The case for multinational payroll – global outreach, local expertise

In a global marketplace, where borders no longer really exist for business, multinationals can encounter complexities that disrupt the best-laid plans. Nowhere is this more evident than in the management of multinational payroll.

Routine but critical day-to-day functions can have a major impact, for better or worse, on an organisation's productivity, employee morale and relations with host countries. And nothing is guaranteed to be more complex but emotive than employee payroll. Get it wrong and the HR, Finance and Operations departments will soon hear about it!

Organisations that fail to plan properly for operating in different countries run a real risk of miscommunication, providing ineffective solutions and falling foul of non-compliance, all adding up to costly headaches. A lot of time and energy spent fixing HR and payroll problems could be better applied to a company's core business issues.

The fact is that HR and payroll management are general requirements of multinational businesses, and they should seek to simplify, reduce administrative and corporate overheads, improve service delivery and limit legal liability.

The clear-cut advantages

On the face of it, the advantages to global employers of contracting all of their payroll needs to a single provider are clear-cut:

- Lower operating costs
- Allowing multinationals to concentrate on their core activities
- Reduced need to keep up-to-date with payroll regulations and the associated costs of employing payroll specialists in each country
- Peace of mind of ensuring compliance with the highest payroll standards and local legislation in each country.

Analysing the business case

However, before opting for multinational payroll, businesses need to consider carefully all their options, as it may not always be appropriate. The fundamental question has to be asked, what issue is an international organisation trying to resolve? Is there really a business case?

Corporate governance may be a key priority. Companies that are listed in the USA, or have major financing overseas, are bound by the Sarbanes-Oxley (SOX) Act of 2002. The legislation has multiple facets, but central to SOX is the law's controls on financial processes. Payroll and international operations are included. A multinational could be trying to establish effective financial controls across all its operating markets to satisfy the standards set out by SOX.

Legislative compliance could be another priority. Tax and remuneration laws differ widely, not only between countries but also within countries. Employers need to recognise the volume of in-country legislation and internal policies they will need to be mindful of, and remain compliant with, now and in the future. Expansion of the European Union (EU) has encouraged cross-border worker movement. This is covered by reciprocal agreements that vary between EU and non-EU countries resulting in complex legal compliance issues.

Consolidation of service standards across all operating markets could be an objective. Companies want a clear overview of their employee costs and to manage internal control procedures consistently across their countries of operation. Fragmented processes and disparate systems make it nearly impossible to obtain a consolidated, global view of staffing and to manage internal control procedures consistently across international operations. Without multinational payroll, companies will find it difficult to monitor head count and payroll costs and disseminate timely information.

Integrating multiple organisations can be a driver. Many multinational organisations grow through rapid expansion, both organically and by acquisition. These different groups, and fast evolution, conspire to create an environment of multiple disparate processes, with each location, negotiating, managing and monitoring local payroll solutions within each country.

Lastly, cost reduction is an obvious objective. Companies are constantly seeking to improve service delivery, lower overheads and simplify procedures.

Multinational payroll will contribute to achieving all the above objectives and provide clear visibility for an organisation's foreign operations.

Championing multinational payroll at the top

The reasons for opting for multinational payroll are numerous but international organisations need to be very clear why they want to pursue the multinational payroll route.

Why? Change is always challenging and difficult to implement and never more so than across multiple jurisdictions. The difficulties of driving through change are even greater when a potentially emotive subject such as payroll is involved. After all, employee payroll accuracy is critical and there is considerable local sensitivity attached to it. For this reason alone, there needs to be a very clear mandate from on high at a global level.

Today's economic market, with its increased emphasis on cost reduction and tighter monitoring and control, virtually demands that companies take an international perspective of their HR and payroll operation. That requires understanding of the complexities, along with commitment from the central executive office and all upper-level management to avoid false starts and expensive makeovers.

Whatever the business case though a key dependency for success is that senior executives need to champion the project.

The choices available

Over the last decade, the market for multinational payroll has matured significantly. There is a plethora of vendors out there offering a multiple variety of solutions. For this reason alone, a prospective client has to take care. Failure to pay employees across multiple countries is definitely not an option!

At the bottom end, multinational could opt for using a software application or a web-hosted application rather than a fully-outsourced integrated service.

