

GLOBAL PAYROLL: OUTLOOK FOR 2014

International Payroll Decision Support Network

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INTRODUCTION

Global payroll administration is in the midst of major transformation, according to four U.S.-based professionals who play a key role in their organization's delivery of payroll services and data to workers around the world. When asked by Bloomberg BNA what key issues international payroll operations will be facing in the coming year, the following general subject areas were identified.

Technology

For 2014, primary trends point to a continued struggle to apply appropriate technological resources and be able to effectively decide on global, regional, or in-country service providers. There are signs that multinationals will be better able to leverage ever-improving global human resource information systems (HRIS) for payroll purposes in 2014, although the environment governing the transferring of global information will be affected by global data privacy and data security concerns.

Compliance Is a No. 1 Issue

Meeting compliance obligations for home and host countries will remain the biggest challenge for global employers in 2014. While resources to understand requirements gradually become more available through the internet and other media, some of that same technology is allowing a greater number of countries to use more sophisticated systems to track foreign employers and worker activity for enforcement purposes.

Technological change, compliance and education will be factors in 2014.

Education/Process Ownership

Multinational employers are becoming more sophisticated in a number of areas, from learning how to craft overseas employment agreements to more efficiently applying data management systems and more effectively determining service provider needs country-to-country. With that education, expect more employers to designate on a corporate level global process owners for payroll, rather than payroll administration being largely decentralized in different regions.

This strategic white paper provides an outlook on the global payroll environment facing multinational organizations in 2014. Technological change will be addressed first, followed by concerns about compliance, and then developing the know-how to apply what resources are available to effectively get payroll processed on a global level.

The global payroll professionals interviewed in December 2013 for this report are:

- Mary Brumm, senior global payroll manager at NVIDIA Corporation, a global technology company specializing in visual computing, and an instructor for the American Payroll Association's Global Payroll Management Certificate program;

- Felicia Cheek, global payroll advisory program practice leader and senior business advisor at The Hackett Group, Inc., a global strategic business advisory and operations improvement consulting firm;
- Michele Honomichl, founder, executive chairman and chief strategy officer for Celergo, a provider of global payroll services; and
- Dave Leboff, president of Expaticore Services LLC, a company that also provides global payroll services and international human resources consulting.

TECHNOLOGY

Problems with different types of technology and the lack of a single-source solution have made multinational payroll processing expensive and cumbersome. However, there are clear signs that global HR and payroll data systems are developing and more companies will be seeking to integrate some of that new technology to help streamline processes in the new year.

Processes and Capacity Still Lacking

NVIDIA's Mary Brumm said that multinational employers are struggling with using global payroll service providers that "do not always have the capacity to meet the all of the needs of corporations."

While domestic companies have been able to use technology to increase the efficiency of their payroll processes over the last 25 years, global payroll technology has been slow to develop, The Hackett Group's Felicia Cheek said. Too many companies are forced to work with a hodgepodge of processes, inhibiting their ability to leverage processes because "the technology isn't there," Cheek said.

Cheek suggested that part of this struggle stems from uncertainty about operational policies, when and whether a global approach or more local approach is optimal, and whether to bring payroll processing in-house, or use out-of-house solutions.

There is no single solution that can meet all the needs of large multinationals.

According to Brumm, most corporations will attempt to use one global payroll service vendor for the sake of simplicity, but in the current marketplace, single vendors generally are not flexible enough to handle the specific needs of each corporation. Many factors can influence the inability of global payroll service providers to effectively manage a corporation's payroll, such as the size of the company and where the company operates, Brumm said.

The marketplace for global payroll service providers is fairly young, the providers tend to be imperfect and corporations have a difficult time selecting which provider could meet as many of their needs as possible. While employers need more information on how to select the most efficient provider, providers also need to further develop their services to become more effective and flexible in the upcoming year, Brumm said.

This environment is changing for the better, according to Celergo's Michele Honomichl and Expaticore's Dave Leboff.

The Global HRIS (R)evolution and Payroll

Improved technology and systems surrounding payroll data management are hitting the market, and this will continue in 2014, according to Celergo's Honomichl.

While existing systems are “awkward and clumsy,” improved technology is allowing multinational managers real time access to employment-related details, including payroll information, Expaticore’s Leboff said. This development will allow management to more effectively use employment and payroll data in running the business, he said.

For a long time there were no effective global HRIS solutions, but now “people are starting to understand you can have a global HRIS system” that works, Honomichl said.

The majority of payroll service providers can take data feeds from HRIS systems developed by several different providers, according to Honomichl. As these newer, more robust HRIS systems are becoming more available, it has become feasible to have an integrated global payroll system, she said. The integrity of the data and systems have improved, and this should make it much easier to automate global payroll systems, Honomichl said. In 2013, there were some early adopters of these recently-developed global HRIS systems, but Honomichl sees more multinationals leveraging these systems for global payroll use in 2014.

Data Privacy and Security

In 2014, multinational employers need to be more conscious of how in-country payroll processors or third-party service organizations do their business and that they may further outsource some functions and data, Leboff said. In this environment “how do you know your data and your employee data is secure?”

The European Union applies strict limits on employment-related data, but Leboff said there is a lot more that multinational employers need to do. The EU approach attacks the issue at the systems level, which can provide a false sense of security. There have been intrusions into “theoretically secure systems” because effective protection of the data lies not only with the systems themselves, he said.

