Global Payroll Survey 2014

One year on and closer to reality?

EY

Building a better working world

Introduction

Multinational companies with thousands of employees around the globe face persistent dilemmas. How do you administer payroll in each region, and do so consistently? How do you keep pace with changing regulations in every jurisdiction? In addition, organizations desire to stay current with the leading practices and vendor capabilities.

For some organizations, the answer may be finding a single vendor who is able to address the aforementioned questions. A vendor who is able to meet current needs with a scalable approach may seem like the ideal solution, but this approach is not applicable in every instance. While the debate continues over whether a true single global payroll provider currently exists, the ever-changing regulatory landscape adds layers of uncertainty to an already complex business issue.

Over the past year, we polled client and vendor organizations to see if they believe a global payroll solution truly exists. Fifty-five percent of respondents said they were not sure if a single entity could meet all of their needs around the globe. Thirty percent believed there was a single solution.

This question has been among the most popular we have circulated on social media sites, and it is a recurring theme in our client discussions. Some payroll vendors say they can accommodate organizations globally. However, since our first global payroll survey in 2012, organizations — buyers — have discovered that a single payroll solution is difficult to find or does not exist for their organization's geographic footprint.

Our goal for this report is to help you understand the issues surrounding global payroll delivery so that your organization can plan earlier in the process and identify potential pitfalls. This year, we revisited previous survey participants, including global payroll leaders, human resource executives, mobility managers, controllers and other business leaders who are responsible for their company's payroll delivery to determine if they had new experiences or shifted their perspective on the market. The responses to this year's survey indicate that, yes, there has been a shift in market perception: 43% have concluded that there is not a single global payroll provider, 25% still think there is one single global payroll provider and 32% are unsure.

We found that their opinions were formed based on their definition of a "global provider." We define a global provider as "a single vendor that is able to process payroll in 90 or more countries." For organizations operating in 40 or fewer countries, capable vendors do exist. That also rings true for companies that operate in North America and Western Europe, two markets mature in global payroll services. However, organizations with a much larger footprint, in emerging or rapid-growth markets, do not have this payroll option.

With this realization, multinational companies are employing a variety of solutions. In our experience, a regional approach appears to be the most prevalent, allowing organizations to limit the number of vendors they retain. That does not mean that the need for a global payroll solution has diminished, as regulatory changes continue to affect payroll delivery.

Since our first survey, the number of businesses planning to expand into new global markets has soared from 35% to 52%. Emerging and rapid-growth markets continue to draw organizations looking for lower costs, larger pools of customers and new talent. The uptick in mergers and acquisitions is also boosting the demand for new and diverse talent, requiring providers to quickly onboard new business units around the globe.

Last year's survey allowed us to gauge the landscape. We identified whether buyers and vendors believed global payroll was a myth. We also measured buyers' levels of satisfaction with their providers and operating models. This year, we asked similar questions, and several supplementary ones. The goal was to understand how organizations are dealing with providers across the entire life cycle of global payroll: deciding whether to make changes, selecting a provider, and implementing a process and application maintenance.

The results summarized in this report will help companies better understand their positioning on the spectrum and how others on a similar timeline are devising solutions.

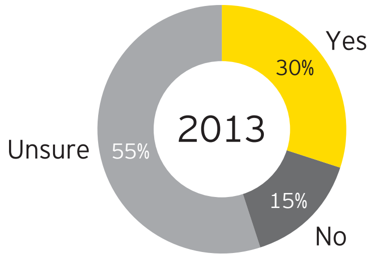
This year we took the accompanying webcast a step further. *Global payroll: One year on and closer to reality?,* which originally aired in February 2014, features interviews with EY thought leaders as well as executives whose companies are at different stages of their journey to a global payroll solution. They described what prompted them to search for a global payroll provider, what they learned from the process and how they adjusted to their new system. The webcast can be viewed here.

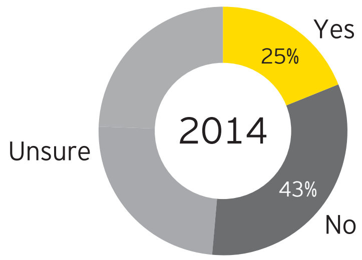
The resounding message in this year's survey is that finding a global payroll solution continues to be a complex dilemma that is not easily resolved but desired by many. The good news is that buyers are more educated regarding global payroll delivery. In addition, organizations are more skeptical of services promised and are taking a more active role to achieve payroll quality and mitigate risk by educating themselves on their business requirements and asking the right questions of their provider. EY will continue to monitor changes and trends across the landscape. For further insights to assist with finding the correct payroll delivery model and other issues, consult our library of Human Capital thought leadership at: ey.com/GL/en/Services/Tax/Human-Capital.

