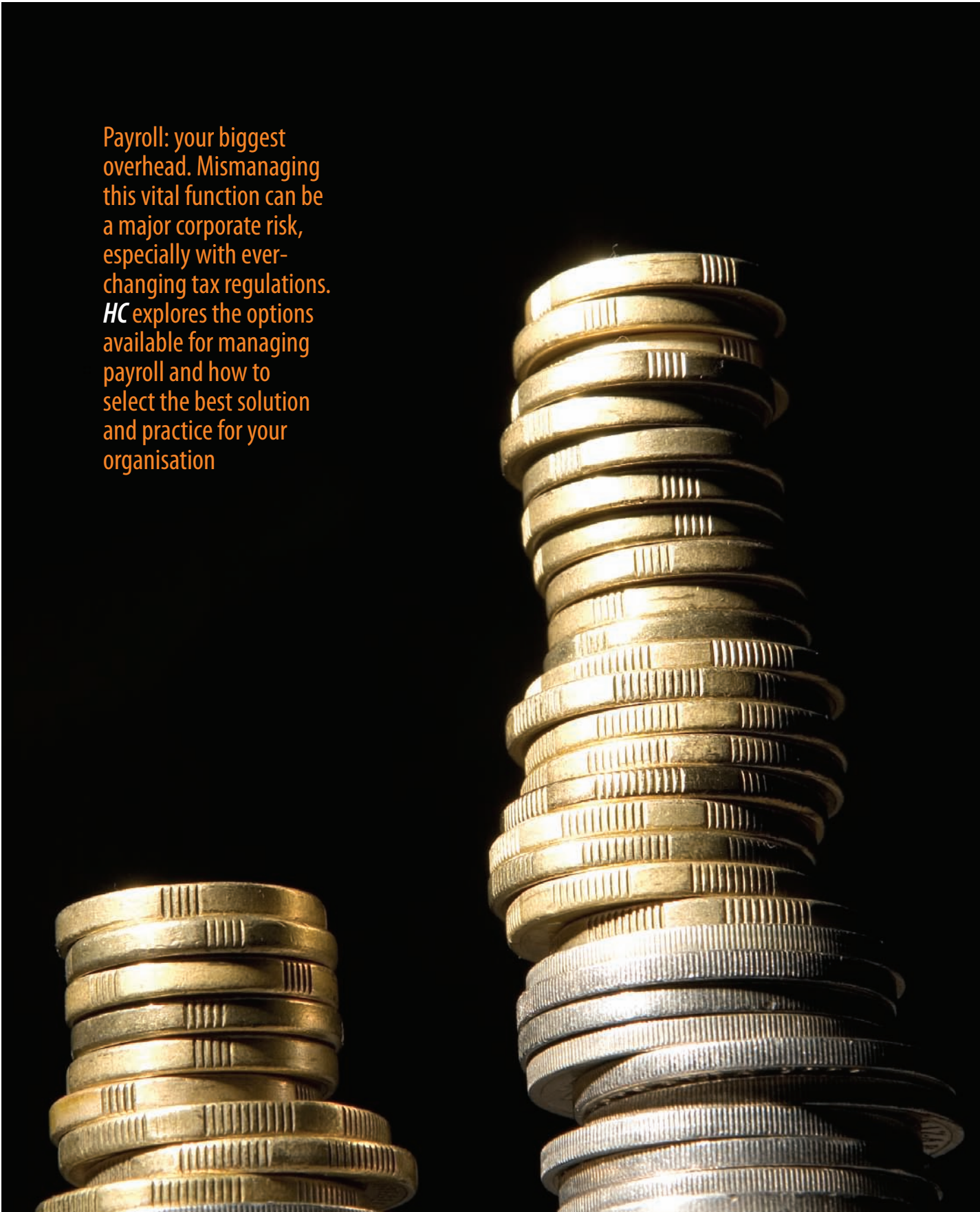


Payroll: your biggest overhead. Mismanaging this vital function can be a major corporate risk, especially with ever-changing tax regulations. *HC* explores the options available for managing payroll and how to select the best solution and practice for your organisation



PAYROLL THAT PAYS

Ensuring employees are paid correctly and on time is crucial for the longevity of any business. With wages taking up to 70% of business expenses, payroll is something that no HR manager can afford to take for granted.

Unfortunately, this is easier said than done. The majority of managers still consider payroll as a distraction rather than a core function. Payroll is a painstaking, time-consuming and tedious task. The reality is that poorly run payroll programs can result in complications and stiff penalties at tax time,

“For a fraction of the cost of a payroll manager, most organisations can fully outsource and save somewhere between 30% and 80% of operating an in-house payroll system,” says Ari Kopoulos, national sales and marketing

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Ari Kopoulos, national sales manager, EmployeeConnect

and can lead to overpaying or underpaying your staff. Either result is devastating for your organisation.

