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Multi-country payroll: tackling the challenge of small country populations

Webster Buchanan Research
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Foreword

Running your payroll across multiple jurisdictions can be difficult, even in countries where you have large employee populations, but in regions where staff numbers are small the challenges can disproportionately increase.

This report, 'Multi-country payroll: tackling the challenges of small country populations', compiled by independent market research and consulting company Webster Buchanan Research, points to a wide range of challenges in managing smaller country populations, from the difficulty of ensuring compliance through to cost constraints and skills shortages.

It finds that some multinationals take a risk-based approach to compliance – 'responsibly presuming' compliance in some countries and 'proving' it in others – while others are reassessing conventional approaches to hiring.

The report was based on in-depth discussions with senior international HR and payroll managers from 25 multinationals with responsibility for managing payroll in 'small' population countries, from fewer than ten to 100 employees.

In some respects, running a payroll for five people is no different to running it for 500 people. There are a few common factors, including the need to gather data, make calculations and meet employment law and corporate reporting obligations, but this is where the similarities end.

Indeed, smaller country populations can prove to be a major headache in multi-country payroll projects. Not only do they present challenges in terms of resource limitations, the cost of any multi-country payroll initiative has to be weighed against the relatively small number of employees being paid.

As a result, many multinationals are now taking a pragmatic – and sometimes creative – approach.

Multi-country payroll: tackling the challenges of small country populations
A Briefing Paper from Webster Buchanan Research

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Executive Summary

While much of the focus in multi-country payroll projects tends to fall on countries with the largest employee populations, managing small country populations can be an equally daunting prospect. Companies face a range of challenges in paying small numbers of employees across multiple countries, from managing their vendors to gaining visibility into controls and compliance.

In this research study, Webster Buchanan Research held in-depth discussions with senior international HR and payroll managers from 25 multinationals with responsibility for managing small countries to determine the issues they encounter and lessons learned. Respondents were predominantly drawn from Webster Buchanan's Global Payroll Research Network[1] and ranged from small multinationals with a few employees in a handful of countries to Fortune 500 companies (*see "Appendix 1: Methodology"*). While multinationals that seek better central control over their international payroll operations typically focus first on their larger countries, most of our respondents are now taking steps to address at least some of their small countries, reflecting the growing maturity of the multi-country payroll sector.

Our key findings include:

- Many respondents take a pragmatic, risk-weighted approach to managing their smaller countries, particularly in terms of compliance. While all respondents strive for full legislative compliance, there is a distinction between *responsibly presuming* compliance (for example, by appointing a reputable outsourcing provider) and *proving* compliance (for example, by conducting a country audit). Some concentrate their investigative efforts on countries where they have higher financial, reputational or employee-related risks, and presume that they are compliant in the other countries. This assumption of compliance is not an abdication of legal responsibility, but inevitably places heavier reliance on local system and outsourcing providers and tax advisory partners
- While it is clearly best practice, respondents found that it is not always practical to attempt to standardize processes and documentation across smaller countries. Some organizations have therefore introduced 'lighter' versions of their standard governance frameworks, allowing smaller countries to formalize exceptions to standard processes
- Where payroll is outsourced, many global teams raised concerns about the limited vendor management skills within their small country teams, particularly around negotiating and enforcing contracts and Service Level Agreements. In some cases these problems were eased by moving

[1] Webster Buchanan's Global Payroll Research Network is a confidential community for senior international HR and payroll managers. Visit www.websterb.com for details

responsibility for vendor management away from local in-country teams to regional or global payroll hubs overseeing multiple countries

- Within hubs, respondents also grapple with a number of people-related challenges, reflecting the wide range of skills required for managing international payrolls. While an analyst in a regional or global center may be capable of managing as many as a dozen small countries, they are typically not expected to have country-specific subject matter expertise in every territory they cover, and companies often look to in-country HR or outsourced partners to supplement their knowledge. In fact, some respondents now hire primarily for communications, negotiations, vendor management and language skills, and train up agents in payroll skills, rather than the more conventional approach of seeking to hire payroll subject matter experts
- Getting consistent data between HR and payroll systems is a key driver for many multi-country payroll projects in small countries, but there is much debate as to when it becomes commercially viable to build automated interfaces in smaller countries. While there are no hard and fast rules, most respondents tend not to build interfaces for countries with fewer than 50 employees: however, depending on the time and resources involved, several plan to take this down to as few as 10 employees
- Checks and controls around payroll accuracy and compliance vary widely. At one end of the scale, some very small countries push the bulk of responsibility for checking to an outsourced vendor; at the other, many companies either use their own service centers to implement controls, or provide an advisory role to local teams. One risk in an outsourced environment is that organizations build too many internal checks and controls and end up duplicating activity carried out by the vendor
- In addition to improving global payroll governance, drivers for small country projects include reducing risk; improving reporting; consolidating vendors and thereby improving the customer's leverage with providers; and streamlining the process for setting up payroll in new countries
- The cost equation for a multi-country payroll initiative can be complex, particularly in very small countries. Leaving aside implementation overhead, the ongoing costs for a replacement system or service can prove higher than the current costs for an incumbent in-country provider – which to some extent is logical, given that multi-country payroll services typically provide an additional payer of central management control over local payrolls. Some respondents absorb any extra charges centrally, on the basis that the corporation as a whole is willing to pay more for improved compliance visibility and risk management

