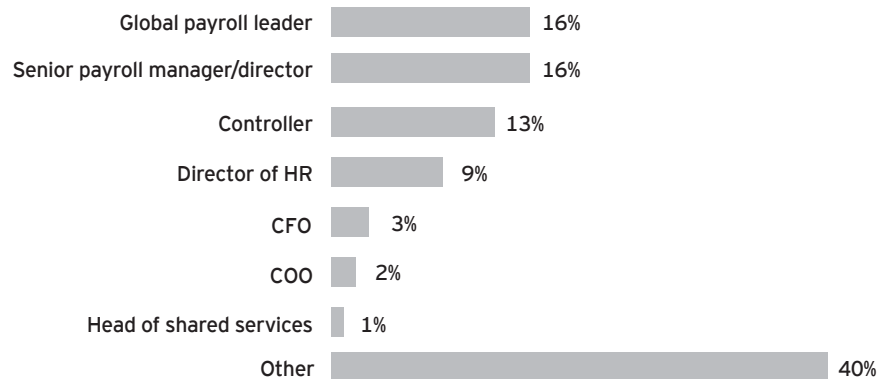
What is your current title, and in which country is your company currently headquartered?

The Ernst & Young Global payroll survey participants were chosen for their ability to offer insight on how payroll operates globally. Live surveys were conducted using local language telephone interviews with more than 160 multinational organizations. All respondents were the primary decision-makers – generally global or senior payroll leaders – that provided comments on their specific payroll delivery models and challenges.

In order to gather a global perspective, the organizations targeted for the survey had operations in at least 4 countries, with more than 70% of respondents having operations in at least 10 countries. As a group, the organizations were headquartered in 16 countries across 5 continents, with approximately 50% headquartered in the US, China or the UK. More than 80% of the organizations surveyed had fewer than 50,000 employees worldwide, with most employees based in North America, Asia or Europe.
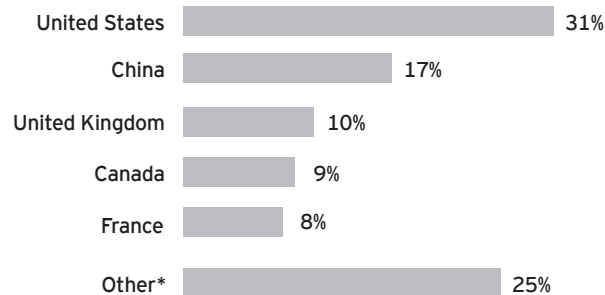
As a result, the survey respondents represent a globally diverse group, able to provide in-depth understanding and detail on how payroll for global companies operates.

What is your current title?

Title	%
Global payroll leader	16%
Senior payroll manager/director	16%
Controller	13%
Director of HR	9%
CFO	3%
COO	2%
Head of shared services	1%
Other	40%

Number of responses: 161

In which country is your company headquartered?

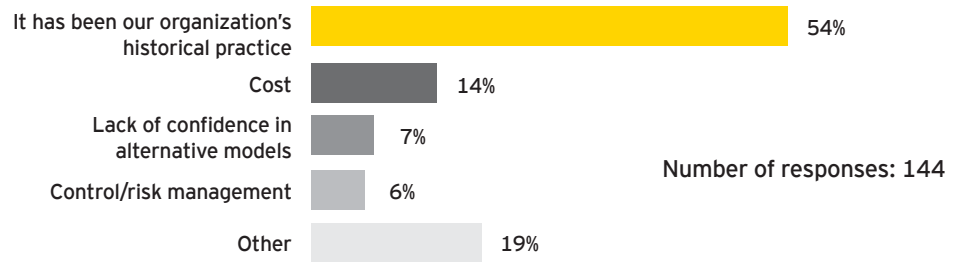| Country	%
United States	31%
China	17%
United Kingdom	10%
Canada	9%
France	8%
Other*	25%

*Germany, South Africa, Australia, India and Japan each accounted for 4%.

Thinking about your existing payroll model, which of the following do you consider to be the main driver for your existing payroll operating model?

When looking at why organizations operate their current payroll model, the old adage of "if it isn't broken, don't fix it" seems to apply. Historic practices still dictate why organizations continue to operate many of their processes and systems. Of course, if little has changed in the way of business strategy, size, geographic scope, acquisitions or mergers over the past several decades, then this may be a perfectly appropriate response. In reality, however, relatively few organizations can make that claim.

Cost, not surprisingly, remains a key driver for the review of existing payroll operating models. However, cost scores a significantly lower percentage of responses (14%) than historic practices (54%), again suggesting a level of comfort and/or a lack of understanding of the need for change.

Thinking about your existing payroll model, which of the following do you consider to be the main driver for your existing payroll operating model?

| Category	Percentage
It has been our organization's historical practice	54%
Cost	14%
Lack of confidence in alternative models	7%
Control/risk management	6%
Other	19%

Number of responses: 144

Which of the following best describes how your payroll operation is currently serviced?

Few respondents, just 12%, operate using a fully outsourced model with a single outsource provider for global payroll services. About 28% rely solely on a complete in-house delivery model. A far larger share of the respondents, 60%, use a hybrid approach, choosing to outsource certain payroll processes while maintaining some in-house ownership.

The fact that only 12% of respondents fully outsource payroll may reflect that:

▸ Organizations do not have confidence that payroll providers can deliver on end-to-end solutions.

▸ The geographic footprint of the vendor community may not fit the needs of the organization.

▸ The maturity of the payroll outsourcing market is not at desired levels.

Which of the following best describes how your payroll operation is currently serviced?

- Hybrid: both fully outsourced and in-house — 60%
- In-house — 28%
- Fully outsourced — 12%
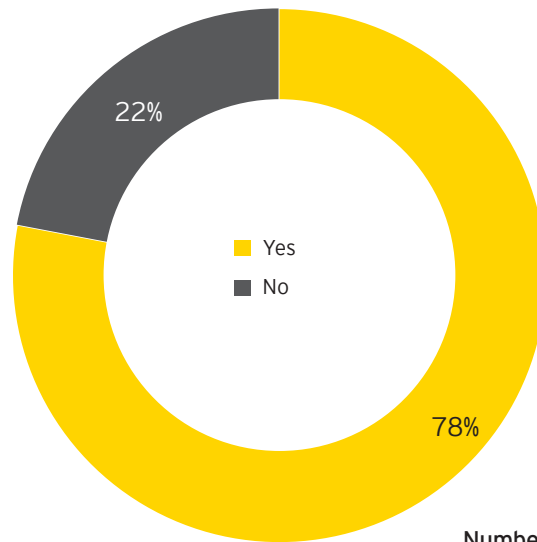
Number of responses: 161
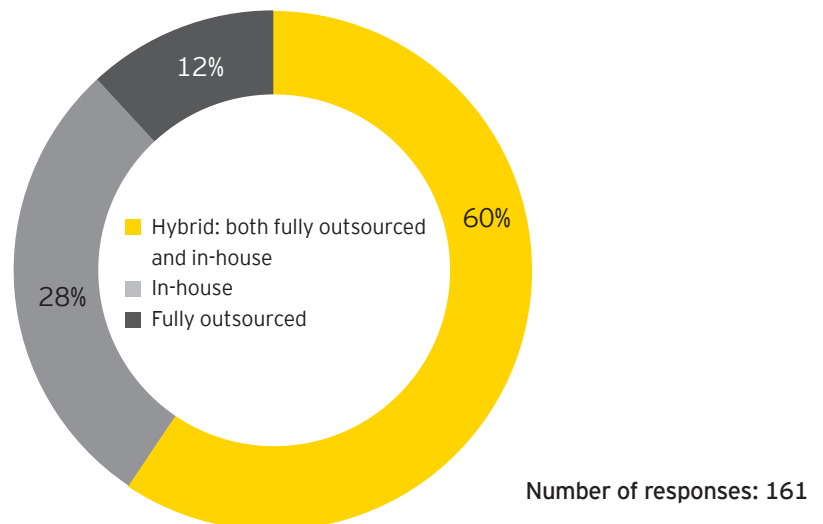
Does your current payroll outsourcing model vary by geography?

Responses to this question are likely the first indicator that organizations struggle to find what they would define as a single, global provider. The reasons for this could vary. For instance, it may be simpler, cheaper and faster for an organization to manage payroll for a new start-up operation of just 10 people in an emerging market through a local boutique provider. The compliance complexity may also be a factor.