However, the advantages of a fully-outsourced multinational payroll service outweigh other options. The provider acts as the customer's payroll department, effectively managing its people, processes, technology, data and costs.

Additionally, the provider becomes the single point of contact for the multinational and delivers a standard set of processing services relevant to all country operations. Straightaway, the potential confusion over multiple processes, points of contact, languages and cultures is eliminated and employees throughout the world benefit from a consistent, accurate and prompt service delivery.

Critically, the provider will have a team of skilled in-house experts for dealing with the myriad legislation, taxes and statutory requirements.

What to look out for

It makes no sense to opt for multinational payroll and sign-up to multiple providers. Managing multiple systems and vendors can significantly add to overheads and make it difficult to rapidly shift funds, people and processes to react to changing market conditions. It is also difficult to keep up-to-date on country and local regulations.

Contracting with a single provider can reduce many of these challenges, so long as the provider offers the following:

- A standard, consistent process across all locations, allowing the company to consolidate payroll and HR information, understand true labour costs and make strategic workforce decisions, whatever the location or currency
- Skilled professionals who are conversant with cultural issues, legislation, taxes and statutory requirements to provide the confidence that an organisation's payroll and regulatory filing will be processed in a timely and accurate manner
- Flexibility to work within a corporate governance model with the ability to define the appropriate controls and reporting needed to fully monitor an organisation's operations
- An ongoing partnership that can grow with a business as it expands and help uncover operational inefficiencies and identify potential areas of risk in various countries. This means clients should retain some knowledge in-house for their own interests.

Undoubtedly, there will be an early requirement to establish the true costs and have a pre-agreed budget signed off. A full analysis of requirements will have to be conducted to ensure the chosen solution meets the needs of the international organisation.

During the contractual negotiation stage, penalty clauses will need to be drawn up to cover unforeseen contingencies such as if the project is not delivered on time, to specification and within budget. However, the Service Level Agreement (SLA) should contain realistic deliverables.

Any country variations will also need to be identified. Sometimes, there may be no business case for rolling out the multinational payroll to certain countries but for consistency, and at a regional or local level, there may be sound reasons for inclusion.

Careful implementation

Once contracts are signed, robust project governance needs to be put in place. It is imperative not to underestimate the change management that will unfold and to have a comprehensive support communications programme in place. The degree of success will be dictated to some degree by the quality and regularity of communication.

The overriding success of implementing a multinational payroll, where the transition is seamless, will depend on all variables being carefully considered and on carefully planned project management. This should be centrally managed and controlled.

The implementation process will need to be extremely detailed. All stakeholders in the project will need to keep in touch with developments. Stakeholders will need to have easy access to the project leaders overseeing the implementation, with the latter empowered to make decisions to ensure local buy-in.

ROI

Any cost-effective service needs to be backed up by proven Return On Investment (ROI) methodology. Critical performance indicators can be used to benchmark actual against planned performance. Here, a carefully drawn up SLA with realistic targets comes into its own.

The comprehensive management information reporting needs to provide a consolidated overview of all employees.

Customer satisfaction surveys also have a key role in measuring the effectiveness of the new multinational payroll implementation. Tools need to be introduced that measure, on a continuous basis, quantitative and qualitative success.

Extra benefits

By definition, multinationals are undergoing constant change. Multinational payroll can actually ease these changes by facilitating the management of corporate change. At any given time, an international organisation may be buying a business, integrating a recently acquired business, divesting itself of a non-core activity or merging with a competitor. In such periods of flux, payroll can become a logistical and compliance nightmare. If a fully integrated shared service centre is deployed, regional management can rely on a single point of contact for ensuring constant business evolution.

A further extra benefit of multinational payroll is that international companies will usually have international assignees working in different markets. Payments invariably become more complex. Multinational payroll provides consistency and control when applying the various policies and regulations applicable to the different assignees, whether they are paid in their chosen currency or have their pay split between home and local accounts. Clearly, it can be extremely beneficial to have one payroll provider paying employees across all countries.

As companies expand rapidly on a multinational basis, they are faced with increased challenges to build efficient and compliant payroll procedures and systems. To meet those challenges internally can be difficult and costly. By outsourcing payroll, multinationals can concentrate on building their own businesses at a critical time in their development.