Part One: Small Country Payroll Strategies

1.1 Defining a multi-country payroll strategy

While payroll isn't typically viewed as a 'strategic' business unit, building a global payroll strategy for countries of all sizes becomes increasingly important as organizations look to impose stronger central control over their international payroll operations. Historically, most multinationals were content to run payroll on a country-by-country basis – not least because different legislative and organizational requirements made it difficult to do anything else. Today, there is a growing acceptance of the value of improving central control over payroll through a multi-country payroll program, whether for compliance, cost, efficiency, risk management or other reasons. Better control doesn't necessarily equate to centralization – especially for highly-devolved organizations – but it does equate to better global governance.

While there is a common perception that outsourcing payroll or rationalizing vendors is a strategy in itself, in reality these are design principles that underpin a broader strategy. Fundamentally, a multi-country payroll strategy enables payroll to meet the organization's business objectives – which might span everything from the need for rapid scalability in a highly-acquisitive company, to prioritization of compliance risks in a highly-regulated industry. Within this overarching business framework, a multi-country payroll strategy will encompass all aspects of an end-to-end payroll service, from organizational design decisions to global governance, and take account of a variety of factors including:

- The nature of the multinational's business and the sector in which it operates
- The size and type of employee populations (for example, whether they are salaried or hourly employees)
- Payroll operational requirements, including any practical constraints on theoretical models
- The idiosyncrasies of individual countries
- The nature of the HR function, including the degree to which it is centralized

When they were asked if they had a 'strategy' for managing their smaller international payroll operations, many participants in our survey initially replied in the negative. But delving deeper, it became apparent that many organizations have taken some steps to define their strategic options. For example:

- Some companies have developed a company-wide global payroll strategy, without specifically singling out their smaller country populations
- Some started out by focusing on their largest countries to generate the biggest return on investment, with their smaller operations penciled in to be addressed at a later date
- Some have a *laissez faire* approach, letting individual payroll functions evolve to best suit each country's business needs
- Other respondents have gone as far as developing a specific strategy for their smallest populations. This includes companies that have no mid-sized or large international populations

The business drivers behind these approaches include:

- Reducing or controlling risk, especially in relation to legislative compliance
- Greater control and economies of scale, often driven by centralizing payroll management (globally or regionally)
- Greater flexibility in setting up new country payrolls
- Improving vendor management, which may take the form of consolidating vendors, standardizing contracts and Service Level Agreements (SLAs) and reducing vendor risk
- Integration with enterprise-wide initiatives, including global HR centralization projects
- More unified global reporting across all employees, greater visibility of payroll information, and generating data to aid decision-making in areas such as pay reviews, bonus computations and long-term incentives
- A realization that as organizations become more global, they can benefit from the experience of other countries and standardize processes

1.2 Where small country strategies differ

To an extent, running a payroll in a country with five people is largely the same as a country with 500: payroll still needs to gather employee data, carry out a gross to net calculation, pay employees and fulfill its legal and corporate reporting obligations. But beyond these fundamentals, the dynamics of payroll management for small countries often differ significantly from their larger counterparts. Key differences – which are explored in subsequent chapters of this report - include:

- **Controls and compliance** Because of limited resources, many companies take a risk-weighted approach to managing compliance in their smaller countries, assessing both the likelihood and potential impact of compliance issues

- **Organizational design** To overcome local resource limitations, some organizations look to absorb build-to-gross and vendor management activities into existing shared services centers or regional hubs
- **Cost equation** The cost per payslip for running smaller countries may be higher than larger countries of similar complexity, given the lack of volume and associated economies of scale
- **Cross-functional roles** In many smaller countries, the individual responsible for managing payroll may also be responsible for other business functions such as HR administration or accounting. In these cases, outsourcing or otherwise restructuring payroll will therefore only impact parts of a role, and companies may need to take a broader, multi-function approach. For companies setting up small populations in new countries, there may be a case for sourcing a single provider offering a range of services such as accounting, HR administration, payroll, legal and company secretarial services
- **Systems set-up**: Smaller countries do not typically enjoy the same level of system sophistication as their larger counterparts: in particular, building interfaces from central HR systems to payroll may not be economically viable in some smaller countries, and an alternative means of providing the upstream data to payroll may need to be adopted

There are also significant differences in running smaller payroll operations from a **vendor management** perspective. While the multi-country payroll market is still relatively young, there are significant variations in the approaches that vendors take, both on a regional and global basis. Finding the most appropriate model for a particular employee mix is critical, since some vendors are unable to scale down for very small numbers of employees, and others struggle to scale up cost-effectively as volumes and complexity grow.

Just as important, the nature of the customer-vendor relationship differs between small and large countries. The lower volume of payslips in smaller countries tends to be reflected in reduced bargaining power for the customer, which can impact everything from pricing to quality of service. Striking a multi-country agreement – as opposed to a series of unconnected national contracts – can help mitigate this issue by giving customers greater leverage through the aggregated volume of payslips.

