

# MAKING THE BUSINESS CASE FOR GLOBAL PAYROLL

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## Making the BUSINESS CASE FOR GLOBAL PAYROLL

There are a number of factors driving the centralization, and automation, of global payroll management by multinationals.

Efficiencies and resulting cost-savings are prominent amongst these, but there are many other considerations. This paper will, by taking a holistic approach, review all of the factors and assist your development of a business case for the centralization of global payroll management.

### BACKGROUND

Companies are increasingly global. To remain competitive, it is necessary to expand globally, whether organically or by acquisition, to procure and manufacture internationally and to service global markets utilizing regional operations that make the most economic and political sense.

As global organizations increase their international footprint, they become more complex. To maintain control, and to ensure that the benefits accruing from economies of scale are realized, every function must be managed strategically. Each function must maintain a global operational perspective, and this is only possible if each function is centrally managed in a consistent manner.

For most functions, this is natural and achievable. Despite regional differences, automation has enabled the centralization and consistent management of finance, human resources, supply chain management, manufacturing and distribution, sales and marketing, product research, design and development. Automation has not only facilitated centralization, it has also enabled functional leaders to become more strategic, less involved in the tactical functional management of their processes and teams and more inclined to draw on a wealth of business intelligence aggregated from global functional operations to provide strategic insight that leads to better informed decision making and increases corporate competitive advantage.

Then, there is payroll, which has been a laggard. Payroll is complex, as payroll algorithms vary significantly from one legislature to another and there are many more legislatures than there are countries. The algorithms are constantly changing, often wildly, as governments utilize fiscal policy to economic and political ends. When it works, the function is invisible. Payroll comes to prominence only when things go wrong. There has been a reluctance to centralize the management of the function for fear of losing specific domain expertise and removing local accountability. Payroll has been managed in-country, utilizing payroll staff or, if outsourced, utilizing companies that maintain a network of payroll providers or staff in each country serviced. Automation of global payroll has proved too difficult, too big a nettle to grasp for the enterprise software vendors that, where they have tackled the requirement at all, have confined themselves to payroll automation for the US and, perhaps, a small number of major economies. Traditional providers of outsourced global payroll services remain where they were in the 1960s -- managed payroll bureaus, vast, impersonal, inefficient dinosaurs engaging staff worldwide to process payrolls locally and with manual processes. Organizations of this type provide a dumping ground for a problem we'd rather not have to think about, but the costs, economic and opportunity, and the damage done to the credibility of the payroll profession by their continued existence is huge. Surely we can do better.

The development of automation has been slow in coming because payroll is complex, more regionally disparate than all other applications and because it is constantly changing. Constant change means a need to maintain considerable domain knowledge, carefully monitoring and often predicting developments, and it demands that changes, when affected, must be applied and republished immediately, without fuss and without client intervention. This can only be made possible by a software platform that is centrally hosted and maintained, a single incidence of a software application accessed by many clients and developed by a company possessing great subject matter knowledge, experience and expertise.



This software platform now exists. Software-as-a-Service (SaaS) utilizes the internet to provide user access to just such a centrally hosted system in 'The Cloud' and is being used by a company with over 17 years' experience to deliver an outstanding application for the management of global payroll by multinationals.

Suddenly, centralization is possible. It is being facilitated by the automation of the management of global payroll in 160 countries, 26 languages and all currencies, by CloudPay.

### **Making a business case for the transition to centralized management**

As with every operational function, reducing costs is a key priority. Managing global payroll through multiple providers, processes and systems is expensive. Similarly, using aggregators who manage multiple providers, processes and systems on your behalf is still more expensive. In either case, it is not just the financial cost that is high.

The cost of associated risk, the opportunity cost of not having access to data, the information derived from the data and the intelligence derived from analyzing that information are immense.

Importantly, the credibility and professional status of those that work to manage the payroll function within the world's largest companies are jeopardized. The consequent lack of strategic merit has long subjugated the strategic importance of payroll and left it, and its managers, without a seat at the executive table and subject to a custody battle between its estranged parents, HR and Finance, unloved and unwanted by either and neglected by both.

Yet, payroll, for nearly every multi-national company, represents the line of greatest expense and, when centralized, automated and managed well, it can be the contributor of a wealth of strategic insight.

It is not, therefore, just a matter of the cost efficiencies that can be achieved. Even though these will be significant, the resultant benefits stretch far beyond cost savings, and when formulating a business plan, must be given equal, if not greater, emphasis.

