



Do You Have a Business Case Not To Outsource Payroll?

Examining the Fault-Line of an Organization's Internal Processes

A Whitepaper by ©CnetG Asia



Executive Summary

Malaysian companies have been outsourcing administrative functions such as payroll, book-keeping and audit functions to external service providers for over 20 years.

Accounting/Audit firms, as well as Company Secretaries, have always offered outsourced services. For a small monthly fee, these firms offer their clients an opportunity to **focus** on their core business while they take care of the non-strategic work. It was, and still is, a convenient way for start-ups to go about their business without bothering with the non-essentials.

Today, even the larger businesses are going pretty much the same way. Many of the administrative functions that were once thought pertinent to the business, are being considered for outsourcing. Human Resources has traditionally championed outsourcing by engaging external training providers, recruitment agencies, industrial relations consultants, and employing contract staff across the business. With externally available expertise now, Payroll, Leave and Medical Claims administration, Regulatory services and others are increasingly being outsourced.

We examine here the merits of outsourcing Payroll, and some of the processes you should consider before embarking on outsourcing.

Many Professionals Just Strive to Get By

Are personal standards getting lower or are work demands getting higher? This question comes to mind as many employees say their primary objectives for work are simply showing up and meeting basic expectations.

According to the latest StressPulse survey from ComPsych Corp., a Chicago-based employee-assistance program provider, 26% of workers cited "being present" as their most important work priority and 62% cited "accomplishing basic responsibilities" as their top objective. The third choice in the survey, improving work performance, was selected by only 12% of respondents.

Almost half of those surveyed said they have high levels of stress, characterized by extreme fatigue and lack of control. Workload was most commonly cited as the top cause of stress.

If employees are distracted, tired or ill, the company's productivity and bottom line can suffer, says Richard Chaifetz, chief executive officer of ComPsych. "You should use whatever means possible to encourage and support your existing work force, whether it is recognition, training and personal development or an employee-assistance program," he says.

Extracted from article "Can HR Outsourcing Produce Big Savings?" by BNA Inc.

What Are Your Challenges Today?

A 2005 StressPulse survey in the United States aimed to establish why standards had generally dropped in the workplace.

The study showed that employees today do not necessarily share the same challenges faced by the organization they work in.

And the problems just do not end there. Competition is forcing businesses to look "within" for efficiency. And it is even more surprising when the competition is really from smaller, leaner and newer companies who seem to be more agile.

Geographically, developed countries are capitalising on cheap labour and expertise in Asia and other parts of the world, while those in the East are learning to adjust to doing businesses in an more global environment driven by markets-forces rather than protectionist government policies and oligopolies.

Adding to this, the rising cost of fuel and operational costs are not helping either. Asian businesses are under pressure, now more than ever, to review their business processes in-depth and realign their people, processes and technologies to actively serve the bottom-line, instead of "just getting by".

The Take-Away

Outsourcing provides rare opportunities for a business to realise greater outputs from existing resources. Because a single function when outsourced, offers benefits like more time, compliance, better utilisation of resources and space, more funds for revenue generating functions, as well as leasing instead of buying technology, in short, lesser worry overall, we call it the “Take-Away” concept.

So what’s the Take-Away in HR if Payroll is outsourced?

In-House Payroll Requires...	You Need to Manage...	When You Outsource Payroll...
People	Turnover, Training, Monitoring, Increasing Cost, etc	No more people issues; continuity is assured
Payroll Systems	Physical and Network Security, Compliance, Bugs, Upgrades & System Maintenance	No more system issues; HR is able to focus on more important matters and IT has no hand in Payroll
Hardware	Access Security, Monitoring for Viruses, Hacks and other intrusions, Upgrades and Maintenance of PCs and Printers	No more hardware issues; offers good potential for cost savings
Secure Filing / Storage	Security, Growing requirements, Access, Damage and Compliance	No more space issues as reports are in electronic formats and payslips are produced by the outsourcer
Monthly Stationary	Ongoing cost of purchasing and storing payslips, printer ribbons, paper, etc	No more stationary purchases or wastage of storage space in the office
Internal Controls, Checks & Balances	Though critical, internal verification of payroll is often performed simply to satisfy procedure; it is still subject to abuse/errors and could go unnoticed	Vendors instil stricter audits and controls in the interest of providing very high service levels to their clients; therefore important to pick a credible vendor for whom outsourcing is a key business
Cheque Preparation & Banking Administration	Management involvement in signing a number of cheques and ensuring accuracy each month	Outsourcers are able to handle all cheque preparation and payments direct to employees & statutory bodies
Support Personnel	Risky reliance on Riders/Dispatch teams, staff who do banking, etc; also subject to abuse, loss, turnover and lack of continuity	No more risk, cost or reliance on supporting resources
General Ledger (GL) posting for month-end accounts	Fair amount of data entry to accounting system from payroll reports; at times required GL codes not available in Payroll system	Outsourcers rarely limit themselves to what they could provide as a service; customizable GL delivery are optional services that can be offered for a small fee

The Not So Obvious

The 3C & F rule (B = 3 x C + F)

Isn't it surprising that so much can be gained from outsourcing a single function, something everyone takes for granted but does not appreciate? Fact is, no matter how well it is done, the payroll function does not contribute to overall profits.