The survey was conducted among global organizations only, which means that the "No" response percentage implies that a global payroll model can exist. However, it is important to note that this response is influenced by the companies' countries of operation. Organizations that only operate in mature markets are more likely to be able to adopt a truly consistent global model.

Does your current payroll outsourcing model vary by geography?

22%

78%

- Yes
- No

Number of responses: 114

Within the next 12 months, are you considering:

▸ Switching to a new vendor

▸ In-sourcing any portion of payroll

▸ Outsourcing any portion of payroll

Companies are continuing to explore the hybrid service delivery model and looking for ways to outsource all or part of their payroll operations. Close to 40% are sufficiently dissatisfied with their existing outsourcing provider to consider a switch to a new provider. This suggests that once payroll is outsourced, it generally remains outsourced.

Dissatisfaction with the service provider and headcount growth are the two primary reasons why organizations change vendors.

Are you considering switching to a new outsource payroll vendor in the next 12 months?

4%
39%
57%

Yes
No
Unsure
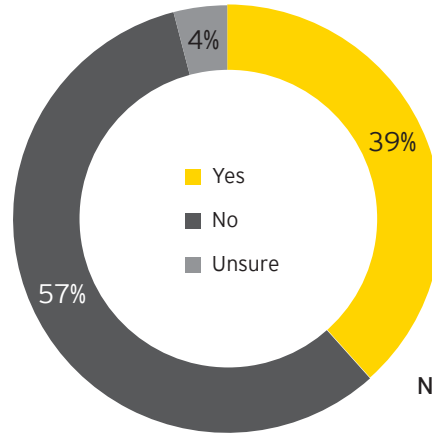
Number of responses: 115

Are you considering bringing any portion of your outsourced payroll services in-house in the next 12 months?

5%
19%
76%

Yes
No
Unsure
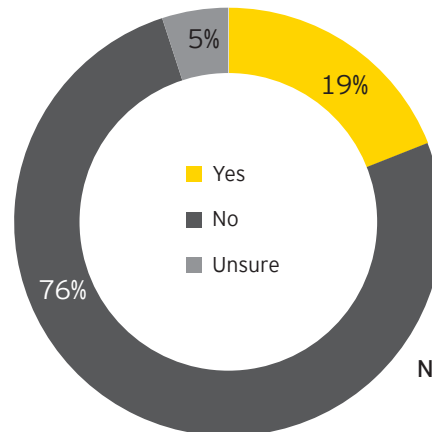
Number of responses: 115

Are you considering outsourcing any portion of your payroll operation in the next 12 months?

9%
21%
70%

Yes
No
Unsure

Number of responses: 142

Which of the following best describes your current payroll administration model?
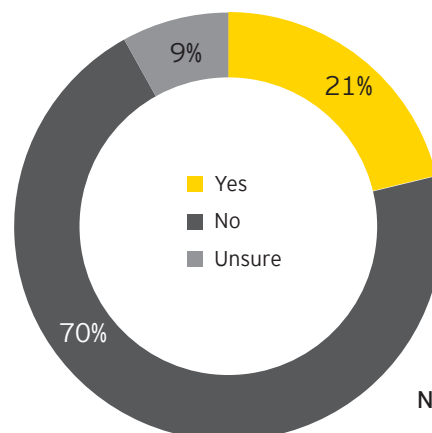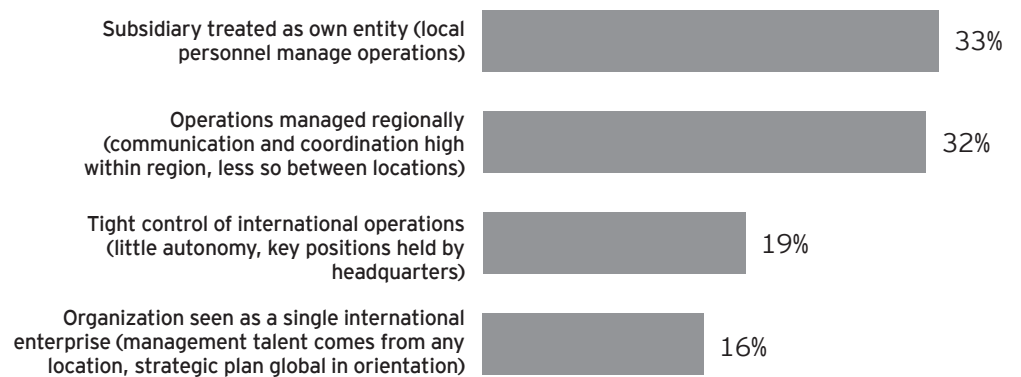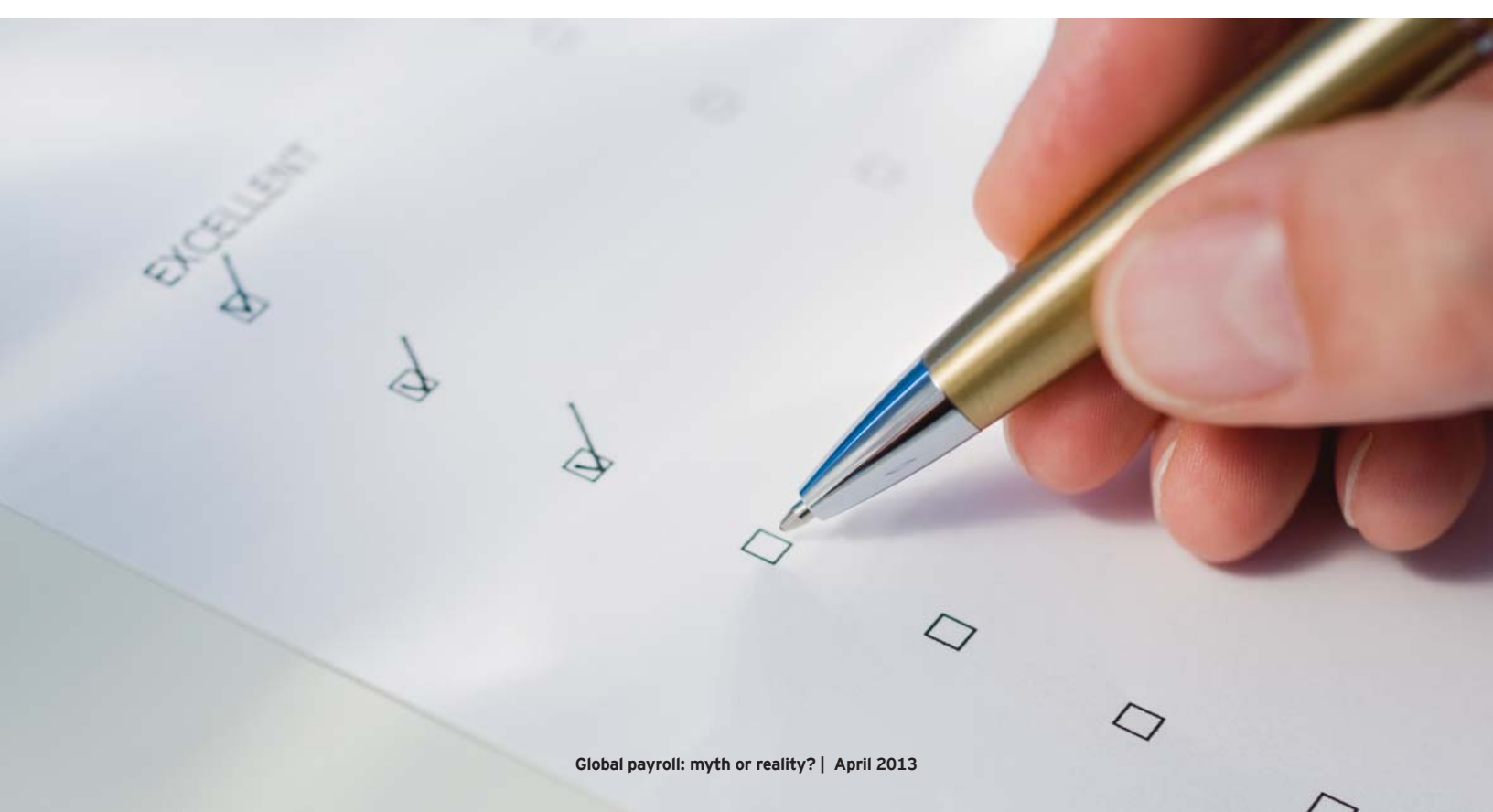
The model for payroll administration and management varies significantly – on a scale ranging from operations managed by local personnel to a comprehensive global function able to source talent from any geography. Respondents are spread evenly across the range of responses; however, a single global process, whether managed tightly or flexibly, is the least well recognized by this population and may reflect the lack of belief in the market that a global payroll solution is possible in all situations.