In addition, the existence of a multi-country agreement will often enable companies to set up more quickly in new countries, given that the contractual framework is already in place and the vendor is accustomed to the client's working environment. As one respondent points out, it can also help boost the customer's negotiating position when it comes to sourcing services for small workforces in more challenging countries: it may be hard to find a provider to handle just three employees in a 'hard-to-reach' country for a standalone single country deal, for example, but when your multi-country vendor has 50 of your other countries on its books, it’s got a big incentive to get that operation up to speed promptly and efficiently.

Faced with these issues, respondents have adopted a variety of models including:

- Consolidating vendors across their small countries and managing them from a single location (or in some cases, a collection of hubs), with standard data inputs and common outputs
- Adopting a ‘tiered’ approach, where larger countries are managed on one international platform, small countries on another – and in some cases, with some individual countries treated as standalone exceptions
- Adopting a ‘handover’ approach, starting up in each new country with a local in-country provider and moving to a preferred multi-country payroll provider as the population grows
- Leaving payroll processing for smaller countries with local in-country vendors, but imposing ain international governance structure to improve process standardization, visibility and control
- Adopting hybrid versions of the above

1.3 Limitations on global payroll control

One important factor in the way small countries are managed is the degree of control exercised by the central payroll function. Some of the regional and global payroll managers interviewed by Webster Buchanan Research did not “own” the small countries in their company’s portfolio: they either reported into local country HR, finance or business management, or were controlled by a separate administration function.

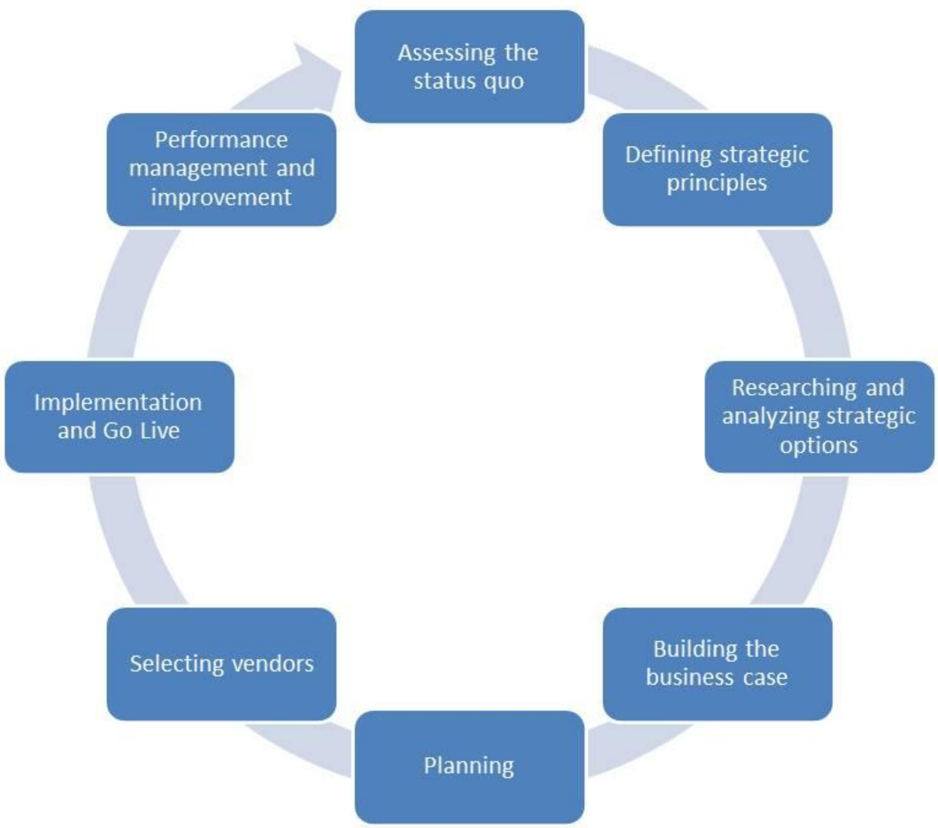
In these cases, where the global payroll function only has “dotted line” governance, its influence will depend in part on corporate culture. Some global payroll functions will largely be limited to offering guidance and providing tools: by contrast, one respondent noted that once global payroll had been given the remit to devise an international payroll strategy, local payrolls were expected to follow the corporate lead regardless of their immediate ownership.

Part Two: From single country to multi-country

A typical journey from single country payroll management, where payrolls are managed locally on a country-by-country basis, to a multi-country approach with centralized governance and control, passes through eight phases, as illustrated in Figure 1. Each stage presents challenges in its own right – but four areas in particular were called out by respondents as they discussed their small country payroll approaches:

- Assessing the status quo
- Analyzing the cost components of the business case
- Defining the scope of any outsourced services during the planning phase
- Managing transitions during the implementation phase

Figure 1: Eight phases to multi-country payroll



2.1 Assessing the status quo

One of the first challenges global teams face is that they typically have far less knowledge about their vendors in small countries than in large ones. Many central HR and payroll operations do not know the identity of their local vendors, let alone the nature of the services they provide and the quality of their performance. Nor do they know whether in-country teams have the right expertise to measure and manage in-house and outsourced vendors. Is there a Statement of Work detailing the services an outsourced provider has contracted to deliver? Are there Service Level Agreements and other controls around payroll delivery - and, more importantly, is anybody monitoring the SLAs?