Jeffrey J. Brown
Principal, Human Capital
Ernst & Young LLP
New York

Meeting the need

Question: Based on your experience, do you believe that there is a single vendor that can handle all of the company's payroll needs globally?





Payroll executives say they aspire to find a single provider able to service them in every locale, but it is difficult to find an operator who is able to fulfill all of their criteria: cost efficiency, quality execution, payroll delivery in all locations, flexibility, scalability, and access to data.

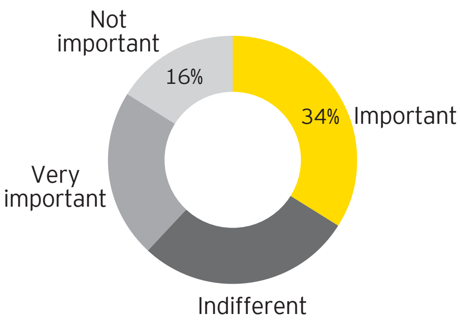
The reality of the market landscape is that it is very difficult to address the variety of challenges and risks in 90+ countries. The most difficult and top concern among organizations is compliance.

Legal and regulatory compliance can pose challenges. For example, Italy and other countries require that communications be provided in the state-approved language. Switzerland, Italy and France have rolling employee start dates. Under their regulations, workers are allowed to start six months after their hiring date. The United Kingdom requires companies to keep employees on the books for a period of time after their termination date, a practice called "garden leave."

Culture — both regional and corporate — is another dilemma facing buyers. Companies in Northern Europe have a greater propensity to outsource, which presents a unique cultural dynamic among employees. Payroll cycles that vary weekly, biweekly or monthly make it difficult to harmonize payroll processes. Shift patterns and union agreements add to the complexities. Western European countries have work councils, elected bodies of employees that have the power to reject the implementation of new procedures, such as new payroll systems. In the Asia-Pacific region, cost is a less important issue compared with risk management. The Latin American market generally suffers from a lack of maturity among vendors. It is a developing part of the world with a heavily unionized workforce. For example, Brazil passed legislation that will require companies to automate their reporting process. The process, called eSocial, will compel companies to report labor, social security and tax information in real time. Vendors are preparing for implementation, building channels of communication and incorporating the necessary controls to transmit the data to the federal government in a timely and efficient manner. Repeated delays and changes in the law, however, make it difficult for organizations and vendors to adjust.

These challenges vary from country to country and are very difficult to manage and track. Payroll providers not only have to initially equip themselves to manage local country compliance and requirements, but more importantly they have to stay abreast of the ever-changing legislation and tax landscape.

How important is achieving delivery through a single global vendor?

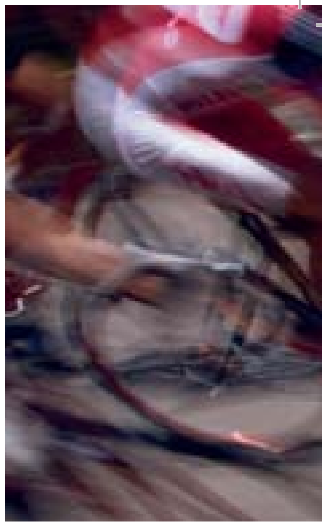


From navigating different time zones or tracking down errors, to bearing the burden of legislative compliance, companies find it difficult to manage multiple vendors. A single provider can offer structured governance with a single point of contact. Using one payroll provider helps promote standardized global reporting, mitigate risk and achieve economies of scale.

As mentioned previously, it is challenging to utilize a single global provider. A single provider may not have capability for all locations and may be forced to rely on a contractual relationship with a local in-country provider. Additionally, if an organization is dissatisfied with the payroll vendor, they are bound to the provider until the contract expires or they face early termination fees. Working with a single vendor prevents a client from picking the best available or best of breed in a specific geographic location. The provider may lack the desired technological capabilities or the talent in each location. A vendor may have specific strengths for one country or region, but weaknesses in others. That means a company's operations outside of the specialized territory may be underserved. This forces organizations to be more diligent when seeking global payroll providers.