Yet, companies choose to review their Payroll technology and supporting resources every few years, and as if it's expected, budget it in every few years.

It surely makes more sense to outsource as there are more underlying reasons why companies outsource the function. It is interesting that something as mundane as Payroll offers a number of intangible but often ignored benefits like:

<u>C</u> onfidentiality	Better control on Confidentiality is a given. Payroll has to be confidential and keeping the function contained to a single person with tighter control on physical and electronic data is most times difficult when payroll offices are not separated from the rest of the office and IT and vendors are expected to maintain the system. Of course, there is no such thing as 100% confidentiality anywhere.
<u>C</u> ontinuity	<p>Turnover in any function is a huge concern to a business. However, such disruptions in payroll affect the timely administration and disbursement of salaries, and sends wrong signals, however misconceived they are, to the workforce.</p> <p>Employers are also finding it increasingly difficult to find or even retain the right people to build a career processing payroll. After all, graduates these days do not find much of a challenge handling mundane roles like payroll.</p>
<u>C</u> ompliance	<p>Lack of Compliance in internally handled payroll is one of the most common complaints most outsourcers hear. One can hardly blame the payroll executive. When regulations change as often as they do in Malaysia, system vendors who have 1,000s of clients, in a scramble to ensure updates are delivered in a timely manner, email updates and instructions to a non-IT trained payroll executive. Unfortunately, this is the point where disruptions occur and often go unnoticed until it's too late.</p> <p>Moreover, the lack of regular internal audits on payroll systems to ensure compliance and the [slow] speed in which statutory bodies notify employers of such breach, leads to unnecessary workloads and cost.</p> <p>An outsourcer, on the other hand, has to fulfil Service Level Agreements. And ensuring compliance is right at the top of their deliverables to the client.</p>
<u>F</u> ocus	Outsourcing payroll opens several windows of opportunity for HR, the employees concerned and many others who have been supporting payroll with management input, related operations, budgets, banking, infrastructure and other often invisible processes.

Deciding to Outsource

Now that you have a clear business case to outsource, here is a simple check-list you may use to embark on the process of finding a suitable service provider, determining your service requirements, and setting your own goals.

Action Items	Questions to Ask	Remarks
Qualifying a Vendor	1 Is Payroll outsourcing a core business?	It should be; else find a different vendor
	2 Do they have sufficient experience in offering payroll services?	They should, preferably; it must be their core business in any case
	3 Experience of their operational staff?	Check their backgrounds; they must have been in the role for a while and understand payroll processes and local statutory regulations
	4 What systems do they use?	This is important; they should be using a robust solution that has been tried and tested across hundreds of companies and various industries
	5 Ask for client referrals	Always ask for at least 2; and do contact them
Service Requirements	6 Monthly Payroll Administration	Usually supported with electronic tools or interfaces depending on need and extend of services required
	7 Data Entry from Hardcopy forms	This can be requested if necessary; most service providers offer as an option
	8 Manage Employee Leave & Medical Claims	Most standard payroll services should be able to cater to this as optional service
	10 Salary Banking Administration	Recommended as it absorbs substantial management time & effort
	11 Monthly submission of Statutory Reports and Payments	Let the outsourcer handle this as it adds no value for you to keep it in-house even if it is handled by dispatch now

Conclusion

Can HR Be Strategic?

In a 2005 survey by consultancy Hay Group, just 40% of employees commended their companies for retaining high-quality workers. Just 41% agreed that performance evaluations were fair. Only 58% rated their job training as favorable. Most said they had few opportunities for advancement -- and that they didn't know, in any case, what was required to move up. Most telling, only about half of workers below the manager level believed their companies took a genuine interest in their well-being.

This, friends, is the trouble with HR. In a knowledge economy, companies that have the best talent win. We all know that. Human resources execs should be making the most of our, well, human resources -- finding the best hires, nurturing the stars, fostering a productive work environment -- just as IT runs the computers and finance minds the capital. HR should be joined to business strategy at the hip.

Instead, most HR organizations have ghettoized themselves literally to the brink of obsolescence. They are competent at the administrivia of pay, benefits, and retirement, but companies increasingly are farming those functions out to contractors who can handle such routine tasks at lower expense. What's left is the more important strategic role of raising the reputational and intellectual capital of the company -- but HR is, it turns out, uniquely unsuited for that.

Source: Fast Company Issue 97, August 2005; Why We Hate HR

While we may not entirely agree with this article that appeared in FastCompany (a magazine owned by the Fortune group), we cannot but take notice of the subtle message to HR and business managers.

The Take-Away factor is that HR should be focused on strategic initiatives in the organization. There is so much to do.

Employees these days are entering the workforce as early as just after school, and climbing up the corporate ladder faster. They have higher expectations, just as you have similar expectations of your next hire.

Outsourcing does the unexpected. It delivers you the time to focus on your core mission and it provides you the resources from within.

Business managers expect the same from HR. They perceive HR as a partner to their business.

About the Author

CnetG Asia has offered Human Resource outsourcing services in Malaysia since 2001. They continue to be a market leader in the industry providing a host of outsourced services to HR.

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