### **Where do you start?**

You have probably elected to manage payroll partly in-house, partly in concert with local or regional providers and likely using a mélange of different software systems. If you have, you are in good company. You are managing payroll in the way that many multinationals still do and, like them, you will find yourself mired in administration, saddled with expensive software licenses and able to benefit from little geographic or payroll scalability, as well as a lack of standardization across operations and no holistic visibility of the operation, let alone the business intelligence you could derive were you to centralize and automate. Data security is a key concern with global payroll. In addition to adhering to different privacy laws in areas of operation, effectively protecting data is paramount. With multiple systems or vendors, organizations have limited control of data and can be exposed to increased compliance risk, and consequent fines and penalties.

This paper explores the advantages of a global payroll system and helps you develop a business case for its implementation. However, such a system is not always applicable, so let's start by examining when a centralized system might not be appropriate.

### **Is the introduction of global payroll management right for your organization?**

The natural response to change is resistance. If you're proposing a new way of managing an existing process and going through the exercise of creating the business case, you need to demonstrate the improvements offered through deployment of your preferred solution as well as the return on investment. While outsourcing global payroll brings significant advantages, it is not necessarily the right fit for every organization.

Organizations that will not benefit from a global payroll are those where there is no centralized agenda and little alignment across operations. If operating independently is part of the strategic plan, consolidated management will deliver little additional value, and any cost benefits will likely be overshadowed, and possibly outweighed, by an infringement of local management control.

Of course, the other reason that it may not make sense to centralize and automate global payroll is that employees are located in too few countries, maybe fewer than three, there are no risk or compliance concerns and there exists no plans to expand geographically.

### **What are the advantages of a single global payroll management platform?**

Next-generation SaaS-based global payroll solutions offer significant savings and process improvements.

When developing the business case for moving to this model, identify the cost savings that such systems provide in comparison with your existing processes, systems and suppliers. It is also helpful to compare with traditional approaches to computer automation, such as the old on-premise model where you had to employ IT staff, buy servers, build and fit out air conditioned machine rooms, develop a network and communication infrastructure, cable buildings, purchase expensive, and often over-complicated, software, train your staff and then pay exorbitant annual maintenance fees to keep it all up to date and bug free.

You will find that there will be significant resistance to automation from those who have experience of the way things were and are unfamiliar with the revolution that is taking place. It is best to start off by describing the benefits of the 'cloud-based' systems, systems that utilize a SaaS-based delivery model.

With SaaS, the application is hosted and maintained by the vendor, and all data is held, in 'The Cloud.' The application is accessed over the internet and is accessible from all computers, laptops, tablets and smart phones at any time from any location. Similarly, employees can access payslips in the same way. The vendor is responsible for all maintenance and upgrades, eliminating the need for expensive patching to software on site, as is typical with a traditional on-premise ERP system. Also, unlike on-premise solutions, no expensive platform changes will be enforced by third parties whose software is used to support the application software, providing, for example, application servers, database systems and middleware, that when upgraded have resulted in process disruption and consequent impact to availability.

As legislation changes in the countries in which you are running payrolls, your system is automatically and promptly updated. You gain access to the newest, most efficient application technology for single-source global payroll. The onus of investing in research, development and maintenance of the system lies entirely with the vendor. As there is just one application code source (known as an application incident) accessed by many users in your and other organizations (known as tenants), the SaaS method of software solution delivery facilitates the ability to seamlessly add new features, functions, countries, languages and currencies in real-time. Changes made in one jurisdiction are then immediately available to all users.

There is no requirement to either procure or maintain computer servers or data storage or to make other infrastructure investments such as a computer suite, racking or networking.

Then there are other, hidden but important benefits. Backups are automated as are all other system administration tasks. Your global payroll management vendor should offer, as a part of their service, disaster recovery and business continuity plans that include both fail-over application service technology as well as additional resources to maintain business momentum during crisis situations as well as being willing to commit to service level agreements for very high levels of application availability. Gone are the days of internal IT staff 'taking down' systems for long periods for maintenance.

SaaS has, for the first time, made it possible to entertain implementing a single global payroll management system. You appreciate that considerable benefits will accrue to your organization from you doing so, you just need to convince others.

### How might you set about defining the business case?

Organizations should consider the cost and operational advantages of a global platform when building the business case for global payroll. A global payroll solution offers financial oversight and the flexibility for growth or global expansion. It also mitigates the risks associated with remaining with disparate systems and processes. As organizations expand into new territories or regions, those that delay implementing a global payroll approach hinder progress, obstruct growth and fail to arm themselves to make a strategic contribution.

Global payroll management provides an opportunity to achieve efficiency through proven best practices. Having a system of checks and balances across all areas of operation protects against fraud, inaccuracies and other issues and, at a more proactive level, allows executive teams access to a holistic, real-time view of strategic human capital deployments, costs and trends.

Regardless of the overriding objective, you might weigh up the cost of doing nothing. Staying with legacy systems and disparate processes invites risk, denies economies of scale, increases management complexity, curtails scalability and contributes to inefficiency.