Conclusion

To ensure success, international organisations need to ask if multinational payroll is right for them. Once the business case has been made, buy-in needs to be secured at the top so that senior executives become the champions of multinational payroll. During the carefully planned implementation process, internal boundaries need to be broken down through good communication. Clear objectives need to be set on what the business wants to achieve and who precisely is accountable for delivering it. Measurable success criteria need to be defined and employees' views on the quality and value included in performance assessments to measure ROI and overall satisfaction.

Multinational payroll provides international organisations with global outreach but local expertise. Without question, global organisations stand to reap the many benefits of implementing a multinational payroll programme. And that can just be the beginning of a fruitful journey where the provider can supply other HR services to add further value to clients across multi-jurisdictions.

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Key European mega-trends

Increasing membership of the European Union

The last wave of new entrants, including Poland, Hungary and the Czech Republic, added a further ten countries to the EU in 2004 and opened up a new pool of legal migrant workers for Western European employers to hire. An extra eight countries are waiting in the wings, mainly from the Balkans. As well as the economic considerations, the EU is now increasingly culturally diverse, meaning that employers have to build environments that tolerate a range of religious beliefs, cultural attitudes and behaviours.

Employers in Western European countries are also under pressure to respond to claims that workers from the newer entrants are only used as cheap labour, carrying out unskilled or temporary jobs in sectors such as retail, construction and service provision.

A consequence of the changing working populations is that employers throughout Europe are under increasing pressure to manage robustly ‘right to work’ validation during recruitment. As much of the migration within Europe is within low paid populations, this is a particular issue for leisure and retail sectors, with high levels of hourly paid / high turnover positions.

Increase of regional power

A goal has been set by the European Union called the Lisbon Strategy. By 2010, the EU would like to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. Included is raising the overall employment rate while increasing the number of employed women and older workers.

Competition with developing countries

Global corporations have taken advantage of labour arbitrage in areas such as call centres, back-office processing and manufacturing, locating these functions away from Western Europe and into Asia Pacific. Becoming more efficient with fewer workers is a major trend. Europe’s Worker’s Councils are being forced to increase productivity or face off-shoring of jobs.

As the European workforce has grown, become more accessible and more mobile, so migration of labour to lower cost locations within the expanded Europe has become more popular and more of an alternative to locating in Asia.

Increasing legislation for employers

European employers also have to find their way through a minefield of both local and European employment legislation. New regulations covering areas such as working hours, age discrimination and maternity entitlement have led to increased pressure on HR departments to keep their companies compliant. While this protects employees, it also means greater on-costs for their employers.

Risk aversion in the era of Sarbanes-Oxley

Europeans are also learning to avoid risk in business, often by eliminating large executive compensation packages that are not linked to executives’ performance.

The demographic shift

For many Western European countries, their populations are aging. As baby boomers reach retirement age, growing numbers of people will reach elderly age groups. The most dramatic increase will be in the 80s plus age group, which will rise by 50 percent over the next 15 years. Increased access to healthcare, overall prosperity and a reduction in the birth rate have combined to create the prospect of an uncertain future for those early on in their careers as traditional pension models are becoming increasingly less sustainable. Employers are facing the challenges of pension deficits, workers who expect to work for longer and less young people to develop.

Managing talent and ideas

In order to compete on the world stage, Europe is going to have to work hard to both optimise cost efficiency and also to develop talent and intellectual property that is ahead of the rest of the world. Increasingly employers have to build ways of working that recognise, retain and develop talent, whether in those starting their first career or in those embarking upon their second or third careers. Leading companies are already investing in programmes, technologies and people to help them do this. These same companies are also realising that using outsourcing providers to release them from the transactional elements of employee administration frees up time to enable them to build competitive advantage in their workforce.

Acceptance of global human resource outsourcing (HRO)

Lastly, European business leaders are learning to accept global HRO for multinational management. They are interested in reducing costs, capitalising on expertise and refocusing business on its core functions.

Source: "The social situation in the European Union," 2003, by Anna Diamantopoulou, Employment and Social Affairs, European Commission, and; Pedro Solbes Mira, Eurostat Economic and Financial Affairs, European Commission