As a result, the starting point for many organizations when they embark on a multi-country payroll project is to gather sufficient information about their existing small country operations – and where they are looking to move into new countries, to define the new operational set-up. This covers basics such as organizational structure, including internal responsibility for payroll and associated skills; vendors; costs; payroll performance (including timeliness, accuracy and quality of service); feeds into payroll such as time systems and benefits; outputs to finance; and the payments process. This analysis is also designed to uncover any complexities, and also to tease out any “burning issues” in individual countries.

To gather this information, many companies send out benchmarking assessments or questionnaires to their smaller countries. But these internal exercises need to be handled with some care. One respondent noted that the countries he was assessing had the impression they were being audited, and could only be persuaded otherwise through a personal visit. While this kind of face-to-face contact helps ease concerns, it’s not always practical of course across a large number of small countries.

Although these kinds of “status quo” analyses are typically carried out among internal teams, one respondent took a different approach and circulated a customized Request for Information (RFI) to the company’s incumbent providers in one region, looking to gain a picture of what services they provide today and what alternative or additional services they might be able to offer. The company plans to use the information obtained in the RFI to explore the opportunities for standardization or consolidation within the region.

2.2 The cost component of the business case

As we outlined in Part One, the business case for multi-country payroll hinges on a number of factors, including reducing compliance risk, providing back-up for key roles, streamlining vendor management and centralizing and standardizing processes. The cost component, however, can sometimes be challenging. It's not uncommon for multinationals to end up paying a higher cost for payroll service provision in some of their smaller countries when they implement a multi-country payroll strategy – although the differential does of course depend on the price competitiveness of their existing services. The reasons include:

- Outsourced payrolls may be subject to management or service fees, which can be relatively high for small country payrolls where there are limited economies of scale. To circumvent this, some respondents absorb all management fees as a global cost and charge the aggregated fees back out to countries on a per-payslip basis
- Likewise, the cost per payslip for an outsourced service may be relatively high compared to a larger country of similar complexity, again because of the lack of economies of scale
- Assumptions about the current cost of processing payroll in-house can sometimes be inaccurate, making the "future state" cost look higher than it actually is. For example, some organizations struggle to capture labor costs associated with payroll where resources are shared with other business functions: likewise hidden costs in an in-house model, such as allocations for IT support, can sometimes be overlooked[2]
- If a local office is processing payroll manually, the cost of implementing a system is likely to be higher, although this increase may be offset by the improved reporting, management visibility and other benefits of automation

As a result, several respondents acknowledged that they had difficulty justifying to their small countries why they should transition to a centrally-controlled model where it entailed a higher cost for payroll and related services. One respondent noted she had "built a story" to take to senior management based on performance, internal control, cost of operations and systems integration - but the higher cost to the countries was a recurrent stumbling block the global team was unable to overcome.

Other respondents, however, reported greater success. One gave the example of a small, single country payroll that was being run off a spreadsheet, where local management assured the central payroll function that no change was required because payroll was fully compliant and tightly controlled. The central

[2] For a further analysis of in-house versus outsourced costs, see "The Business Impact of Technology Choices in Multi-country Payroll", published by Webster Buchanan Research in July 2012

payroll function was still able to push through a transition to a multi-country payroll model on the basis of other benefits to the central corporation, including the company's need for better data to support headcount reporting, pay reviews and bonus comparisons.

Another pointed out that although the individual payroll cost to small countries increased, the aggregated dollar value of the increase was still relatively low given the small volume of payslips, and was outweighed by the benefits of greater compliance certainty and lower risk. In this case, the additional cost was absorbed by the corporate finance function on the basis of risk reduction.

2.3 Defining the scope of outsourced services

As multinationals start to move towards a more centralized approach to managing their international payrolls, one of their first tasks is to agree a standard, base-level scope of services for any outsourced services. The scope of services needs to be comprehensive, with roles and responsibilities closely defined – it may seem self-evident, but some respondents reported finding gaps during implementation that had to be plugged either by the company itself or its provider. While companies will always need to cater for local country peculiarities, the higher the volume of exceptions, the more work will be required at a central level to monitor and manage different contracts and statements of work.

Respondents pointed to several caveats in defining the scope of services. Firstly, it's important to analyze the end-to-end payroll process, including all payroll-related feeds and outputs. One respondent had failed to scope Time and Attendance as part of a system change in some countries and as a result wasn't able to achieve all the potential efficiencies. "We have manufacturing plants in many locations and there would have been huge savings. It was a big mistake not including it as part of the implementation."

This is particularly true where HR administrative services form part of the payroll cycle – such as the requirement in some countries for workbooks to be stamped before an employee can be paid. Respondents take several different approaches to these issues:

- Where the local payroll provider is able to manage HR administrative tasks as add-on services, this is usually the preferred option
- In countries where the company has local or regional HR resources, some opt to hand them responsibility
- Others contracted separately for local HR administrative support for activities such as registrations and employee filings

Secondly, respondents stressed the need to consider exceptional circumstances when defining policy. One example is making payments or moving money in countries with challenging political or infrastructure constraints, where a company's primary bank may not have a presence or the overall banking infrastructure may be inadequate. Currency controls may also add complexity.