When you decide to move forward, the best place to start is by comprehensively examining existing processes and defining the current state payroll systems. This not only helps identify opportunities and challenges; doing so also ensures the detailed understanding of processes and helps align the project roadmap to business requirements.

Consider your company's current processes, hardware, the payroll model and where resources are located as well as any gaps in skill or functionality. As with most things, until you take a deep dive, you'll likely overlook much that makes up the true costs, both financial and opportunistic, that lay the foundation of the business case for change. Investing the time upfront to define exactly where you start significantly simplifies the justification of the need for change and helps define what is needed to get you where you need to go.

## OPERATIONAL COSTS AND EFFICIENCIES

With global standards, companies achieve savings through economies of scale and more efficient processes. What is your organization's overall expenditure on payroll activities and tasks?

**Staff.** What does your payroll organization look like? Determine what you are spending on overall remuneration for these resources, whether there is duplication or an opportunity for better resource allocation.

**Technology.** Consider hardware, software, communication, infrastructure and support costs. What is the annual expense for payroll software licenses, software maintenance and other processing fees? Also think about how much time resources spend supporting payroll systems rather than contributing to revenue-generating activities.

**Local payroll providers.** How much of the workload is currently being outsourced to local payroll bureaus and at what cost? Is the global payroll outsourced to an aggregator or aggregators that manage payroll on your behalf, provide you with a single point of contact and escalation but that do no more than managing local bureaus that each work autonomously utilizing their own processes at the cost of standardization, consistency and management visibility?

**Management time.** Think about the number of vendors that need to be managed and the time required working with multiple providers. Also consider the cost of resources responsible for managing those relationships. Take into account the cost of training as well as the time and cost of recruiting talent with the right knowledge and skill set.

**Employee training.** Another opportunity for savings with outsourced global payroll is in employee training. A common methodology and global tool means consistency across the operation in how employees are trained, the skills that are needed and understanding of the tools provided. This enables staff to contribute more productively. It also allows for the ability to build bench-strength and redeploy available resources in support of other critical parts of the business operation. The end result is enhanced global and local expertise that enables the delivery of an improved, more compliant global payroll.

**Scalability.** What are the likely requirements to scale global payroll? Organizations with an aggressive acquisition or expansion strategy benefit most from outsourced global payroll. Payroll systems must not only scale, they must be flexible enough to accommodate major shifts of focus and geographic prioritization. A standardized implementation methodology delivers a repeatable process and consistent tool set that enables organizations to quickly deploy the solution as the company expands in new geographies, increases its payroll or has new requirements. A lack of scalability in a payroll strategy inhibits growth and expansion and is costly to overcome, especially as the expansion that is needed is often unplanned and the requirements urgent and immediate. Well managed businesses effectively plan for contingencies and the scalability of operations, particularly in this increasing globalized economy, is essential. Examining the forecast future requirements of global payroll and the costs of accommodating expansion in both the existing models and utilizing the global payroll management solution is often a determining factor to justify consolidation and automation.

**Support.** It is not only the complexity of the overall management of global payroll that is expensive, the support of in-country operations is also often a significant, overlooked overhead. The right global payroll partner will provide a global "follow the sun" business model that ensures real-time payroll service support on a 24x7 basis.

**Integration.** With one global system, it is possible to integrate with Financial and HR systems of record, to integrate specialist software used on a global level such as time and attendance software, commission calculation and expense reporting systems. These single interfaces make possible huge economies. Where previously payroll teams may have employed software of this type on a local basis and fabricated a spider's

web of integration methods to communicate with other systems, other departments and other disciplines, the use of a global system enables the simplification and streamlining of global interfaces and, in turn, returns great cost as well as operational efficiencies. Organizations can also avoid the costs associated with additional support and maintenance of unnecessary systems.

### **Improved compliance and security, avoidance of risk**

How important is reducing compliance risk to the business agenda? Multiple disparate systems, suppliers and processes used to manage global payroll operations are common, but, while working with multiple vendors is often seen as a good thing in other environments, it is not the case when managing global payroll. The use of multiple vendors limits management visibility and contributes to greater compliance risk. Data security is also a key concern with global payroll. In addition to adhering to different privacy laws in areas of operation, effective data protection is paramount.

A key benefit of deploying a single global payroll management system is that the enterprise has a single point of governance control and is able to prove that all payrolls are legitimate and that payments are accurate and properly authorized. Being out of compliance is costly. Have you incurred fines and penalties for non-compliance? Are you incurring expense for legal support due to failure to ensure compliance or reporting inaccuracy? One of the major benefits of a single global payroll management system is accurate financial reporting. Increased visibility and transparent reporting help mitigate risk by avoiding errors in corporate financial statements. It also offers assurance of common accrual methodologies and timely reporting for global operations. A system with permission-based, two-tier approval of all payrolls and approval prior to employee payment supports an accurate, on-time payroll. It also provides a full audit trail to ease the audit process and demonstrate compliance.