Without investment in supporting technology, the 65% of respondents that do not rely on a global administration will find it more difficult to reduce cost or increase efficiency. While this could reflect a lack of confidence that a single global payroll provider exists, it could equally reflect the nature of the culture of the responding organization. Concerns about managing the compliance requirements could also drive a local or regional delivery model.

Which of the following best describes your current payroll administration model?

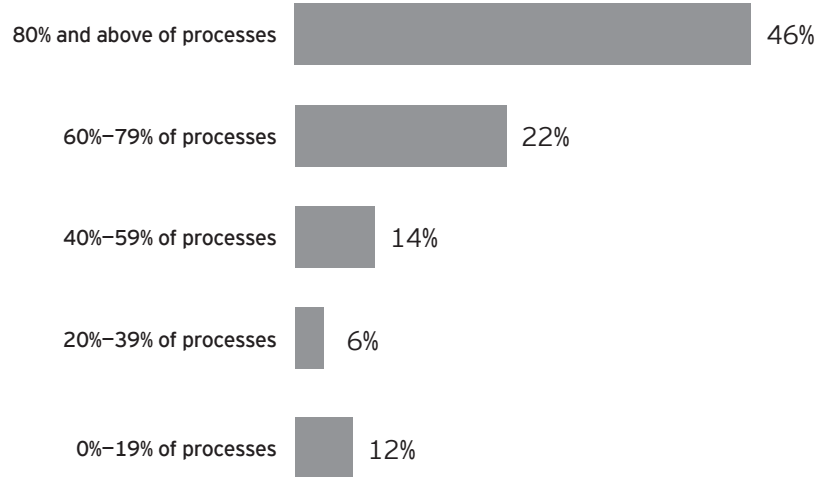|	
Subsidiary treated as own entity (local personnel manage operations)	33%
Operations managed regionally (communication and coordination high within region, less so between locations)	32%
Tight control of international operations (little autonomy, key positions held by headquarters)	19%
Organization seen as a single international enterprise (management talent comes from any location, strategic plan global in orientation)	16%

Number of responses: 161

Approximately what percent of your internal payroll operations and internal policies are consistent across all countries in which you are operating?

A large proportion of the population reported having highly consistent processes across their organization, with 68% identifying standardization levels of 60% or more. Consistency is paramount to having an effective payroll processing model. Consistency alone, though, without best practice infusion and effective payroll operations and policies, does not lead to the desired results, as illustrated in the question below. The fact that 46% of respondents reported having 80% consistency appears to contradict the findings of the previous question, which stated that 65% did not have a global administration for payroll.

Approximately what percent of your internal payroll operations and internal policies are consistent across all countries in which you are operating?
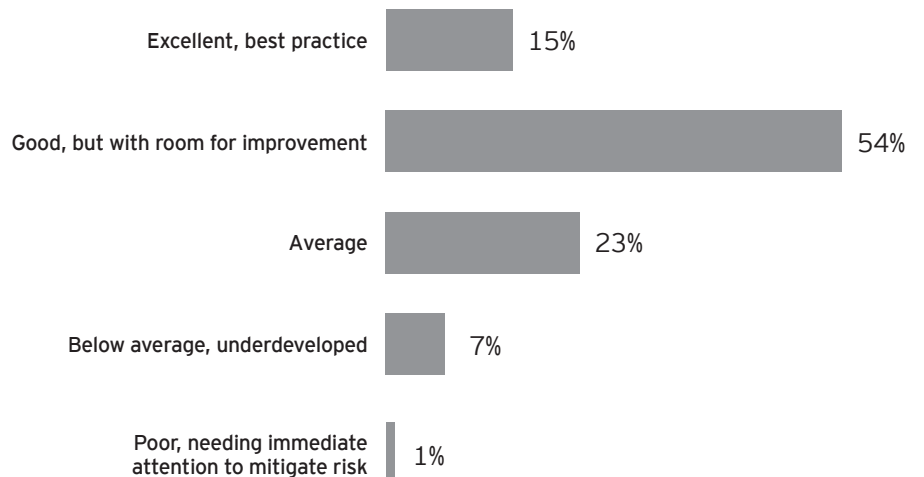
80% and above of processes	46%
60%–79% of processes	22%
40%–59% of processes	14%
20%–39% of processes	6%
0%–19% of processes	12%

Number of responses: 147

In your opinion, how would you rate the effectiveness of your current payroll policies and practices on a global scale?

Just 15% of respondents believe that the effectiveness of their current payroll policies and practices could be considered excellent and meeting best practices. The majority of respondents (54%) regard their current situation as good, with room for improvement. This once again fulfills the canon that "if it isn't broken, don't fix it" that seems to prevail in this arena.

Taking a critical stance, it is possible to say that 85% of all respondents see room for improvement in their current payroll processes and practices. This could be a reflection on internal resourcing for payroll, the legacy operating models that have developed organically over time, or the satisfaction levels with existing outsourcing providers.

In your opinion, how would you rate the effectiveness of your current payroll policies and practices on a global scale?

Excellent, best practice	15%
Good, but with room for improvement	54%
Average	23%
Below average, underdeveloped	7%
Poor, needing immediate attention to mitigate risk	1%

Number of responses: 161

Do you currently have a knowledge-based database or tracking system in place at your organization to facilitate resolution of payroll issues?

More than half (58%) of all respondents use a knowledge-based database or tracking system to facilitate the resolution of payroll issues. This is a leading practice aimed at tracking, reviewing and resolving potential errors in a timely fashion. About 42% of respondents currently do not have this type of system in place. While they may have other ways of responding to and predicting issues, complex global organizations do benefit from a single repository for such a task or rely on their outsource provider to house a tracking system.

Do you currently have a knowledge-based database or tracking system in place at your organization to facilitate resolution of payroll issues??

42% 58%

- Yes
- No
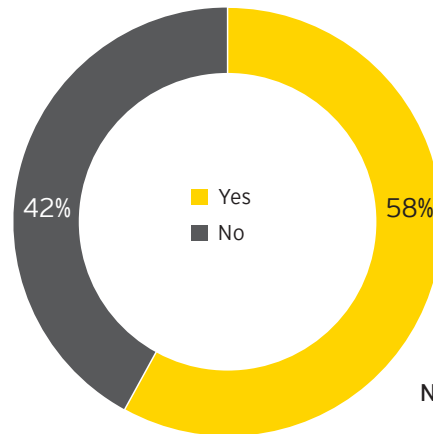
Number of responses: 161

Are you in the process of developing a knowledge-based database or tracking system for payroll issue resolution?

One-quarter of the organizations who reported that they did not have a knowledge-based database or tracking system are in the process of developing one. These organizations may have an existing system in place or rely on their service provider. Arguably those organizations that do not have a tracking system in place are leaving themselves open to significant risk through the lack of a detailed, consistent auditing mechanism for their payroll operations and associated results.

Are you in the process of developing a knowledge-based database or tracking system for payroll resolution?

