CHANGE IS COMING:
THE ANNUAL GLOBAL PAYROLL SURVEY 2017

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THE ANNUAL GLOBAL PAYROLL SURVEY 2017

Among the biggest challenges that many global and in-country payroll professionals face are the sheer complexity of local regulations and a lack of access to a single international payroll software system to help automate such complexity away. But times are now starting to change.

INTRODUCTION

Seemingly against all odds, global and in-country payroll professionals are remarkably efficient in ensuring that employees around the world are paid when they should be.

One of the biggest of these odds for most are keeping on top of the sheer complexity of local legislation and regulations in different countries. Another is not having access, in many cases, to adequate international systems, policies and processes to help them do the job.

This is despite the fact that all of the 138 payroll professionals who were interviewed for the Global Payroll Association and TMF Group's 2017 annual industry trends survey worked for organisations that were truly global in nature. Roughly three quarters operated in each of the areas of Europe, the Middle East and Africa or Asia-Pacific and the Americas respectively, with the majority having 500 or more staff in each region.

Interestingly though, just under a quarter (23.4%) of those questioned partnered with a single multi-country supplier, while a mere one in five (22%) had a single in-house global team. The remainder used a combination of in-house regional or in-country specialists, individual in-country or regional providers - or the most common option of all, a mixture of in-house and outsourced services (37.2%).

But it appears that, in many instances, going for a multi-vendor option is more due to necessity than choice as there is no single global payroll system on the market.

More than two thirds (68%) of respondents acknowledged this situation, indicating they had been unable to find a single services provider that could run payroll operations on a truly global scale without resorting to managing sub-contractors of varying quality – although they acknowledged providers did exist that could offer coverage at the regional level or for small groups of countries. Some were also able to bridge the technology gap by offering global services supported by middleware solutions.

But this situation explains why so many employers set up their own in-house teams in areas where they perceive services provision to be of insufficient quality, or choose to take on multiple vendors and manage them themselves – despite the challenges such a scenario generates. Unsurprisingly then, just over a third of respondents believe that vendor management is one of the most significant challenges they face – and one that appears to be becoming a challenge for more and more organisations as they continue to expand internationally (see section one).

But there are other areas of operation in which the global payroll industry appears equally immature. We probe deeper into the survey's findings here in a bid to understand where the sector is currently at and what key challenges it is facing:
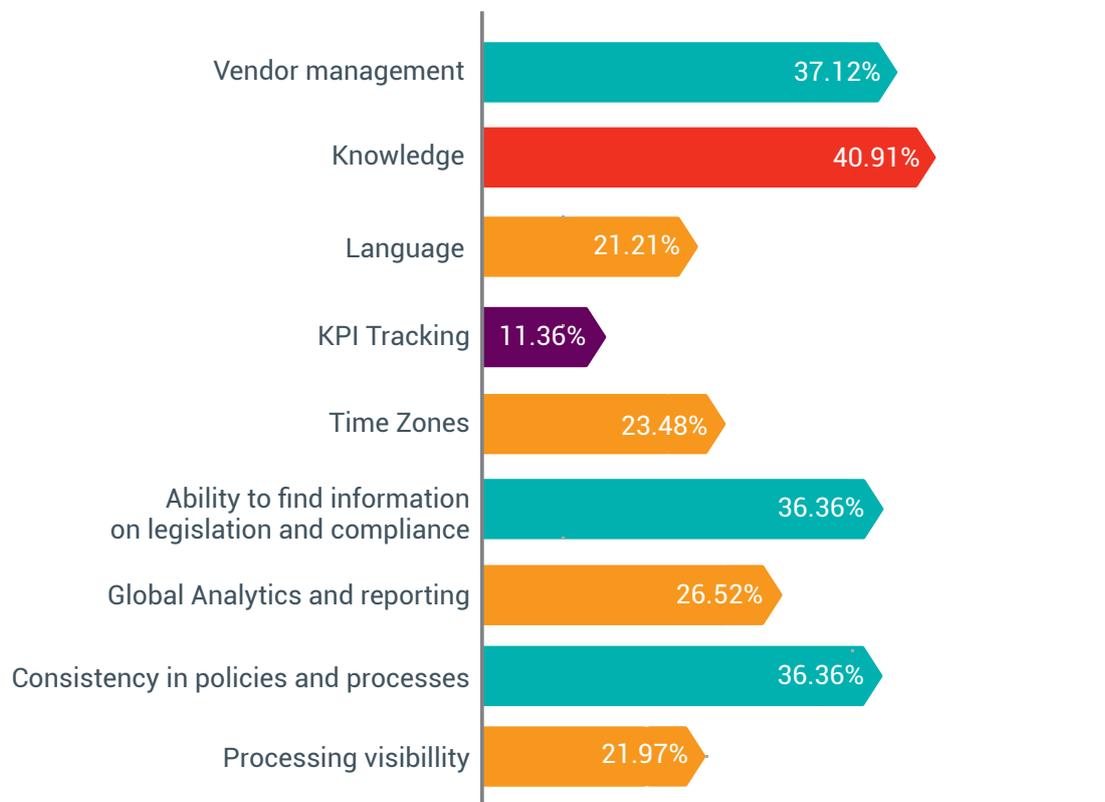
1.