2.4 Managing transitions

Several respondents observed that in comparison to large, complex country populations, implementing small country payrolls should be relatively easy, particularly in countries that primarily employ salaried staff with few changes from month to month. Nonetheless, problems and surprises inevitably occur during implementations.

Many reported that the transition to go live can be a particularly challenging period. One tip suggested by respondents is to ensure that the implementation for smaller payrolls is appropriate to the size of the employee population. Is it necessary – or even feasible – to run a series of monthly parallel runs for 10 or 20 employees in a non-complex environment? There is no hard and fast cut-off point, but the combination of employee size and complexity will usually be the determining factor.

Others reported challenges in the handovers between sales, implementation, sustainment and account management – with particular concerns raised about the potential for challenges in the handover from the implementation team to the operations team, where documentation and process flows are more thoroughly tested. Companies' own internal processes can also trigger problems, particularly where they try to change vendor and internal processes simultaneously.

Part Three: Controls and compliance

3.1 The assumption of compliance

Whether an organization outsources the tasks associated with compliance, or leaves them in the hands of an in-country operational team, legal responsibility for compliance ultimately remains with the corporation. Nonetheless, many companies work on the assumption that their small country payrolls are accurate and compliant – particularly when they have no evidence to the contrary. This is particularly true when organizations outsource – the thinking being that one of the prime drivers for hiring a third party vendor is to put compliance in the hands of an expert.

In reality, however, respondents acknowledge that the risk of non-compliance with local legislation can be higher for small country payrolls than their larger counterparts, particularly where companies lack in-house knowledge and are effectively fully reliant on local vendors, and several respondents reported running into problems. Typically, evidence emerges during an audit, or when a company switches vendor and the new provider argues for a different treatment. One respondent discovered during an implementation program that it was not paying the full amount of social insurance in a specific country: it had been assured by the local payroll team that the calculations were in line with local practice, but an independent audit found otherwise. Another found during a pre-implementation discovery session that it was not treating some pay elements correctly for tax purposes. For many organizations, these examples reflect the difference between *responsibly presuming* compliance (for example, by appointing a reputable outsourcing provider) and *proving* compliance (for example, by conducting a country audit).

Given that usually they simply don't have the resource to track every legislative change in every country, respondents tended to take very different philosophical approaches to the challenges of compliance. One respondent confessed that compliance concerns keep her awake at night because she cannot get positive assurance that all of her company's obligations are being met. "In the end, even though I outsource, it's still my problem – if I miss something, I still have to pay for it," she said. By contrast, others take a more 'laissez faire' approach: one respondent was content that for the most part its in-house payroll processor simply validates that payrolls are being processed on time and that the payroll results *seem* accurate.

3.2 Risk-weighting and self-assessment

In an attempt to tackle their compliance challenges, many multinationals now prioritize their efforts on the basis of risk assessments. Some focus on headcount, placing additional resource into conducting regular checks of larger country payrolls where the penalties of getting it wrong will be far greater. "Anything less than 10 [employees] isn't high on anyone's corporate radar," argues one. "You try to do your best to make sure you are compliant from a processing standpoint, but there is never going to be a payroll or tax audit in a country with two people."

Others believe the issue is more nuanced and prioritize countries through a matrix of risk factors, which might include:

- The knowledge and experience of the local payroll team
- The compliance environment – for example, giving higher priority where transgressions are criminalized
- Employee sensitivities, including relationships with trade unions
- Sensitivities to the corporate brand, which may be higher in some countries and vary depending on media cycles
- The prevalence of bribery and corruption. In high-risk countries, one respondent has a policy of only hiring international professional services firms rather than local providers

Several respondents in our research have also embraced the concept of self-assessment. One respondent recently conducted an internal compliance audit of all its countries, and is now focusing its attention on tackling countries where the central payroll team is heavily dependent on third party vendors for both legislative and policy compliance, and does not have good visibility into the level of compliance. For example, the central team might check if variable pay elements appear on a payslip, but may not know whether the hourly rate for overtime has been correctly applied. Other respondents look to carry out external audits of their vendors, working for example with an independent third party tax specialist to carry out comprehensive tests on payslip accuracy.

The key components of this kind of approach include:

- **Self-assessment by country** Countries can maximize their available resources by asking countries to self-assess their controls and compliance status and encouraging them to reach out if they need help. One respondent with a low appetite for risk has a self-assessment scorecard for operational and compliance risk: countries self-assess a range of risk categories and a manager signs off that the requisite check has been carried out. This is backed up by visits from the risk management team to ensure the checks are being carried out effectively