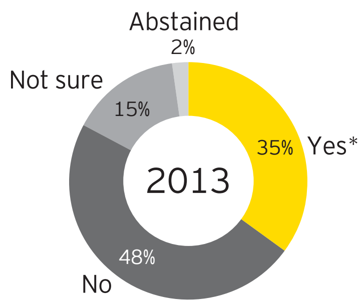
Tier 1 and tier 2 solutions have emerged in the market because the leading providers do not have service delivery capability in every country. For multinational companies that have a robust employee population of 1,000 or more in multiple countries, a multitude of tier 1 vendors can provide the necessary service. Smaller numbers in countries prompt multinationals and vendors alike to use in-country providers, which can diminish quality and access. A vendor may source to tier 2 providers and help manage the relationships, but doing so comes with a degree of risk. The buyer may not be familiar with the third-party, tier 2 provider, which could have implications resulting in quality control, access to data, global reporting and risks associated with data security.

The ideal arrangement brings all of the employee populations together, regardless of the size and nature, under a consistent governance umbrella that can help to facilitate quality and access.

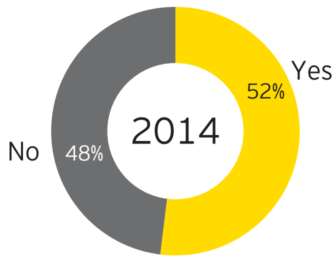


What is driving you to change?

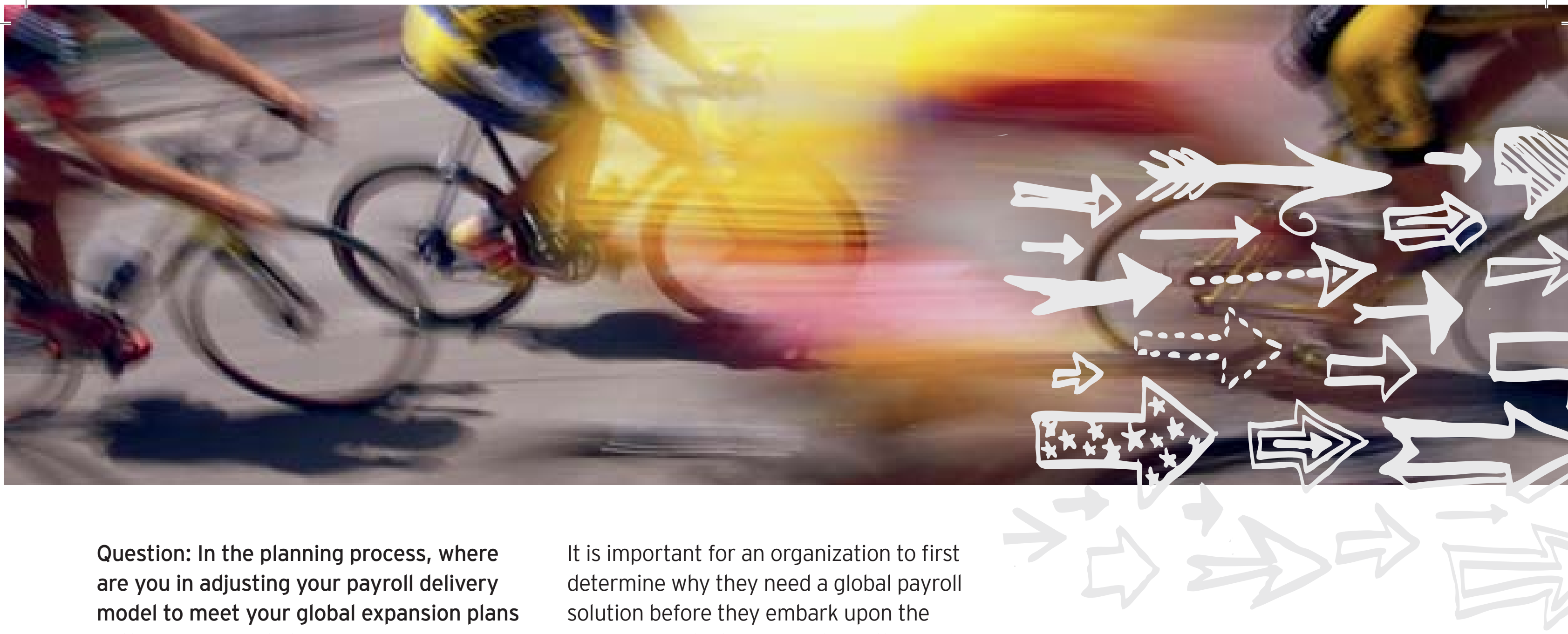
Question: Are you planning to expand your business into new global markets?