What are the top three challenges faced by global and in-country payroll professionals?

The most significant challenges that professionals face when operating payroll across multiple countries are:

1. Lack of knowledge about local legislation and requirements (41% compared with 35% last year);

2. Vendor management (37.1% compared with 25% last year);

3. Ability to find information on legislation and compliance as well as lack of consistency in policies and processes (both 36.4% compared with 36% and 34% respectively last year).

What are the biggest challenges in operating payroll across multiple countries?

Challenge	Percentage
Vendor management	37.12%
Knowledge	40.91%
Language	21.21%
KPI Tracking	11.36%
Time Zones	23.48%
Ability to find information on legislation and compliance	36.36%
Global Analytics and reporting	26.52%
Consistency in policies and processes	36.36%
Processing visibillity	21.97%

1a

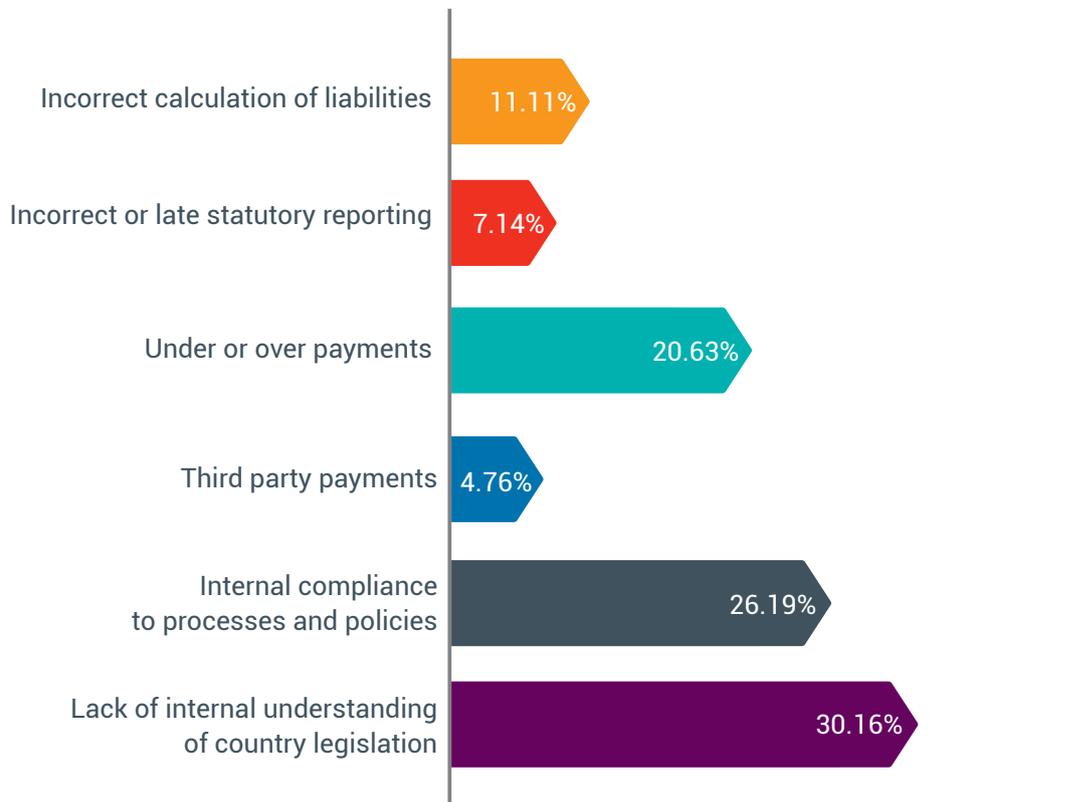# Lack of knowledge about local regulations