- **Visibility** Other respondents advocate the improved visibility that a multi-country approach can bring: "Previously there was no ownership of the payroll and our in-country managers just didn't have the expertise. They would tell the payroll provider there was a new employee and then do nothing more after that. Our multi-country payroll project is bringing a lot of good visibility, standardization and optimization of processes."
- **Evidence** It's important not just to receive notification that an activity has taken place, but also to secure evidence of it. This may require an organization to join up the dots between different departments: for example, if tax payments are made through accounts payable rather than payroll, it may be necessary to get a proof of payment for reconciliation purposes.
- **Vendor communications** Whose responsibility is it to keep the company up-to-date on compliance requirements? There are some examples of best practice, particularly in the shape of compliance bulletins from vendors, which are becoming increasingly common: one respondent's vendor, for example, presents an overview of all the upcoming statutory proposals and changes to regulations in all of its countries for the coming fiscal year. This kind of compliance bulletin activity is sometimes charged as an extra service by payroll providers
- **Vendor notifications** Organizations expect a level of proactivity from vendors – for example, in alerting them when tax payments have been made or statutory filings delivered – but this isn't always delivered on
- **Vendor validation** One option is to request that the vendor confirms in writing that everything has been paid accurately and on time to the relevant authorities and third parties

Some organizations have gone further still, looking to overcome their reliance on third party vendors by assuming greater responsibility for overseeing compliance in-house. One respondent, concerned about poor visibility into statutory changes in its small countries, tackled the problem by working with its in-house tax, treasury, HR and legal teams, along with a network of external advisors, to agree and document requirements. Another has established a tax team within the payroll group to gather local knowledge and now informs its vendor what tax payments to make. Ultimately, the further along this path a company goes, the greater the danger of duplicating effort. Ideally, of course, most organizations would seek to work with a competent vendor with proven experience in each of their countries, whose knowledge can be tested to their satisfaction as regularly as needed.

3.3 Governance and controls: thin or thick?

Where respondents do not have the resources to put in place a full-blown governance and controls environment, a thin layer of central governance is sometime applied that provides global standards and guidance to local teams and gives them latitude to decide how to apply it. Some global teams provide guidance and tools including:

- Advice on payroll vendor contracts and the terms and conditions that need to be included
- Company policies on critical areas such as business continuity, IT security and data privacy and protection
- Service level agreements, key performance indicators and guidance on managing vendor performance
- Advice on checks and controls, including segregation of duties (SoD) and building a SoD matrix
- Payroll governance within a RASCI (responsibility assignment matrix) showing where accountability lies
- Advice on writing and maintaining Standard Operating Procedures (SOPs) for core payroll processes

Guidance is often focused around vendor management, where there may be concerns that the rigorous standards applied by central procurement teams are not applied to local payroll vendors. "Whether it is a small country or large we still expect them to adhere to the same standard of managing a third-party vendor," says one respondent. "My expectation is that the requirements should be documented in such a way that all countries whether they are big, small or medium, can comply and operate payroll to the same standard. How they operationally do that I'm sure will vary depending on the site. What I would do centrally is provide [the local manager] with the standard and say this is how we expect you to do it. If he doesn't follow that standard then he would need to explain locally why that was the case."

The level of checks and internal controls within organizations varies widely, and again there is a split between those who are more prescriptive about controls and those who prefer to give local countries or service centers the tools to carry out the checks that they think are required. Beyond core Sarbanes Oxley controls around payroll master data, payroll payments and reconciliation of payments to payroll, many monitor new starters, changes and leavers to ensure they have been treated correctly, and most have sense checking built-in to ensure that changes outside a pre-set threshold (such as a percentage increase in pay), are investigated. From an IT perspective, systems access controls and data upload accuracy are monitored and a log of changes to the payroll software is maintained. Service centers can also provide a useful back-up verification control, with input carried out by the specific country and checked by the center or vice-versa (*see Part 5.1, below*).

Part Four: Organizational design and talent management

4.1 Shared service centers & hubs

One of the most significant challenges facing international payroll managers is that the level of resources available in small countries for payroll and HR administration management inevitably tends to be limited. Where payroll is outsourced, the person administering the payroll and dealing with the vendor in-country will often be an office or country manager with limited payroll expertise (and in many cases, limited interest). Conversely, where organizations process payroll in-house, there may a key dependency on one or two individuals.

Where organizations move to a multi-country structure, these issues trigger debate about the most effective support model for small country payrolls. Can a company create sufficient scale across multiple countries to reduce key person dependencies and ensure that roles are backed up? What's the optimal level of resourcing to support an employee population that even with 20 or 30 countries is still only likely to be in the hundreds? And where should the newly-centralized function be located?

Not surprisingly, many of the larger multinationals we spoke to make use of their cross-functional service center resources to manage small country payrolls, migrating payroll into an existing finance/HR **shared services center**. Countries sometimes encounter issues here, in that what works well for transactional HR and finance activity might not always be the best fit for payroll, with its greater volume of country-specific requirements. However, several of our respondents have successfully migrated small country payroll operations to shared service centers in nearshore and offshore locations, ranging from Eastern Europe to Latin America and South East Asia. These might be regional – a service center in Singapore or the Philippines servicing all of AsiaPac, for example, supported by in-house teams in countries that are particularly challenging in terms of language, legislation or the business environment – or in some instances global.

An alternative solution is a **hub strategy**, which sees larger countries providing support for smaller country payrolls. Building on resources that already exist, the hub's duties will likely include payroll preparation, liaising with vendors and responsibility for controls and compliance. Where employees are encouraged to build up their subject matter expertise for different countries, they can provide a valuable check on the vendor.

One respondent dealing with a number of different vendors around the world has established a central payroll team at its headquarters which serves all of the company's global sites. Coverage is split between two geographical teams, which are responsible for vendor management and data throughput. The teams have acquired a strong level of local country knowledge, but there is no expectation for them to progress to the level of expertise of an in-house SME.