25% 75%
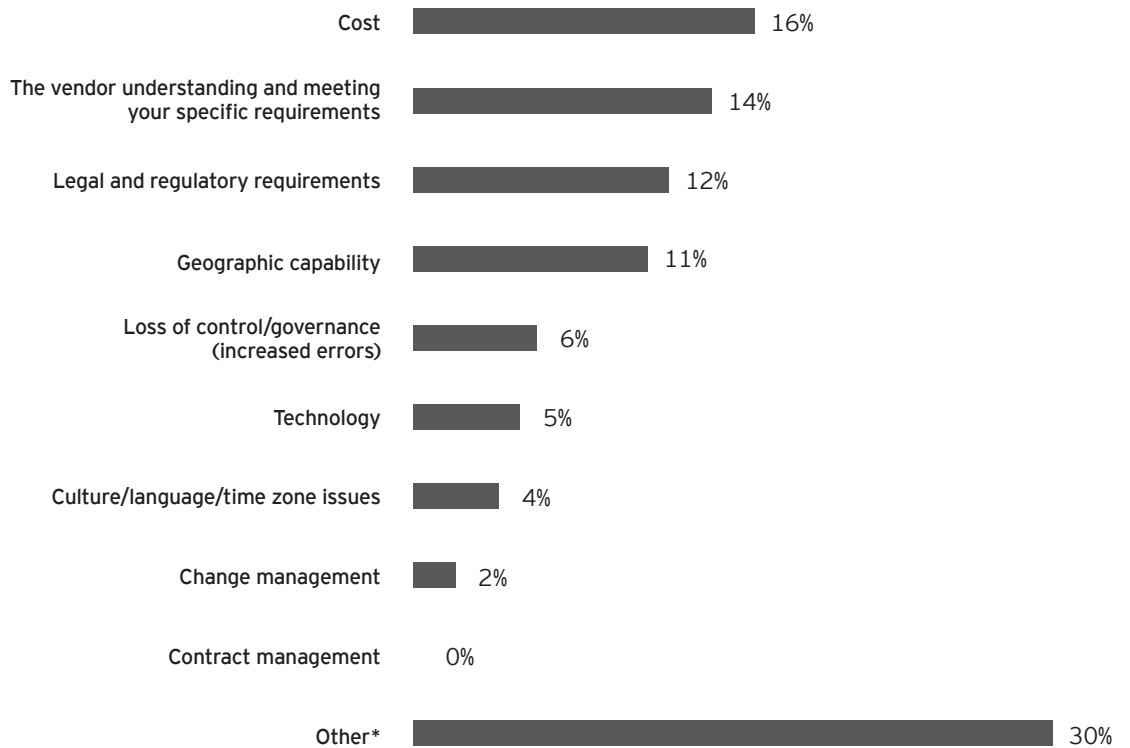
- Yes
- No
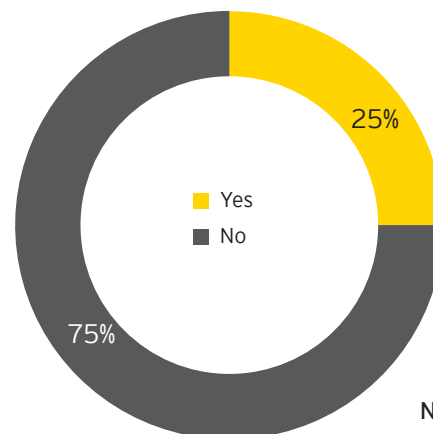
Number of responses: 66

Regardless of whether or not you currently outsource your global payroll, what is (or would be) your largest challenge to implementation?

Organizations seeking to implement global payroll solutions identified a wide range of issues as potential hurdles, from legal and regulatory requirements to total costs of the overall solution. Many respondents were hesitant to believe that a vendor could provide consistent, standardized global payroll services. Others thought it would be too costly to implement such a system on a global scale. One global payroll leader suggested that the "ability to demonstrate the return on investment" in financial terms remains a significant challenge for many organizations.

Another key concern is that legal and regulatory requirements will not be managed effectively in a global payroll solution, while some respondents believed they could more effectively manage solutions at a regional or local level. One respondent states that "home and host tax issues make it a challenge to be compliant."

When analyzed by size and number of countries in which the organization operates, the results show a similar trend. However, when analyzed by current payroll model, those with outsourced solutions display a different trend. Identifying the legal and regulatory requirements represents the greatest challenge to implementing a global system. This suggests that organizations lack confidence in the ability of technology to stay abreast of the numerous tax and compliance changes globally and that they believe an outsourcing provider is more likely to keep pace as this is typically their core business. At the same time the cost and broader vendor implementation challenges drop in importance, with geographic capability gathering more support. Again, this highlights the lack of confidence in compliance globally. Those with in-house solutions follow the overall trend more closely, citing cost and vendor implementation challenges as most important, although loss of control and governance also rank high.

Regardless of whether or not you currently outsource your global payroll, what is (or would be) your largest challenge to implementation?

Challenge	Percentage
Cost	16%
The vendor understanding and meeting your specific requirements	14%
Legal and regulatory requirements	12%
Geographic capability	11%
Loss of control/governance (increased errors)	6%
Technology	5%
Culture/language/time zone issues	4%
Change management	2%
Contract management	0%
Other*	30%

Number of responses: 161

*Responses ranged from issues related to unique cash and equity payment structures and to lack of partners in new regions to the fact that vendors were not able to live up to delivery promises.
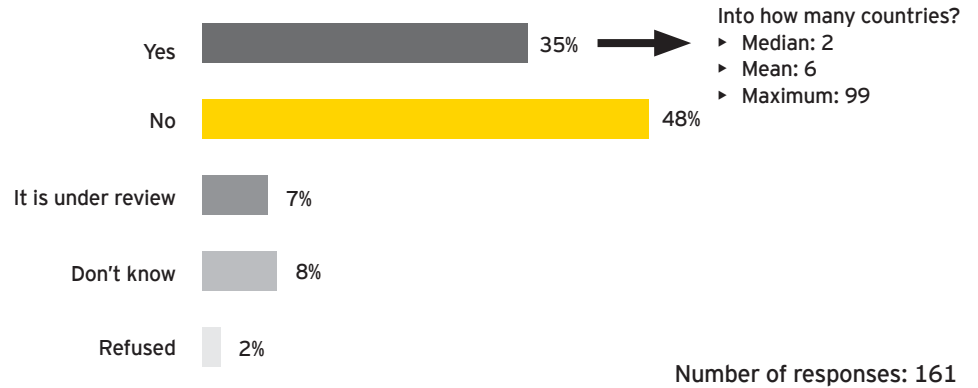
In the next 12 months, does your business plan to expand into new global markets?

Where in the planning process are you in adjusting your payroll administration model to meet your global expansion plans in these new markets?

Is the payroll solution for these new markets being implemented?

Out of the 161 respondents, 68 are potentially considering expansion into new markets within the next year. Only 11% of these are in the process of actively pursuing a global payroll solution implementation as part of their expansion, while 41% have not begun considerations at all. While this is likely to be a reflection of the planning stage reached, it may also be due to reluctance in the market to consider global payroll solutions owing to a lack of confidence that a simple global payroll solution exists whether it is an in-house or outsourced option. Of the organizations actively implementing a new model, more than half will not consider a global payroll solution, which adds weight to this hypothesis.
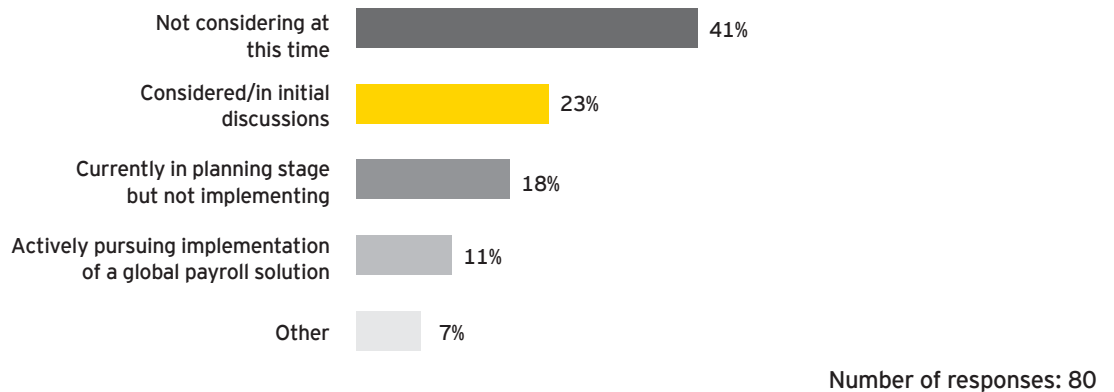
In the next 12 months, does your business plan to expand into new global markets?

Yes	35%
No	48%
It is under review	7%
Don't know	8%
Refused	2%

Into how many countries?
- Median: 2
- Mean: 6
- Maximum: 99

Number of responses: 161

Where in the planning process are you in adjusting your payroll administration model to meet your global expansion plans in these new markets?