The lack of local knowledge question is a serious one that appears to be getting worse as regulations around the world become increasingly complex. The problem is that the issue has potential repercussions on everything from compliance with local legislation to not knowing the right questions to ask of providers or possible hires.

As a result, a huge four out of five (79.3%) of those questioned said they valued having an in-country contact who spoke the local language to help them communicate more effectively with everyone from vendors to employees. Unfortunately, the one-size-fits-all approach of many shared services centres means that local language support is often not available.

But the lack of local knowledge problem is also not helped by the fact that just under a third (29.6%) of professionals are left to themselves to source local compliance information, even though they are often unaware of where to look.

Unsurprisingly therefore, the most common reason for making payroll errors is that in-house professionals have failed to understand local rules and regulations (30.2%), a situation that has changed little from last year (29%). Other mistakes are caused by failing to comply with internal policies and processes (26.2% this year compared to 31% last year) and because of under- or over-paying personnel (20.6% this year compared to 25% last year) – scenarios that in both instances appears to be improving.

What are the most common payroll errors?

1b

Vendor management

Vendor management appears to be another issue that is rising up the payroll agenda, after moving this year from third to second ranking in terms of the most pressing challenges. But such activity is undoubtedly often a time-consuming one. Common problems here include:

- Account managers not being as accessible as they should be;

- Problem escalation procedures being slow and inefficient;

- Too many layers to go through in order to obtain a response because of call centres failing to prioritise queries properly; and

- Lack of coordination in relation to the deliverables negotiated in multiple contracts.

As a result, it comes as no surprise that increasing numbers of businesses are looking to outsource global payroll provision in order to reduce such inefficiencies.

1c

Lack of consistency in policies and processes

Although all of the respondents to the 'Building a Brighter Future for Payroll' annual survey operated internationally, a shockingly high seven out of 10 (69.4%) said that:

- None of their global policies applied to all payrolls (18.3%);

- Less than 20% of their global policies applied to all payrolls (20.4%); or

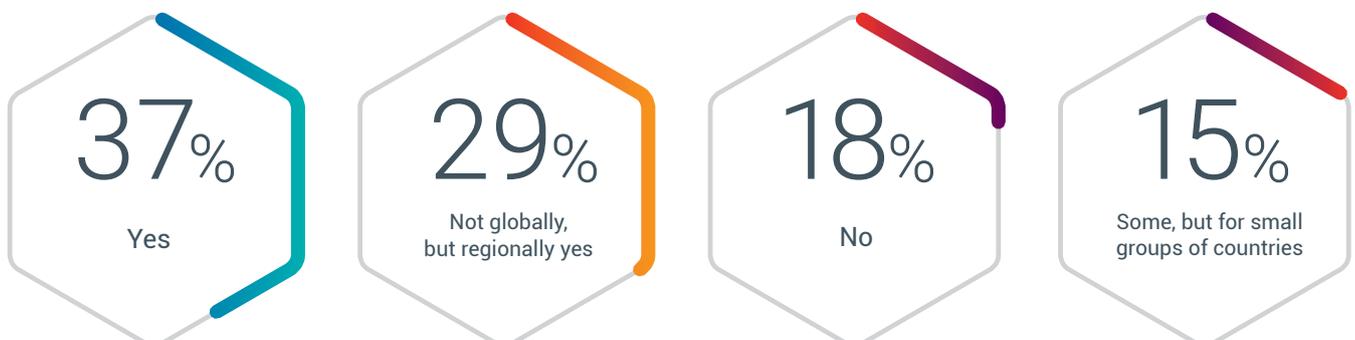- Less than 50% of their global policies applied to all payrolls (30.7%).