At a second multinational, the skills differential between in-country teams and hubs is narrower, although there is some variation between locations. The company operates globally and has regional hubs on each continent, with a small number of countries run locally because of language challenges or complexity. The deepest subject matter expertise lies with team members located in-country in the company's largest territories: while they do not process payroll, these SMEs handle specific projects such as updating controls to cater for legislative changes. But knowledge levels among some employees in the company's hubs do not lag far behind, particularly in the longest established hub.

Whether it's a hub or a shared services strategy, the benefits of centralized resources include:

- **Reduced vendor reliance and improved checking** Training analysts in the basics of local payrolls reduces customers' reliance on outsourced vendors and enables some level of sense checking of vendor data. However, as outlined in Part Three, in an outsourced environment most companies ultimately rely on their vendors' specialist knowledge for more complex issues
- **Better segregation of duties** SoD is a key concern for small country payrolls, where the person initiating the payment in-country may also be the person signing-off. Backing up these roles in a hub or shared service center helps to tackle this problem
- **Providing back-up/reducing key person dependencies** One participant argues that the "strength and depth" of its model eliminates single points of failure, with each country payroll covered by one lead and at least one back-up. To ensure that back-up staff are fully conversant with payroll, they take responsibility for running it at regular intervals. Cross-training team members on multiple payrolls also gives companies the flexibility to move employees to fill vacancies, or as business requirements shift
- **People development** Training employees in multiple countries also helps to keep them engaged as part of a retention program
- **Greater efficiency** Payroll loading levels for analysts differ, but based on the experiences of our respondents, payroll specialists may typically look after 12 or more countries

4.2 Defining roles and responsibilities

One advantage of taking a shared service center or hub approach is that it enables organizations to split responsibilities in ways that are impossible to do in small countries. One respondent cited a typical set-up consisting of three management strata with different levels of accountability and responsibility.

- The company is heavily reliant on its payroll vendor to guide it and ensure it runs a compliant payroll in each of its small countries *(see Part Three)*
- Additionally, it has a team of payroll analysts who know the key aspects of those individual payrolls and understand the end-to-end process flow. If changes are introduced on either the payroll side or by partners, they will understand the impact on the payroll process both upstream and downstream
- The shared service center is responsible for execution and follows standard, documented desktop procedures

How final responsibility for payroll sign-off is allocated tends to vary depending on organizational structure and location. One respondent explains that for sign-off, its payroll specialists report in to payroll regional managers or team leads – others, however, leave payroll sign-off in-country with senior finance staff or with a regional director. Most companies of course look for segregation of duties between HR and finance: HR has responsibility for payroll instructions; the payroll function is responsible for operationally running the payroll; finance signs off payments.

4.3 Talent management and location

Managing small country payrolls across multiple countries has significant talent management implications, particularly given the relative immaturity of the multi-country payroll sector. Analysts with international skills are increasingly in-demand and, consequently, multinationals can expect to face growing competition to retain their talent, even if the pressures vary depending on geography. Retention levels can fluctuate in popular locations for shared services centers, such as parts of Eastern Europe, the Philippines and India: salary inflation can be intense in some parts of the world, including parts of China: and as one respondent commented in citing Malaysia, competition can quickly become cut-throat.

As a result, the location of hubs is a significant issue. Many companies build hubs around their existing HR or finance shared service centers or clusters of payroll subject matter experts. But one respondent that outsources payroll argues that the location should primarily be selected to underpin the vendor-client relationship. With 40 countries around the world, many of which are staffed by small workforces, it has a single global outsourcing contract, working directly with the provider in one country and leaving the outsourcer to interact behind the scenes with its other local offices. The company has deliberately based its internal resources in the same country as the vendor to improve communications, and argues that if it were dealing centrally with the outsourcer in another location, it would relocate its in-house team accordingly.

Regardless of location, the ideal team member working on small country payrolls will combine language skills and some country-specific payroll knowledge – but respondents accept that it is often a challenge to secure both. While some respondents have less dependency on language skills – particularly where the official company language is English – where it is a requirement some respondents showed a preference for recruiting analysts with languages and training them in payroll, rather than vice versa.

In these cases, knowledge transfer is critical: "When we went in to the shared service model, either we recruited resources within the country to be transferred to the shared service center or we were sending people from the shared service center to shadow others across as many as six cycles," says one respondent. This is not limited to internal communications: there is also evidence of two-way knowledge transfers taking place between outsourced service providers and customers. Likewise, developing comprehensive supporting documentation is essential: while many country payroll operations function reasonably effectively through a combination of basic documentation and word of mouth, respondents argued that as companies centralize and cross-train, it becomes more essential to have a comprehensive base of payroll information.

In addition to languages and payroll technical expertise, several respondents cited lack of vendor management skills as a concern in small countries. Critical skills highlighted by respondents include contracting; contract management; SLA monitoring and management; incident reporting and vendor benchmarking. Linked to this, some organizations are also concentrating on agents' ability to build relationships and communicate effectively, both internally and externally.

One respondent now provides comprehensive internal training and qualifications in vendor management for its employees, although these are currently restricted to larger countries.