Not considering at this time	41%
Considered/in initial discussions	23%
Currently in planning stage but not implementing	18%
Actively pursuing implementation of a global payroll solution	11%
Other	7%

Number of responses: 80

Of the 11% (nine respondents) who are actively pursuing implementation of a global payroll solution, the responses were as follows:
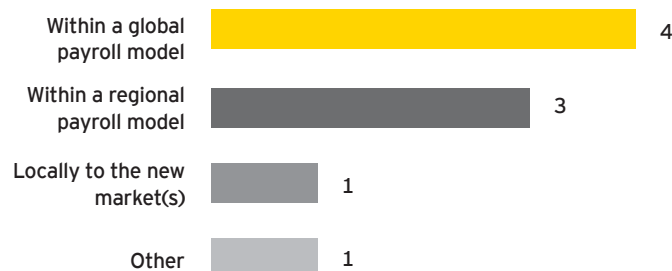
Within a global payroll model	4
Within a regional payroll model	3
Locally to the new market(s)	1
Other	1

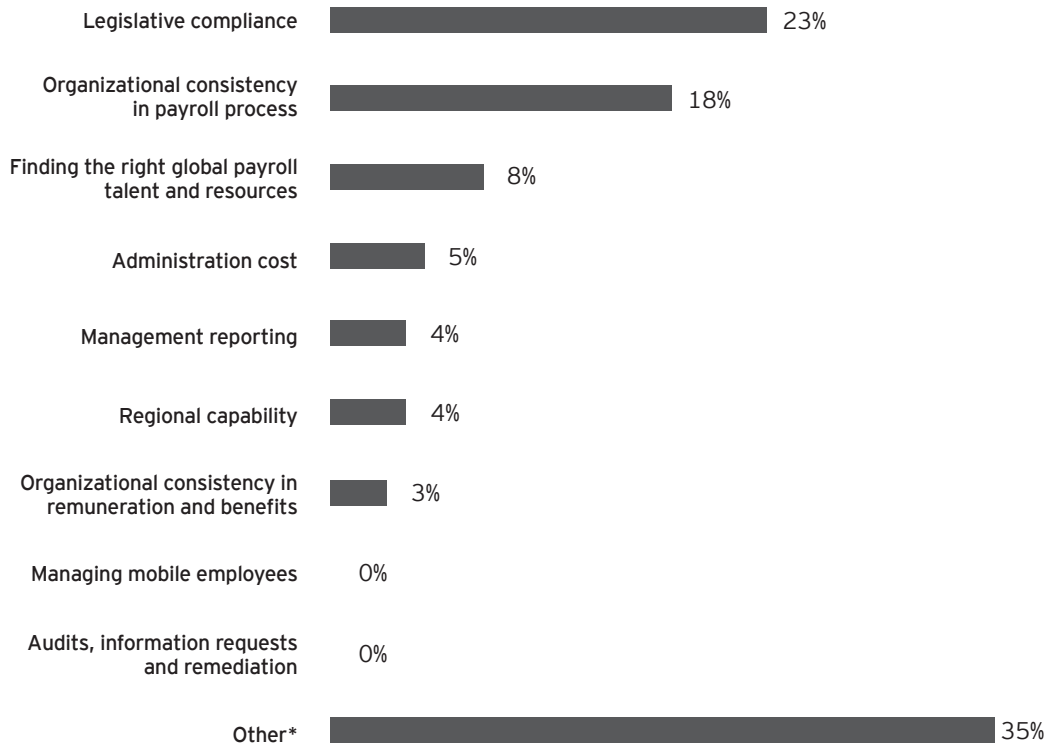**Regardless of whether or not you currently outsource your global payroll, what is (or would be) the primary issue you currently face?**

When asked to define the primary issues relating to global payroll, regardless of their own organization's current outsourcing position, respondents felt that legislative compliance and consistent payroll processes across the organization are the key issues they currently face. This was supported by a number of comments, such as "I would say getting everyone on board across the group would be our largest challenge" and "Resistance from each local country and trying to get them to change their process." This corresponds to the fact that many respondents felt that their payroll policies and processes vary unnecessarily by country, resulting in a lack of consistency.

Respondents cited a number of additional concerns, including administration cost, management reporting and finding the right global payroll talent. Approximately 35% of respondents stated that there were "other" issues that they currently face as concerns related to global payroll, again showing the diversity of challenges being faced by global organizations with their payroll models.

Regardless of whether or not you currently outsource your global payroll, what is (or would be) the primary issue you currently face?

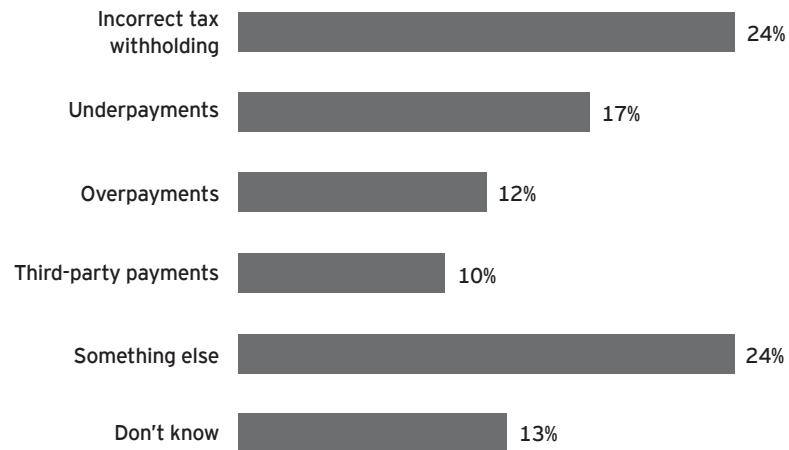| Issue	Percentage
Legislative compliance	23%
Organizational consistency in payroll process	18%
Finding the right global payroll talent and resources	8%
Administration cost	5%
Management reporting	4%
Regional capability	4%
Organizational consistency in remuneration and benefits	3%
Managing mobile employees	0%
Audits, information requests and remediation	0%
Other*	35%

Number of responses: 161

*Respondents cited a number of challenges, including national laws that are amended frequently and the fact that they had to convince local managers that their current procedures were inefficient.

Thinking about your day-to-day experience, what is your most frequent payroll error?

All organizations, regardless of their payroll model, were surveyed on their most frequent payroll error. Incorrect tax withholding was cited most frequently, supporting the concern by many organizations that existing payroll solutions are unable to deal with increasing complexity relating to legal or regulatory requirements and therefore remain compliant. Underpayments and overpayments account for approximately 30% of payroll errors, which also suggests that basic errors in payroll processing remain prevalent across all payroll models. The risks associated with payroll errors are threefold: the tax and regulatory implications are costly and time consuming; the perceptions and confidence of employees decrease with paycheck errors; and finally, the time and expense of correcting errors creates a significant downstream impact to the general ledger.

Thinking about your day-to-day experience, what is your most frequent payroll error?

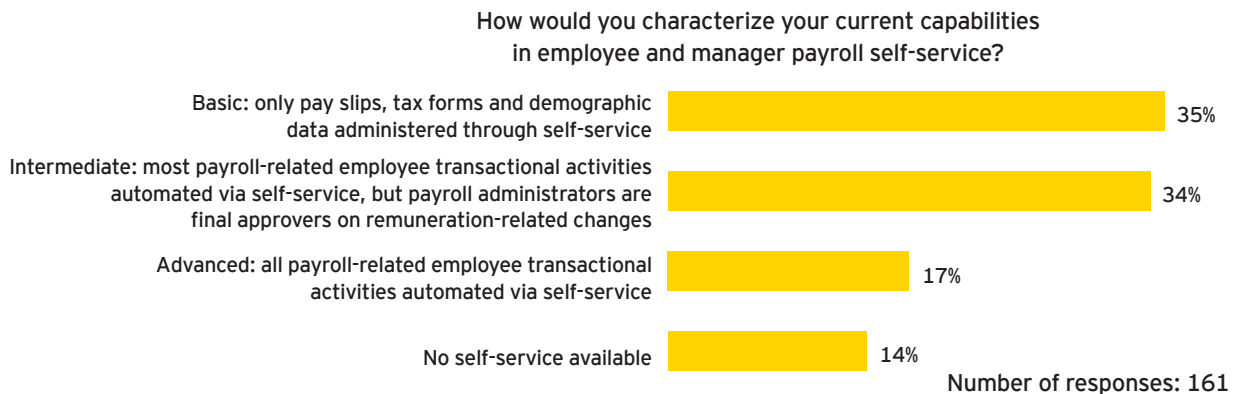|	
Incorrect tax withholding	24%
Underpayments	17%
Overpayments	12%
Third-party payments	10%
Something else	24%
Don't know	13%

Number of responses: 161

How would you characterize your current capabilities in employee and manager payroll self-service?