### **More strategic use of internal resources**

Is your organization bogged down in administrative payroll duties? Managing payroll in-house requires dedicated resources to handle administrative functions, resources that might better be focused on core business priorities and strategic initiatives. Organizations that opt for a hybrid solution of local vendors and in-house support spend additional time on vendor management and expose themselves to compliance risk. In the absence of standardization across regions, the ability to optimize resources across countries is inhibited.

The deployment of a single global payroll management system enables payroll staff to concentrate their activities on the strategic, in the knowledge that the tactical management of the company's global payroll is being handled in a largely automated way, accurately and efficiently. Their contribution becomes the identification and management of exceptions, discovery of fraud, the analysis of trends and predicting the cost consequences of different corporate investment models, tracking political and economic developments in regions and countries in which their enterprises have, or are considering, investments and the development and implementation of payroll process and best practice.

Real-time data access and the ability to mine data enable organizations to make more informed strategic and financial decisions. For example, organizations requiring a payroll specialist to serve a particular region can gain insight into where resources are located, available skills and associated cost, enabling them to make the most cost-advantageous decisions for the business. The ease of centralized data access reduces labor-intensive activities such as searching for information.

The payroll function is enabled to make a contribution to 'big data' initiatives and the subsequent derivation of business intelligence that better informs corporate decision making and provides the head of global payroll a place on the executive management team.



And it's not just payroll managers that become more strategically focused, increasing their value as they do. A cloud-based solution reduces the need for additional IT resources or special IT skills. Instead, IT staff can focus on strategic issues such as deriving competitive advantage by the better use of data and information assets and supporting business priorities and revenue-generating initiatives.

Multinationals are complex, their management at the highest level must not become distracted by the work-a-day, the functional, the tactical. The management team must be empowered by the utilization of the best available technology to holistically oversee their function, to be constantly aware of the efficacy of its operation and to derive from the systems in use the intelligence that, when combined with that of their peers in other functions, enables the best decisions to be made, the greatest competitive advantage to be gleaned and commercial success that fuels further growth.

What value can be attributed to that?

## OPERATIONAL COST CALCULATOR

Costs	#	\$
<b>Staff</b>		
<b>Payroll Headcount/FTE</b>		
Full Time Employee Remuneration, Salary & Bonus		
Overheads known or estimated at 50% remuneration		
Contract and Consulting Staff, Total Cost		
<b>IT Support (including hardware and support by IT team)</b>		
Full Time Employee Remuneration, Salary & Bonus		
Overheads known or estimated at 50% remuneration		
<b>Management Time</b>		
All Payroll Management Headcount/FTE		
Overheads known or estimated at 50% remuneration		
Non Payroll Management commitments to Payroll Management, % of Fully Loaded		
<b>Cost of Payroll Staff Training (average hours per year X average rate)</b>		
<b>Compliance and Audit</b>		
<b>Recruitment and Outplacement Costs</b>		
<b>Tools, Licenses, Business Services</b>		
Payroll Software Licenses - Annual Expense		
Payroll Software Maintenance: compliance & tax tables per annum		
Payroll Software Planned Expenditures, special projects		
Annual Processing Fees (outsourced)		
Year End Fees (outsourced)		
Consultative or Business services		
Disaster Recovery & Business Continuity; file retention and archive services		
<b>Equipment (IT, Office)</b>		
IT Hardware - servers, Annual Depreciation		
IT Hardware - computer stations, Annual Depreciation		
Networking and Communications, Costs & Depreciation		
Annual Maintenance of all IT hardware		
Enabling Software - database, middleware, application servers		
Annual Maintenance of all Enabling Software		
Annual Capital Expenditure Budgets for all related Hardware, Software & Infrastructure		
<b>Overhead, General &amp; Administrative (G&amp;A) Costs</b>		
Office supplies		
Office rent (% of office space in consideration of secure nature of data)		

Vendor Management		
Meetings SLA and issue management (hours per year X average rates)		
Accounts Payable (average cost per AP payment)		
Penalties & Audit Costs		
Legal Support or annual retainer fees		

## About CloudPay

CloudPay is the pioneer and foremost provider of multi-national payroll technologies and services. CloudPay's world leading Software as a Service technology and global expertise enable organizations to control, consolidate, process and analyse their global payroll operations. CloudPay, from offices in Raleigh, London, Singapore, Shanghai, Paris, Budapest and São Paulo, is expanding as it seeks to set the standard for multi-national payroll management. For more information about CloudPay, please visit [www.cloudpay.net](http://www.cloudpay.net)

## LEGAL NOTICES

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