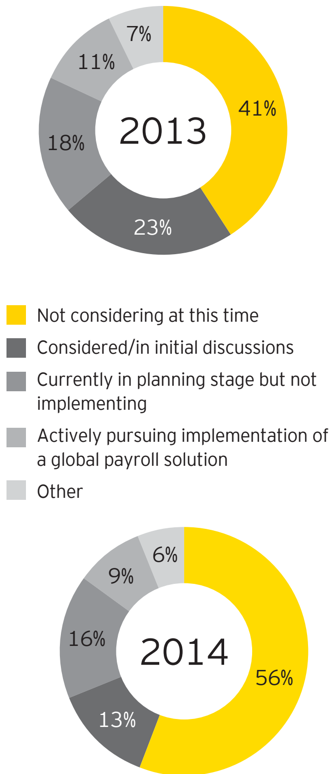
* *In last year's survey, 35% said they were planning to expand, but another 15% said they were considering it or they did not know.*



The number of organizations looking to expand into global markets has increased. Survey participants are looking for new markets and new opportunities. As multinational companies start to think more globally, the consideration around what to do with payroll becomes a very relevant question. Some of the expansion is inorganic, as companies focus on acquisitions, but that still means navigating payroll in new territories. As mentioned previously, expansion in unfamiliar territories creates payroll risk in the areas of compliance, quality and data privacy.



Question: In the planning process, where are you in adjusting your payroll delivery model to meet your global expansion plans in these new markets?



It is important for an organization to first determine why they need a global payroll solution before they embark upon the process of selecting a vendor. If the goal is to achieve a single view of data, the company will want to take the global path and also explore aggregation tools in the evolving technology landscape. To mitigate risks around legislative compliance, the company will be most interested in a vendor who has demonstrated excellence in the regions or locations where the company operates.

Once the priorities are identified and understood in organizations, an initial vendor procurement strategy needs to be developed to begin discussion and investigate the payroll market. The reasons for pursuing a global payroll model will depend upon the needs of the companies as well as the regions in which they operate. The motivators are not based on size but on the nature of the business. Economies of scale, consolidated data and reporting, standardization, reduced risk in vendor management, the proliferation of leading practices, and continuous improvement are among the leading drivers for seeking global providers.

Two different companies, two different paths

This year's webcast featured two EY clients who are at different stages in their search for a global payroll solution. The first, Honeywell International, determined that a single solution was not viable and chose another route that worked best for the company. The second, QBE Holdings, Inc., is seeking change amid doubts that a single solution exists for the enterprise.

Their experiences reflect the challenges buyers face as they question whether their companies need a single solution, and as they analyze the viable options.

Michelle Whitfield

Vice President, Global Payroll, Honeywell

Honeywell enjoyed exponential growth, but had no proven strategy for handling payroll in its new territories. Their approach was regional, but lacked structure. Acquisitions further boosted their workforce and they now employ 131,000 employees in approximately 70 countries. "We do acquire quite significantly and we also divest when there's good business reasons," Michelle said. "There's a different challenge to having a constantly moving landscape." The company supports 92% of its employees internally with the remaining 8% supported by outsourced third parties.

In 2011, executives launched a search for a single provider to limit the number of vendors they needed to manage, but they couldn't find one who was able to deliver the same level of quality. They modified their search to find vendors who could support smaller countries, where the company had 100 employees or less, and where they needed a combination of payroll and human resources administration. They also sought vendors who could support Honeywell's operations in countries where the company had 1,000 employees and needed payroll only.

"Our view is that we want to have two partners who can support those two demographics, which also gives us a good footprint if we want to go into new territories where we currently don't have any delivery method today," Michelle said.

Barbara Meredith

Senior Vice President, Head of Global HR Transformation, QBE Holdings, Inc.