A low percentage (17%) of respondents described their current self-service payroll capabilities as advanced with payroll-related employee transactional activities. The majority of respondents have basic or intermediate capabilities administered via self-service, with 35% considering their payroll operations to provide a basic service. Only pay slips, tax forms and demographic data are administered through self-service. A similar proportion of respondents (34%) stated that they have intermediate capabilities, with most payroll-related employee transactional activities automated via self-service. Payroll administrators, however, reserved the right to serve as final approvers on remuneration-related charges. A low percentage (14%) of respondents stated that their organizations do not have any self-service capabilities available at all.

Given the increasing popularity of personal mobile devices, we see self-service and mobile technology as high priorities within the outsourcing payroll community.

As a result, more organizations are seeking to develop self-service capabilities, providing more data and transactions so that employees can access payroll information at their convenience, anytime or anywhere.

How would you characterize your current capabilities in employee and manager payroll self-service?

Basic: only pay slips, tax forms and demographic data administered through self-service	35%
Intermediate: most payroll-related employee transactional activities automated via self-service, but payroll administrators are final approvers on remuneration-related changes	34%
Advanced: all payroll-related employee transactional activities automated via self-service	17%
No self-service available	14%

Number of responses: 161

Based on your experience, do you believe there is a single vendor who can handle all of your payroll needs globally?

Seventy percent of respondents are not confident a global vendor currently exists that can provide truly global payroll solutions. On the other hand, 30% of respondents stated that they did believe that one provider could handle all of their global payroll needs. This would likely be reflective of the countries in which they operate and the maturity of those countries in this context.

Based on your experience, do you believe that there is a single vendor who can handle all of your payroll needs globally?

- Yes — 30%
- No — 15%
- Unsure — 55%

Number of responses: 156
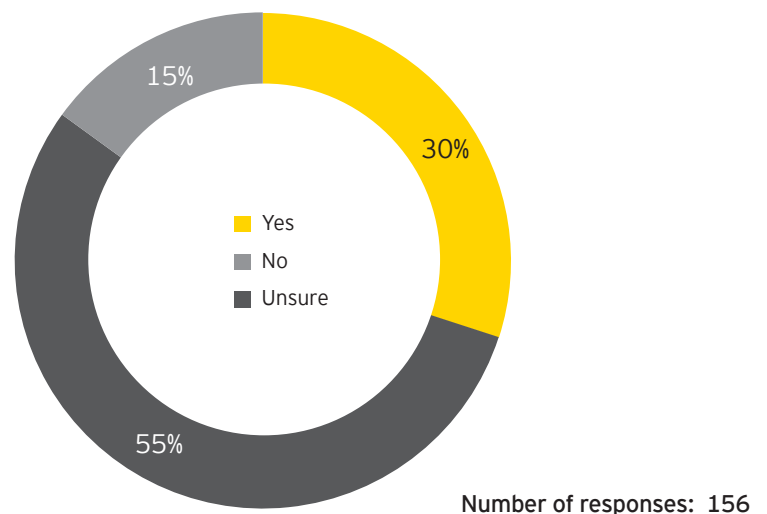
If you were to select a new vendor for global payroll, what would be your top three criteria?

The top three criteria for selecting a new global payroll vendor, based on the weighting system applied to the responses, are cost (19%), geographic/global capability (18%) and technology platform (10%). We find it interesting, however, and perhaps given the maturity of the HR technology market, that respondents are looking at the technology platform as one of their top three criteria when selecting a new vendor ahead of, say, compliance risks, something held up as a major issue in an earlier question.

Just under a quarter of respondents stated that there were other reasons that would be in their top criteria for selecting a new global payroll vendor.

If you were to select a new vendor for global payroll, what would be your top three criteria?

Criteria	%
Cost	19%
Geographic/global capability	18%
Technology platform	10%
Managing mobile employees	8%
Accuracy of payroll delivery	6%
Relationship management model (positive)	6%
Standardization of service delivery model	4%
Ability to reduce compliance risks	3%
Customer support availability	3%
Cultural intelligence	1%
Other	22%

Note: Results are weighted to account for ranking using three for a first place vote, two for a second and one for a third.
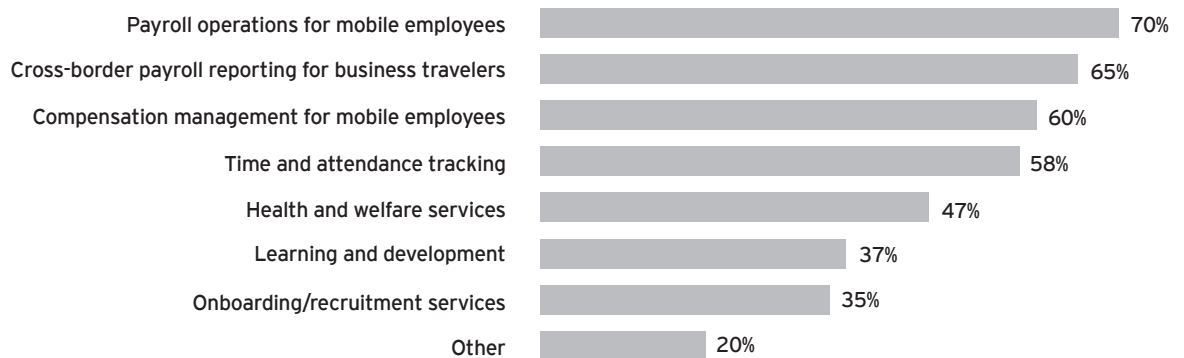
Number of responses: 161

Which of the following services would you consider receiving from a global payroll vendor?

There is currently less appetite for health and welfare services (47%), learning and development (37%), and onboarding/recruitment services (35%). This suggests that these three services are considered as discrete from global payroll. They may either be outsourced to another vendor and/or tracked by separate systems, perhaps within the organization's HR function. In addition, many payroll functions sit within the finance function, and as such this differentiation is no surprise.

Our respondents indicate that their areas of interest are those relating to core payroll operations with the added dimension of cross-border compensation and reporting support for their mobile population. The challenges of supporting mobile employees are significant. Not only must payroll departments deliver compensation that can be accessed in multiple locations, they must also keep track of taxes and compensation accumulation for employees who are paid in more than one currency.

Which of the following services would you consider receiving from a global payroll vendor?

| Service	%
Payroll operations for mobile employees	70%
Cross-border payroll reporting for business travelers	65%
Compensation management for mobile employees	60%
Time and attendance tracking	58%
Health and welfare services	47%
Learning and development	37%
Onboarding/recruitment services	35%
Other	20%

Number of responses: 161

Which of the following statements best describes the value you place on 24/7 vendor support for your employees?

Two-thirds of respondents stated that their organizations would not be willing to pay more for 24/7 vendor support for their employees. The lack of interest can be attributed to a number of factors. Cost is likely to play a significant part. The requirement for a 24/7 support system from the vendor will depend upon the locations of the organization and the levels of assistance employees typically require from their existing payroll system and vendor.

Historical practice within an organization may also play a role in whether a 24/7 support facility aligns to the organization's culture. HR and payroll practitioners in service centers responding to simple questions or local experts may be in a better position to support employees on payroll-related issues. The respondents may also require that a global payroll vendor provide a 24/7 service at no additional cost.

A third of respondents believe that their organizations would be willing to pay more for 24/7 vendor support. Again, this is likely to reflect the culture of the organization. The statement implies that 24/7 vendor support costs organizations more, and these respondents are willing to consider this option arguably to enhance the service provision and employee experience.

Which of the following statements best describes the value you place on 24/7 vendor support for your employees?
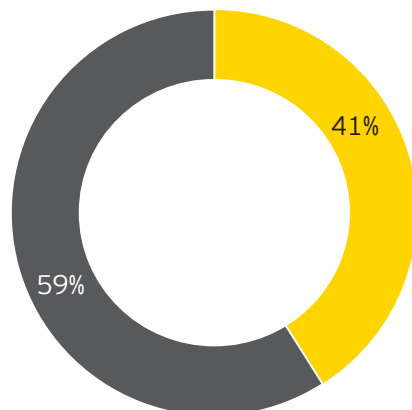

33%

67%
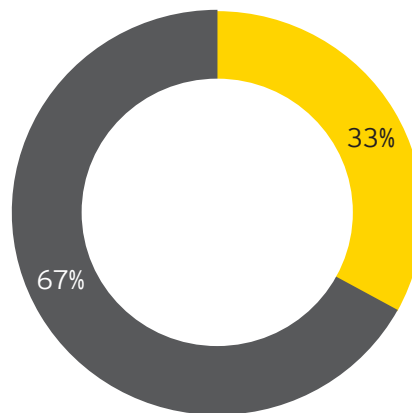
- ■ Our company would be willing to pay more for 24/7 vendor support.
- ■ Our company would not be willing to pay more for 24/7 vendor support.