Despite the lack of consistency and control generated as a result, a similar pattern emerged in the case of processes. Here just under two thirds (62.78%) had:

- No global processes that applied to all payrolls (16.8%);

- Less than 20% (21.2%); or

- Less than 50% (24.8%).

To make matters worse, less than one in five (17.7%) were in a position to manage processes and schedules from inside their payroll system, with the figure rising to just under a quarter (23.5%) for payroll approvals. Some 12.5% of those questioned managed such processes and schedules via email, while the rest relied on a mix of workflow and email (69.9%).

But this scenario leads onto the question:

Do you know of a provider that can supply truly global payroll software?

| 37% Yes | 29% Not globally, but regionally yes | 18% No | 15% Some, but for small groups of countries |

2.

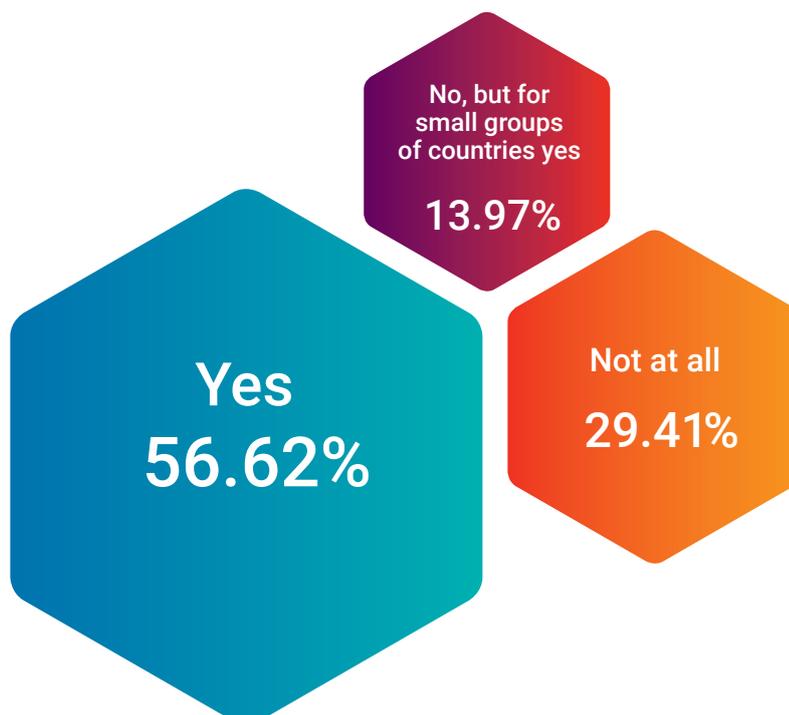# Where is the adoption of global payroll systems at today?

In spite of the growing complexity of international payroll activities, it would seem the function is only at the start of its journey towards introducing appropriate technology to support operations and take some of the existing complexity away.

While just under three out of five (56.6%) of those questioned said they were already using a single HR system at an international level (with Workday being the most popular choice, followed by SAP), a surprising 37.5% erroneously believed a software providers today can offer truly global payroll applications. This lack of a single global payroll system has fed into a failure in some instances to introduce international policies and processes despite the inconsistency that such an approach brings.

Moreover, because many organisations are left trying to deal with a multiplicity of systems and suppliers across different territories, there is a growing trend towards introducing middleware to solve the resultant complexity problem.