With 17,000 employees in about 50 countries, QBE is seeking to increase consistency in their global payroll processes. They have multiple smaller countries with outsourced arrangements and larger countries that are moving in the same direction.

Their ideal would be a single provider to help them achieve a more cohesive approach, but finding a partner that can provide consistent, quality execution, running on a single platform, has been a hurdle. In addition to identifying providers, they are also trying to determine the most effective way to organize payroll internally. Do they want to run it as a global function, or continue to be regional?

"Is there anybody out there who can give us consistent, quality service and tools in addition to being able to cover the countries?" Barbara said. "We're grappling with the question of fact or fallacy: Is there really something out there that can be the global solution?"

What are the options?

There has been a proliferation of new players offering service, and vendors' maturity and capabilities have shifted. This could explain why 32% of survey respondents said they were still unsure as to whether a single global provider exists. The market seems to be confused on multiple technology platforms, including offerings, regulatory requirements for each local country, data privacy and vendor capabilities.

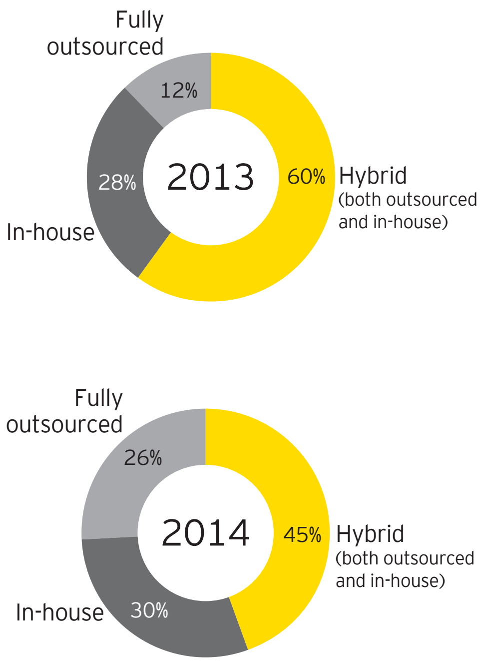
Because there are so many options and considerations, the number of executives who are unsure of whether a global solution exists for their organization will continue to increase. The number of offerings and contenders adds to the uncertainty.

While there is greater variety, not all vendors are at the same level of capability when it comes to service. Payroll vendors in the US have been providing outsourcing services for 50 years, so the North American market is more mature than others.

EMEIA (Europe, Middle East, India and Africa) ranks second in maturity. Companies in Northern Europe have a history of outsourcing, and the market is accommodating them. Companies in Central and Southern Europe are less inclined to outsource, so capable providers are harder to find. Several regional players have emerged. At the same time, some providers have consolidated.

In Latin America, there are in-country providers specific to particular countries or who specialize in populations that would be classified as tier 2. They can handle five to seven smaller countries, but do not have global capabilities.

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



Note: Numbers may not sum to 100% due to rounding.

Recognizing that there may not be a single provider who is able to accommodate all of their needs in all of the countries where their employees are based, companies are employing a range of solutions.

The practice of full outsourcing has more than doubled. The reasons may vary depending on what the business is going through and undertaking, but it does suggest a level of comfort with what the market has to offer.

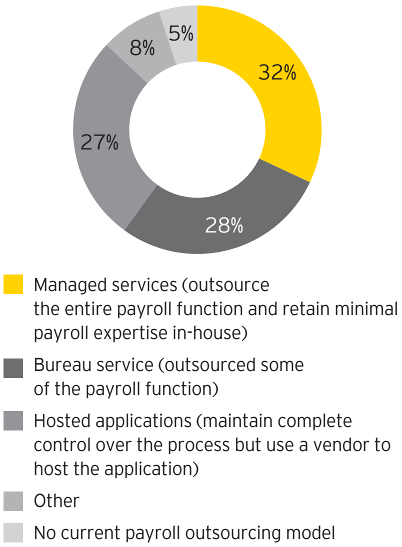
Few organizations, however, are fully outsourced. The majority utilize a hybrid model. This model may not always mean handling payroll in-house in one country, and outsourcing services in another. A company could choose to do both in a single locale — outsource part of the process and handle the rest internally. For companies that are concerned about the sensitivity of data, with major enterprise resource planning solutions tied into the supply chain and financials, it may be best to keep certain processes internal.