Number of responses: 161

Which of the following statements best describes the value you place on vendor support for your employees being provided locally, based on an employee's location?

In contrast with the previous question, our respondents placed greater value on local vendor support for their employees. Although the majority still indicated they would not be willing to pay for this value-added service, nearly half saw the benefit of local experience and knowledge.

Which of the following statements best describes the value you place on vendor support for your employees being provided locally, based on an employee's location?

41%

59%

- ■ Our company would be willing to pay more for local vendor support.
- ■ Our company would not be willing to pay more for local vendor support.

Number of responses: 161

A geographic focus on China, the US and UK

A regional perspective can often be helpful when reviewing survey results. It can offer a more focused point of reference for an organization if it is more densely populated in one area over another. For instance a multinational company headquartered in Belgium may, for legacy reasons, have a more complex payroll operation in Europe than in countries into which it has more recently expanded.

To provide this insight, we will focus on the results for three countries whose respondents demonstrated an active desire to engage with the survey: China, the US and UK.

China

As is common in China, the organizations interviewed were all publicly owned. It is unclear how much this influences their responses, but the respondents were overwhelmingly positive about their current payroll operations.

Those who participated in the survey were typically based in the finance function rather than in HR. Within Chinese organizations this will typically mean they play a more active role in decision-making.

All respondents considered their payroll operations to be average or above average. If you consider this result alongside the fact that only one of our Chinese respondents currently outsources its payroll processing, it is possible to conclude that a tightly managed, in-house approach is prevalent in the market.

Outsourcing is maturing in China, with services being made available since the early 1990s. However, there has been less external competition, and as such the market is not as developed as it is in North America or Europe.

While none of the organizations headquartered in China are considering outsourcing at this time, some are planning to expand into new markets and intend to manage payroll locally.

This lack of outsourcing maturity in China does raise questions regarding the availability of reliable local outsource providers in China for any organizations looking to expand into this market. The heavy reliance on in-house payroll operations may mean there are fewer options, and as a result those who would typically outsource are instead inclined to adopt a hybrid model.

UK

In the UK, all the respondents attributed historical practices as the main driver of their current payroll operation. This suggests that managers are hesitant to change what is working, even though there may be opportunities for improvement. Another plausible explanation could be the lack of purchasing power vested in the hands of the payroll department managers. To that end, only 6% of the organizations headquartered in the UK that participated in the survey have a fully outsourced payroll operation. A majority of the organizations (65%) rely on a blend of in-house and outsourced model.

This can be attributed to two primary factors:

▸ Most UK-headquartered organizations also have operations on the European continent in France, Switzerland, Belgium, Romania, Hungary and other countries. Only a small number of vendors can provide a true, single-service pan-European payroll.

▸ The introduction of legislative changes such as the senior accounting officer and real-time information is putting organizations under increased payroll compliance pressure. This is requiring them to rethink the outsourcing model as they may have more confidence to undertake processes like data entry and post payroll audits in-house, while still outsourcing payslip generation and remittance processes.

Half of the organizations are considering changing their payroll provider. This could be attributed to the legislative changes that have led most of the organizations to assess their payroll operations, resulting in the search for a new provider.

More than half (59%) of the organizations do not have any payroll issue tracking database or system, and only 30% of them are planning to implement a tracking system. This significantly increases the risk of failure, especially for those 41% of organizations that are planning to expand into new markets. In this environment, issue resolution typically becomes tactical with root causes not identified or resolved.

The UK organizations also offered insights on the challenges to a global payroll, including the top five challenges to implementation: cost, vendor selection, loss of control or project management, geographic capability, and legal and regulatory requirements.

The next most significant challenges to implementing a global payroll system according to survey respondents were cost and vendor understanding and ability to fully meet detailed business requirements. Other challenges – whether outsourced or in-house – were organizational consistency in pay processes, finding the right payroll talent, legislative compliance, management reporting and administrative costs.

US

More than half (56%) of US companies responding are planning to change their payroll vendor in the next 12 months. In conjunction with the fact that 78% of US companies have operations in 11 or more countries, we can easily conclude that US-based companies are dissatisfied with their current payroll provider but also have confidence that providers can deliver multicountry payroll.

Even though 40% of US companies did not currently have a knowledge-based system to assist in the administration and risk mitigation of payroll issues, only 17% of those companies were currently building or planning such a database. This indicates that despite payroll's financial and operational risks, operational excellence principles and root cause analysis have not yet proliferated to the degree one would expect on a business process with such high visibility. Additionally, one can conclude that there is a missed opportunity for cost efficiencies and process improvement from those companies that are not assessing data from prior payrolls to improve the quality of future ones.

More than half (51%) of US companies surveyed were planning on expanding into markets in the next 12 months, which in consequence would create the need for payroll services in those newly entered markets. Nonetheless, only 24% of respondents were actively planning or implementing payroll solutions to enable these expansions. This is one of the main areas in which companies realize significant hurdles, as they often underestimate the complexity and needs of payroll administration, rushing to mitigate risks in the 11th hour. Despite valiant efforts, we often see manual, risky and faulty processes in countries where expansion was not planned well in advance.

Nearly two-thirds, or 65%, of US companies reported 60% or more of processes globally standardized, but only 7% would consider the policies and practices reflected in those processes as best practice. This was a surprise, as it seems that standardization was driven by current practices and systems instead of best-of-breed systems and best practices. It is apparent that payroll, even though a global necessity, still struggles to substantiate big investments.

Of the US companies responding, 78% do not believe that there is a single payroll vendor that could support them on all their global payroll needs.

Even though the majority of respondents noted current or future plans for expansion into new markets, the service delivery model of choice is not consistent. Approximately half of respondents will follow a global payroll model, while the remainder will deploy a regional model. Depending upon the nature of the business, its in-country footprint, governance model and staffing, more than one solution exists to help organizations arrive at the desired results.

Self-service for employees and managers has been proven to be one of the leading levers for savings and efficiency in global HR and finance operations and particularly important for payroll. More than half of our respondents (53%) had only basic self-service functionality, which provides a solid foundation for an expansion of employee and manager self-service offerings and an opportunity to reap further efficiencies in terms of cost reduction, quality improvement and timely processing. In addition, self-service options through mobile devices are evolving and expected from an increasingly mobile population. We expect to see a growing number of companies provide this option to employees.