Do you use a single HR system across the world?

This software sits as a layer over the top of these systems and makes it possible to pull all of the necessary data together in a more accurate and timely manner into reports for compliance purposes. It also enables payroll professionals to drill down into information held in systems around the world, making it easier to spot problems and see trends.

No, but for
small groups
of countries yes

13.97%

Yes
56.62%

Not at all

29.41%

2a

Lack of visibility into payroll data

A lack of fully automated global systems underpinned by standardised policies and processes means that a massive seven out of 10 respondents (70.4%) are unable to view the status of their payroll processing activities across all of the countries in which they operate - a scenario that increases risk of non-compliance with local regulations and makes errors and delays more likely.

To make matters worse, only just over half (52.6%) of those questioned are currently able to produce reports that cover all of their international payroll operations.

Yes	No	Other
52.55%	**42.34%**	**5.11%**

A mere one in six (14.7%) benefit from a system that can consolidate global reporting into a single format for every country, while 41.9% can do it for a few, or most, countries. But a disturbing 43.4% are unable to provide a consolidated global view for any.

The problem here is the lack of visibility this situation affords into payroll operations, which means it is difficult to see what is happening when. As a result, if an issue needs resolving or there is a possible risk to the business in a given country, the global payroll team is unlikely to be aware of it and, therefore, unable to take action until the situation hits crisis point.
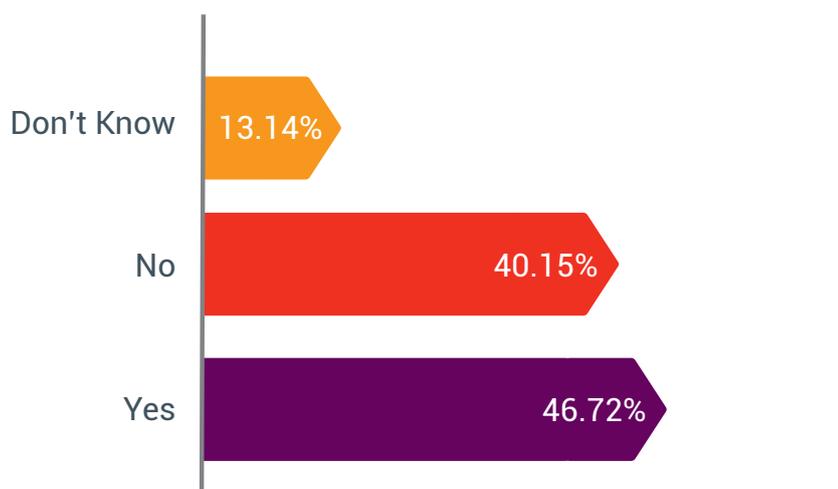
A further problem is that internal controls over who touches or manages payroll data are often inconsistent between different jurisdictions, which can lead to misunderstandings and errors.

But while just under half (46.7%) of respondents are considering whether to introduce a more advanced analytical reporting tool, and the same number believe they would benefit from predictive analytics software, only 12.6% acknowledge they currently have a suitable data warehouse in place. Although just over a quarter (28.9%) have implemented a small one that covers a limited number of countries, the majority (58.5%) have nothing at their disposal.

This means that to get true visibility into their payroll data, they will either need to implement middleware software or a separate data warehouse to do so. But because both propositions take time and resources to implement and need to be planned for, some organisations are turning to outsourcing in order to smooth the transition.

Another implication of this growing interest in analytics tools, meanwhile, is that payroll functions may be starting to think more strategically about how they report data, what they use that reporting for and how it might be able to inform strategy.

Is your organisation considering whether to introduce enhanced analytical reporting tools?

Don't Know   13.14%

No   40.15%

Yes   46.72%

2b

Lack of understanding around artificial intelligence

Even though artificial intelligence (AI) systems are simply the next logical step in the automation process, a huge two out of five (39.4%) of those questioned were unsure about the technology's benefits.