In EMEIA, large multinational companies are trending toward the hybrid model. They have outsourced a large component of their services in areas where they have larger workforces in a particular territory. At the same time, their employees are based in smaller countries where outsourcing is not economical. In those instances, they use specialist providers.

Companies with a significant number of employees have an easier time building a business case for outsourcing. Many organizations are in the midst of that conversation, and revisiting prior arrangements. They are questioning whether they should bring operations back in-house because the desired benefits never materialized. Technology will influence that

conversation, as more companies consider adopting solutions that can be housed in the cloud.

Question: Which of the following best describes your current payroll outsourcing model?

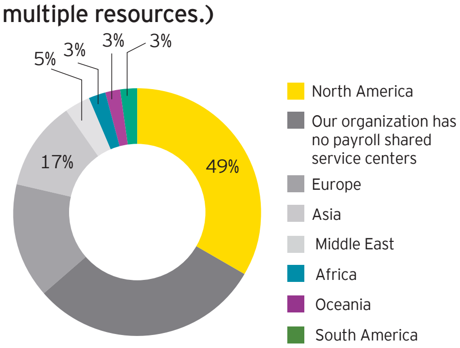


The results show multinationals are not willing to relinquish total control over their payroll function. That may be the result of lessons learned. Companies are being a bit more critical of what vendors promise. In the past, many organizations took a passive stance, assuming the vendor would handle quality and risk management. Vendors, however, insisted that the companies own the data and set the policies. Vendors are accountable for the calculations and regulatory filings, but not for interpreting policies or pay practices that turn out to be incorrect. That means the reconciliation process and the quality review have become much more collaborative. Clients are more focused on auditing payroll results before they are finalized. Outsourcing does not absolve an organization from risk and performing certain control-related activities.

It is a poor practice for a company to believe that they don't have responsibility when they outsource. Organizations need to retain in-house resources able to monitor controls and address various issues as they surface. A payroll provider is not going to be as close to the client as a company's internal subject-matter experts. It will be important to retain the right in-house talent that have multiple skills, not only in payroll but in risk mitigation, vendor management, project management, issue resolution and change management.

Recently, vendors have become better equipped to capture the requirements and needs of the organizations in order to deal with employee questions. They are making an investment to capture information and disseminate it among their clients. Payroll yields a wealth of data, and vendors with newer technology platforms are specializing in analytics. They can track employee behaviors, such as trends in absenteeism. For example, if they notice a spike in sick days after a holiday, management will be able to anticipate the seasonal staffing shortfall.

In what regions do you have payroll shared service centers? (Respondents could select multiple resources.)



As evidenced in the responses, shared service centers (SSCs) are still heavily utilized. Multinational companies are increasing the use of cloud solutions to create stand-alone delivery service centers. Unlike an SSC, a delivery service center allows you to consolidate the same service – payroll, or another function – for multiple business units or countries. Delivery service centers result in a higher proliferation of knowledge while minimizing risk. There is greater rigor in the process, and the opportunities for data analytics that can be utilized for strategic business intelligence and discussions.

However, delivery service centers sometimes fail to offer the touch point an SSC can provide. Benefits, finance, recruiting and human resources may all be housed in an SSC. Even though payroll is an independent transactional activity, human resources, compensation and benefits all provide input used in calculations. An SSC may house all of these functions in one place, simplifying communication. If questions surface at a delivery service center, responses could be delayed until an emailed response is received.

Before you begin

To create an effective global payroll solution, organizations need to be clear about the benefits desired and how to realize them. Much depends on getting that upfront piece right and understanding where the endpoint should be.

While it is important to examine the vendor's organization, companies need to look internally at their own organizational strengths and weaknesses. Outsourcing problems will result in disappointing service, and the vendor will not be able to resolve all of those issues immediately.

The quality of the outsourcing arrangement depends upon the quality of the data you provide to the vendor. Whenever they have to address a problem in operations, it can lead to costly change orders that exceed the price of the original agreement.

Question: What is the primary issue you currently face related to global payroll? (Top three responses.)