Referring to recent data breaches in 2013, Leboff said that “systems are not as secure as you thought.”

Achieving appropriate data security and privacy are not so much about the technology, Leboff said, but more about applying strict protocols for accessing and using the data. Once applied internally, multinationals using third parties need to ensure those outside organizations with access to data have a similar, rigid approach.

“The people, process, and technology policy all need to be secured, coordinated, integrated and strengthened so there is not a weak link that allows intrusion,” Leboff said.

With regard to data privacy restrictions placed by regions and foreign countries, Honomichl said that governments are seeking to strike a balance between the need to protect employees while not inhibiting global commerce with onerous restrictions.

As data transactions improve, privacy and security become key issues.

COMPLIANCE

“The number one problem for global payroll” in 2014 remains compliance, Celergo’s Honomichl said. NVIDIA’s Brumm also said that for multinational employers, compliance issues are incredibly vast and it is very difficult for corporations to find out about compliance regulations in the first place.

Global payroll compliance can be broken into two parts, Honomichl said. First, U.S.-based firms have global compliance issues to uphold, such as complying with the Foreign Corrupt Practices Act and the State Department’s Office of Foreign Assets Control requirements. Then global payroll operations must address the compliance issues in specific countries, she said.

Further, once compliance regulations are known, corporations still often have a difficult time following them, according to NVIDIA’s Brumm. But failure to do so in some countries can result in an organization’s operations within the country being shut down if all regulations are not met or up to the appropriate standards, Brumm said. In 2014, multinational firms can expect foreign governments focusing more on employers meeting the letter and spirit of the laws, Expaticore’s Leboff said.

Stakes are high when multinationals fail to comply.

Access to Requirements

Multinational companies need to be able to access and use service provider data in order to ensure compliance, Honomichl said. “Companies are looking for visibility” first to ensure they are compliant, and second to be able to see key metrics and analyze that information, she said.

Many countries require that filing be done in the official language of the country, which can be very difficult for employers, especially because employers often do not have the necessary language support needed, according to Brumm. Employers need a way to be able to find compliance regulations easily in addition to information on how to comply, Brumm said.

The World Bank Group’s “Doing Business Project” , which is updated each year, ranks 189 countries’ business regulations and enforcement measures and provides some insight into how difficult it is for organizations to comply with tax laws specifically.

According to the Doing Business Project for 2014, some countries where paying taxes will be the most difficult include Kenya (ranked 166 in taxes), Brazil (159), India (158), Argentina (153), Vietnam (149), Costa Rica (136), the Philippines (131), China (120), and the Dominican Republic (106). The United States ranks 64th.

In Kenya, for example, the study projects that small and medium sized companies will spend 308 hours preparing and filing 41 tax payments throughout the

year. Companies in Brazil are expected to spend the most time preparing and filing taxes during 2014: 2,600 hours, according to the study.

Many multinational corporations also are not identifying the effects of strong labor laws in foreign countries and cannot accurately predict the cost of operating within the country, Brumm said. This adds to the cost of sending employees overseas and can be a surprise for employers as the assignment can end up costing several times more than employing a worker within the country, according to Brumm. Employers need more guidance on the actual cost of sending employees overseas in the upcoming year. More access to this kind of information is vital for the future of many corporations, she said.

Better Enforcement

Payroll and employment-related requirements in emerging growth markets, such as in some areas of Africa, are starting to become more strictly enforced, Leboff said.

Just as technological advancements are beginning to aid multinational corporations in being able to track employee-related activities, that same technology can be used by countries to help with enforcement, Leboff said. As foreign governments begin to use more advanced technology to match traveler and worker entry information and other data related to foreign projects for compliance purposes, savvy local service providers in areas known for corrupt practices may no longer be able to make that “end run around some requirements” for their clients, he said.

EDUCATION AND PROCESS OWNERSHIP

In striving to achieve agile and adaptable service delivery, multinationals remain unsure as to what type of strategy they should adopt to deliver services, The Hackett Group's Cheek said. This can begin with the owner of the global payroll operation, a key part of solving the global payroll equation.

Many companies have multiple owners which negatively impacts payroll, with many multinationals continuing to place their payroll functions in different offices in different regions where they operate, Cheek said. Multinationals have been and will continue to struggle to select global payroll process owners who have the proper business acumen and know how to work effectively and develop relationships crucial to global payroll, she said.

While still uncertain about structure, multinationals are getting smarter about using third parties.

More Knowledge = Better Decisions

The signs are there, at least, that the multinational payroll market is becoming more educated and employers are beginning to more effectively determine “what really fits for various situations,” said Celergo's Honomichl. Instead of looking for one-source solutions, Honomichl said employers are becoming “better at looking at their own needs.” Organizations are making the distinction that what is needed to do payroll for 5,000 or more employees in one country is not the same as what should be applied when doing payroll in another country for only a few employees, she said. Similarly, “what I need for AsiaPac is not what I need for South America,” she said.

As a result, multinational employers are contracting with a variety of service providers and consultants—large and small—that more appropriately fit the differing needs by country and area, Honomichl said.

Generally, in 2014 NVIDIA's Brumm said that employers need greater access to important payroll-related information in order to comply and make better decisions about processes. Employers are not always educated as much as they need to be on topics such as picking a provider and complying to payroll related laws in foreign countries, Brumm said.