The top three criteria in vendor selection are global capabilities, cost and technology. What was of interest in this section of our survey is that risk mitigation and compliance, in addition to payroll accuracy, ranked 7th and 9th out of 10 possible criteria. This confirms our understanding of speed to low-cost completion and technological compatibility to be the main reasons for vendor selection, with a willingness to accept shortfalls in quality and risk mitigation. Organizations that address payroll accuracy and risk mitigation in this way could be at risk of higher costs and possible employee dissatisfaction.
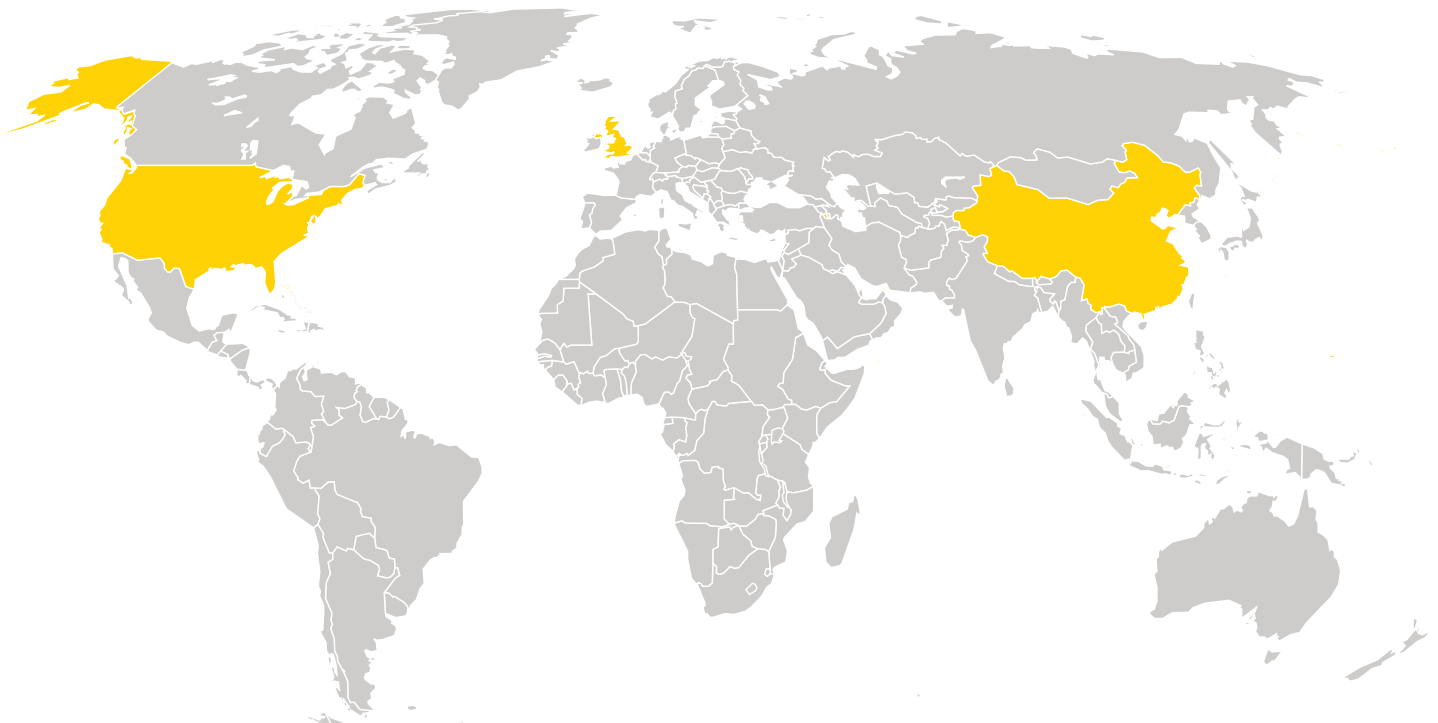
What's next for global payroll?

The survey results clearly reveal that significant opportunities exist to implement a global payroll model. The primary organizational challenge for delivering global payroll is balancing local and regional requirements with global standardization while driving toward maintaining 100% compliance and accuracy. If enough organizations can move past the "if it isn't broken, don't fix it" mindset and realize that this balance must exist, we are confident that all organizations can mitigate risk, take advantage of new technology, increase effectiveness and enhance vendor relationships. In this summary we highlight some of the options for organizations to consider when looking to improve their payroll service delivery model.

Technology

Many payroll technology providers have been keeping pace with globalization. Software as a service (SaaS) providers are offering solutions with low cost of ownership and ongoing IT support, while enterprise resource planning (ERP) vendors are providing solutions with enhanced reporting and analytics, automated processes, and standardized delivery. Both ERP and SaaS solutions have benefits and limitations, but our experience has illustrated that there is no "one solution fits all" option, and we do not expect one truly global platform to meet the needs of all types of organizations in the near future.

Organizations with an extended global footprint but with small employee populations outside their main markets, what is known as a "long tail," will continue to be the target audience for payroll data aggregators and SaaS providers. Conversely, organizations with high employee counts in multiple countries will continue to be the clients of choice for ERP providers. Additionally, we should point out an obvious dilemma: payroll systems are often driven by the ERP system selected by finance and HR. Payroll operations may have the opportunity to influence the selection of their technology solution but very rarely procure a payroll-only system. Organizations also need to ensure that employees can address payroll services via mobile devices.

Service delivery model

Payroll is, and will continue to be, one of the most frequently outsourced business processes. With second generation business process outsourcing (BPO) providers maturing in their offerings, we expect payroll to become more than a repeatable and necessary process. Many payroll service providers are developing and implementing strategies to utilize payroll data to support business intelligence and decision-making. While being cognizant of data protection requirements, this has the potential to provide executives with the data analytics to project labor cost savings, retention initiatives, input for mergers and acquisitions, market expansion, and capital investments.

A further great dichotomy in the service delivery model will continue to develop between small-, mid- and large-market capitalization organizations, as SaaS technology will foster in-house processing and delivery of payroll services.

Talent

Most organizations have resources with adequate talent to deliver local or regional payroll. With the advent of cloud-based technology, the maturing service provider community will need global payroll delivery competencies to be added or enhanced accordingly. Skills and behaviors in vendor governance, global standardization, business intelligence, data analytics and SaaS navigation will be sought after and coveted by global organizations. In the short to medium term, this is likely to be most acute in the emerging markets.

Governance

Our survey results show that, generally, payroll reports to either HR or finance. The linkage with HR is critical for personnel data, certain payroll deductions, policy and processes, remuneration, and so on. Integration with finance for the general ledger, tax and accounting, and compliance for international accounting regulations is also vital. Other alignment, with IT support and internal audit, is also important. This creates a very complex environment, and no matter where payroll reports formally, the relationships with these

internal functions need to be established and governed. Governing external service providers and other third-party providers will also need to continue. Irrespective of internal or external governance, establishing delivery expectations, service standards, service-level agreements (SLAs), controls, timing of delivery, etc. are all keys to maintaining payroll governance.

Geography

Emerging markets, particularly in Asia-Pacific, South America and Africa, will continue to be a focal point for payroll providers for the foreseeable future. In addition to political stability, the challenges in these regions include obtaining and developing local and regional payroll talent and relying on payroll aggregators or local accounting firms for small, in-country populations.

For further insights into these areas, please refer to the archive of a Thought Center webcast broadcast on 31 January 2013 called Global payroll: myth or reality. This can be accessed at www.ey.com/us/en/services/tax/human-capital.

Conclusion

As the survey revealed, many organizations continue to be skeptical about whether any payroll provider can deliver a comprehensive global payroll solution. While that skepticism has some validity, the survey results also suggest that some organizations do not see the value add in straying from historical payroll practices.

We find that attitude somewhat surprising considering that 85% of all respondents desired improvement in their current payroll policies and practices. Almost any other business process that had similar levels of dissatisfaction would witness transformative initiatives to address the issue. Accepting the status quo in payroll solutions may have worked in the past, but it is no longer adequate for companies that need to compete and expand in the global marketplace. Managers responsible for global payroll need to build the business case based on risk and compliance to improve payroll operations.

To that end, it may be time for organizations to begin viewing payroll as a critical business process that requires a global solution with local flexibility. As organizations debate whether to run payroll in-house or with an outsourcing provider, there are a number of questions to consider:

Your business strategy
- Is your global payroll model aligned with the overall business strategy and vision for support services?
- Do you have a five-year plan for your payroll operations, and do you have buy-in from HR and/or finance (dependent on your structure)?

If you operate an in-house model
- Do you have a good source of skilled payroll technicians with both traditional and newly required payroll competencies?
- Have you championed the implementation of employee self-service, remembering that self-service will not absolve you of responsibility for errors in the eyes of your employees?

If you have a hybrid model

▸ When was your model last reviewed? Do you have sufficient governance in place to validate the effectiveness of retained and outsourced processes? You should be seeking to enhance effectiveness, mitigate risk and produce efficiencies.

▸ Have you validated the art of the possible? In other words, have you fully assessed which aspects of your operations can be outsourced and which should – for strategic or risk management reasons – be kept in-house?

If you have a fully outsourced model

▸ Has your outsourcing approach yielded the anticipated savings and/or process improvements?

▸ Are your key performance indicators and SLAs measuring things you believe to be truly indicative of your payroll's quality?

▸ Are there any other governance steps you need to put in place to ensure you are getting the value and effectiveness of the services provided?

Those are just the top-of-mind questions organizations need to ask as they move to embrace a global payroll model. Regardless of whether they choose the in-house, outsourced or hybrid model, organizations have to be ready to deliver this fundamental service for their employees, whether on a global or country-by-country basis.

We hope this survey provided insight which will assist you with your payroll delivery model. This report and other supporting surveys and reports are part of a series of EY research found at http://www.ey.com/GL/en/Issues.

Contacts

Stuart Steele
Partner, Human Capital
+44 20 7951 8405
Ernst & Young UK and Ireland
ssteele1@uk.ey.com

Jeffrey J. Brown
Principal, Human Capital
+1 212 773 6888
 Ernst & Young LLP
jeff.brown@ey.com

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