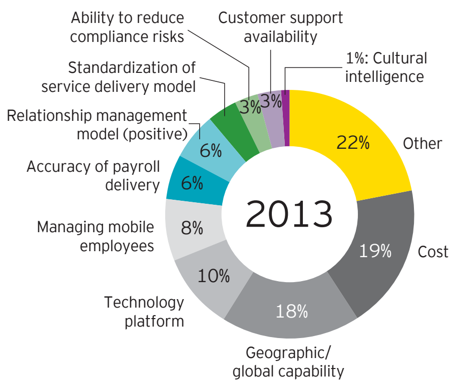
* *Respondents cited a number of challenges, including national laws that are amended frequently and the fact that they had to convince local managers that their current procedures were inefficient.*

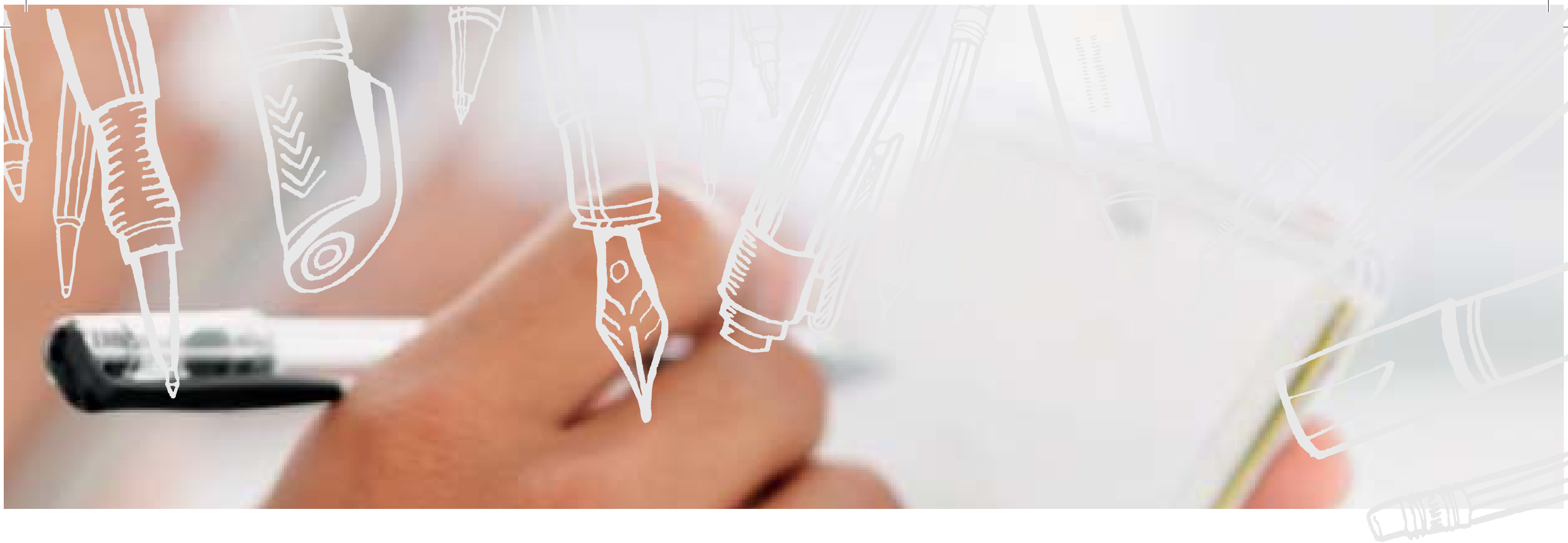
* *Among the other issues respondents said they faced were benefits processing, getting a contract in place, currently only operating in one global market, lack of knowledge and no major driver to do it, and leadership recognition of need.*

For two consecutive years, survey respondents ranked legislative compliance as their top challenge or primary issue in structuring global payroll. It is a common situation for most organizations. The risk and exposure increase as tax authorities continue investing heavily to pursue organizations for revenue. The EMEIA market leads the charge, followed closely by Asia-Pacific.

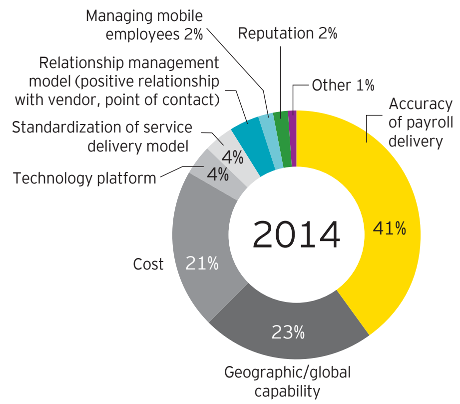
Problems with legislative compliance manifest in the beginning part of the process, when devising a solution. That means it should be among the top questions before retaining a provider. Most providers have dedicated resources to stay current on legislative changes impacting payroll for each country they serve.