This situation implies a potential lack of understanding as to how AI can help payroll professionals to work more effectively. AI is programmed to look for patterns in lots of data (otherwise known as big data) and to learn from the findings, but the danger is that some organisations may not have enough information to enable this process to take place.

Outsourced services providers can help here by taking anonymised data from authorised customers and using it as the basis for automating routine, administrative tasks from which everyone can benefit - not least payroll professionals who could see their time freed up to focus on more strategic, value-add tasks.

> Payroll's time is coming and the moment is now right to explore just what you want your global payroll function to look like into the future.

Conclusion

As organisations continue to grow and expand internationally, global payroll professionals are finding themselves having to get to grips with more and more local rules and regulations. But many are struggling due to the sheer complexity of the situation they are faced with.

Vendor management is another key challenge that is starting to rise up the global payroll agenda due to the lack of a single services provider that can operate on a truly international scale without resorting to managing sub-contractors of varying quality.

A third problematic issue is the fact that many organisations have yet to introduce consistent payroll policies and processes across all of the jurisdictions in which they operate - a situation that is not helped by a lack of truly global payroll applications.

HR may have addressed this challenge by rolling out standard systems across multiple countries. But the same approach does not work for payroll functions because, on the one hand, country legislation varies so greatly and, on the other, no single, global system currently exists. As a result, options such as introducing middleware or asking outsourced services providers to connect disparate in-country applications together are becoming increasingly popular. Going down this route not only helps to provide visibility into an organisation's operations, it also enables global reporting to be consolidated into a single format for every country.

Unsurprisingly then, as global HR system implementations continue to bed down over the next few years, more and more attention will turn towards undertaking global payroll transformation. Employers' aims here will be to automate away some of the current legislative complexity, introduce consistency and maximise the return on their HR investment.

So payroll's time is coming and the moment is now right to explore just what you want your global payroll function to look like into the future.

About <u>TMF Group</u>

TMF Group helps its clients operate internationally and 'belong' wherever they are in the world. We do this by making sure they are properly set up to do business in any country and compliant with local and international regulations.

Our work includes helping companies of all sizes with HR and payroll, accounting and tax, corporate secretarial, international structuring and structured finance.

In today's environment, increasing business complexity means that a one size approach doesn't fit all - and the penalties for getting it wrong are getting heavier. Operating in over 80 jurisdictions we provide our 15,000 clients with on-the-ground compliance and administration services so they can venture further. We keep things running seamlessly, giving them the peace of mind to focus on the bigger picture.

Our people localise the global world to help businesses succeed, which in turn helps communities to prosper. We firmly believe that the only way to be truly 'global' is to put local first, which is what our team of 7,000 in-country experts do for businesses of all sizes, every day.

TMF Group's global business services have been recognised in global market assessment reports from Everest Group and NelsonHall in reflection of its broad service delivery capabilities, global coverage and innovative technology solutions; all underpinned by a global governance model that provides clients with increased transparency and greater control of their own operations. Our latest achievements include:

- A Major Contender and Star Performer in the Multi-Country Payroll Outsourcing ('MCPO') Service Provider Landscape and PEAK Matrix™ Assessment 2017, published by Everest Group

- A Major Contender in the Finance and Accounting Outsourcing ('FAO') Service Provider Landscape and PEAK Matrix™ Assessment 2017, published by Everest Group

- 'A Leader' in multi-country payroll focus (NelsonHall's NEAT Evaluation for Payroll Services 2016)

<u>Get in touch to see what we can do for you.</u>

About <u>Global Payroll Association (GPA)</u>

Global Payroll Association is the first international payroll association of its kind. It is a central hub for 'all-things payroll' and a one-stop-shop supplying comprehensive directories, interactive training and in-depth country resources. It is here to help payroll and HR professionals with their international payroll needs, no matter how complex, connecting them with the world's leading experts and offering a forum to network with other like-minded global professionals. Global Payroll Association welcomes international payroll, HR and financial professionals of all levels.