Part Five: Systems and processes

5.1 Weighing up systems interfaces

It's a truism that the quality of payroll processing is largely dependent on the quality of data inputs – something that's often colloquially referred to as 'garbage in, garbage out'. Managing the feeds from HR systems – which typically contain employee master data – and variable data from time management and other systems is a key component of any multi-country strategy, but presents particular challenges in smaller countries. While organizations with centralized HR systems will typically look to build automated interfaces to payroll systems in their larger countries, the cost and IT resource requirements can be prohibitive for small country payrolls.

The point at which it becomes economically viable to build an interface is the subject of some discussion and experimentation among our respondents. The business case will vary from country to country and is dependent on a range of factors, from access to internal IT resources to the sophistication and associated costs of the integration environment. While many respondents were unable to justify the investment, some organizations have built interfaces for relatively small employee populations. Even where no decision has been taken, one recurring strategy was to look for payroll partners that have the capability to consume data from a global HR system interface, even if this is not immediately implemented. Future-proofing the choice of supplier in this way ensures that payroll vendors have the flexibility to meet clients' changing needs whenever the number and complexity of the employee base rises.

The value of interfacing between systems can also extend beyond core HR and time management. One respondent that already enjoys tight integration between the payroll and HR system in multiple countries is now looking to extend an interface to a performance-based system from a different supplier. This will give it access to a valuable pool of data for management reporting to aid decision-making across a number of functions. "It's about getting better data. It's not just headcount reporting, it is about being able to do pay reviews, bonus computations, as well as long-term incentives."

5.2 Reconciliation and reporting

Automation can also be extended across small countries to reconcile data, standardize payroll inputs and outputs and improve reporting. Examples include:

- To mitigate the risk of unsynchronized data and associated inaccuracies, one respondent has developed an HR dashboard that compares data in systems across its group. Some 60-70% of its locations already have an automatic interface to its enterprise HR system, where data is fed to the local provider and returned at the end of each payroll cycle. For the remaining countries, the dashboard enables the organization to check on data consistency and ensure the enterprise system is being updated. "If we have 100 people in the HR system in one country and we get back a gross salary of 102 from the local business partner, it means they did not create [the necessary] data for two hires but just communicated it to the payroll provider."

- Other respondents use business process management (BPM) tools and principles to help standardize processes for some of their small country payrolls. One respondent has standardized all its input and output files globally and used a BPM tool to categorize its employee compensation processes. The detailed level at which this is performed means the organization can see all its processes and, when errors occur, can trace them back to the individual process responsible. As a result it can also pick up on "themes of errors" and take remedial action.
- Another respondent has built a tool to manage all its build-to-gross activity, taking input files from its countries in various formats and preparing them for transmission to the in-country payroll processor. The same tool can also provide full reporting on all payroll data and conducts the sense checking on payroll values. It is being extended to validate the return files from payroll processors against the input provided

5.3 Process standardization

Building an interface into payroll is not the only way of course to ensure that data is in synch – a standard process can achieve the same goal as long as there are strict controls around it and no exceptions. Several respondents use their service centers to impose this level of standardization, insisting for example that no changes can be made to payroll master data without going through the center.

While standardizing processes and documenting standards in country playbooks is clearly best practice, it can be difficult to justify the effort for small or very small countries. Respondents were typically careful to ensure that their requirements for documentation are proportionate, with very small countries focused on documenting exceptions, or relying on their vendor to maintain documentation.

Appendix 1: Methodology

Webster Buchanan Research held in-depth discussions with senior international HR and payroll managers from 25 multinationals with responsibility for managing small countries to determine the issues they encounter and lessons learned.

Respondents were predominantly drawn from Webster Buchanan's Global Payroll Research Network[3] and ranged from Fortune 500 companies to multinationals with a smaller international footprint.

The research project utilized Webster Buchanan's Practitioner Panel Methodology. Each interview was based on a questionnaire framework that enabled Webster Buchanan to focus discussions on common topics, while giving respondents free rein to talk in detail about the issues that matter most to them.

In our discussions with respondents, we defined small countries in three ways:

- **"Very small"** populations of fewer than 10 employees
- **"Small, low complexity"** populations of approximately 11-100 employees with low organizational complexity (e.g. a sales office)
- **"Small, higher complexity"** populations of 11-100 with higher complexity (e.g. a mix of hourly/salaried pay)

[3] Webster Buchanan's Global Payroll Research Network is a confidential community for senior international HR and payroll managers. Visit www.websterb.com for details

End Notes

About the Authors

Webster Buchanan Research is an independent market research and consulting company specializing in international HR and multi-country payroll, operating from regional centers in London, San Francisco, and Singapore. Webster Buchanan has been carrying out research in multi-country payroll since 2002, when the sector was in its infancy: since then, we have worked with numerous senior HR, payroll, and finance professionals from around the world through our consulting, market research and events businesses. Our clients range from some of the world's largest multinationals to small companies operating in fewer than a dozen countries.

For more information about Webster Buchanan's multi-country payroll consulting services and events, visit www.websterb.com. For copies of recent research reports and other articles on multi-country payroll, visit Webster Buchanan's International Payroll Center (www.wbipc.com).

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