Question: If you were to select a new vendor for global payroll, what would be your top three criteria? (Results are weighted to account for ranking using three for a first-place vote, two for a second-place vote and one for a third-place vote.)

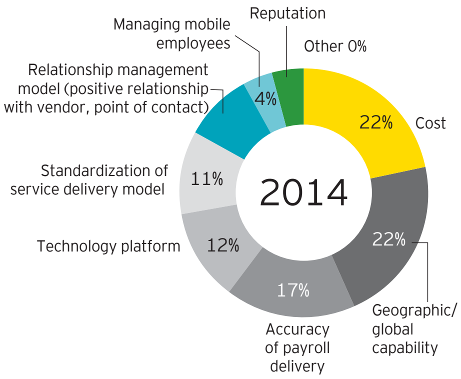




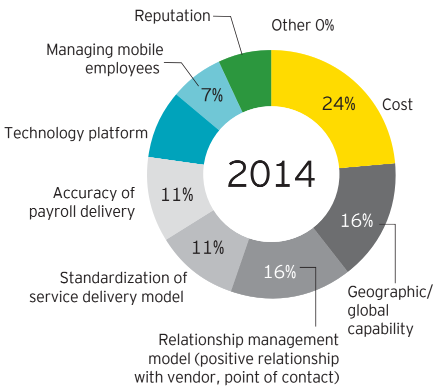
First-place vote



Second-place vote



Third-place vote



Note: Numbers may not sum to 100% due to rounding. Results are weighted to account for ranking using three for a first-place vote, two for a second and one for a third.

With cost, accuracy and geographic/global capability ranking top among the criteria customers seek, it is important to vet a potential vendor carefully.

- Measure what is relevant to the company, not the vendor
- Interpret service-level agreements and key performance indicators (KPIs) to make them relevant and strategic to the business
- Hold the vendor accountable for the stated performance metrics, and build in potential penalties for nonperformance when they do not perform according to the agreement

Client/vendor relationships evolve throughout the relationship. You should have the ability to revisit what matters and restate it to make it current.

Enough cannot be said for the importance of forging a partnership with the vendors. To do so takes constant communication. The payroll provider should be part of your business decision-making process and your strategies as you move forward.

That relationship begins with meeting those who will be responsible for implementation, not just the sales team. They are the people who will be responsible for making sure your payroll is accurate and that your employees are paid on time.

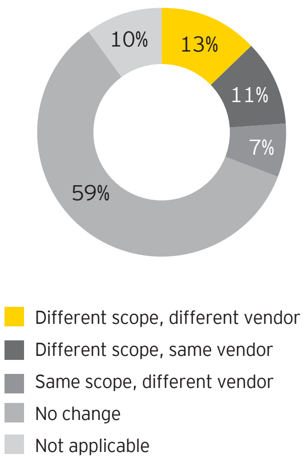
Lessons learned:

"We had done some outsourcing by region or by country without really any thoughts about what we were trying to do globally, and so we continue that journey. ... We think we want to approach payroll in the global way, but we really hadn't stepped back to think about the prioritization of the kinds of elements of those decisions."

— Barbara Meredith
Senior Vice President, Head of Global HR Transformation, QBE Holdings, Inc.

Conclusion

Question: Based on your outsource payroll experience, would you make the same decision or would you change it?



The majority of respondents who outsource part of their payroll operation said they would not change it. To get the most out of the relationship, payroll executives at multinational companies need to be realistic about their expectations, such as the benefits they are likely to achieve and how long it will take to fully achieve them.

Remember the business case behind the model you choose. Payroll executives often build a business case for outsourcing or any form of investment and implement the decision. There is often little follow-up to determine whether the organization achieved the desired results.

In concept, a single global payroll provider is flawless. In practice it's uncertain, but as evidenced in the findings above, it is possible. It is important to understand the organization's needs — today and in the future — to effectively articulate and capture them. Further, outsourcing does not mean a company can "set it and forget it." It takes proactive management and acute understanding of the provider contract to confirm that the organization is getting the level of service agreed upon in the contract.

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