As always, technology can help out. Recent advances in computing and communications, including intranets and extranets, provides HR managers with a multitude of choices. Some solutions are self-managed and run in-house, while others are leased from operators who do almost everything for you.

Therefore, HR managers now face a new critical decision – outsource or keep payroll in-house?

Why outsource?

Because payroll is not seen as a competitive edge by management, it has become one of the prime candidates for outsourcing. This is especially true for companies looking to cut internal administration expenses.

manager with EmployeeConnect, a payroll specialist firm.

Many HR managers also choose to outsource because they think it is a simpler solution to managing difficult or out-of-control processes. “Payroll can be very messy and paper-driven with many transaction bottlenecks. Outsourcing can streamline the process and will give you access to cutting-edge payroll technology and payroll professionals who may not be available in-house. You can free up internal resources and focus on your core business,” Kopoulos says.

Outsourcing risks

Just because somebody is filing your tax returns doesn’t mean you can stop worrying about your obligations.

“You’re not immune to liability,” The Association of Payroll Specialists (TAPS) managing director Jason Low warns. “If your

CASE STUDY: OUTSOURCING SUCCESS WITH SUTHERLAND CREDIT UNION

Sutherland Credit Union decided to farm out its payroll function when it became apparent that it was becoming “ridiculously long-winded” to do a payroll run for its 50 or so staff.

“We wanted a payroll system that does Employee Self Service (ESS) with fully integrated HR functions,” Sutherland Credit Union account supervisor Mark Harrison says. He spearheaded the migration of the company’s existing system to an outsourcing solution with EmployeeConnect.

“Price was a big issue for us, so we started looking around for different providers. In the end we decided to go with EmployeeConnect. Theirs was the cheapest option and it gave us the best functionality for our needs. Clearly identifying what you need and making sure that your service provider meets those needs is vital. Asking a lot of questions before you make the decision will help you avoid mistakes. Ask for a demonstration so you can see the solution before you commit to anything,” he advises.

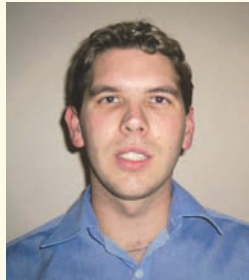
ESS was right on top of Harrison’s wish list. He realised that by enabling staff to manage themselves, the system would free him from intensive administrative jobs like processing leave requests and updating personal details.

Sutherland Credit Union went live at the beginning of April. The initial installation, which took two weeks, focused on customising the payroll system with ESS functions. Harrison also had to undergo basic hands-on training from EmployeeConnect to learn how to customise the system for himself and update different fields.

“So far the integration is going smoothly. We’re not fully up and running, but even now it’s still a lot quicker and easier than the previous process. There have been a minimum number of problems with the system; I was expecting a lot more problems. There’s been a few instances where leave hasn’t carried over correctly, but it’s all very minor and isolated, and is mostly due to keying errors,” Harrison says.

Because the responsibility is handed to employees, everything is updated each time an employee applies for annual or sick leave. “When it comes to payday, it doesn’t take the whole day to do a payroll run, so you get a big chunk of the day back. You can spend more time on more productive things, instead of worrying about someone not getting their pay slip or how much leave they have – it’s much less time consuming.

“Security is an important consideration when you’re outsourcing. You need to feel safe with your provider. You have to assess whether the new system will improve your existing payroll program. You have to be aware of the hidden costs. Outsourcing payroll is not cheap, but it was certainly worth it,” he says.



Mark Harrison, account supervisor, Sutherland Credit Union

outsourcing company makes a mistake and you get a tax audit, the tax office will come to your company and say that you’re responsible for paying your employees, and it’s all been done incorrectly. Even though you’ve outsourced, you haven’t outsourced your liability for your payroll, you’re really just outsourcing the labour part of it. Someone in your company needs to oversee the payroll operation to make sure everything is right.”

Low mentions the latest work rule provisions as a case in point. Low believes that many employers are still not up to date with recent changes that allow up to 10 days of sick leave as opposed to eight, and may not realise all of the ramifications of missing this point. “If you’re not dedicated or keeping an eye on all these changes, you’re setting yourself and the company up for big fines,” Low warns.

Outsourcing overseas carries an even higher risk of non-compliance as some outsourcing companies may not be up to date with the latest Australian tax legislation. The other downside to outsourcing is that you lose control of your payroll operation, and your provider may not readily pick up some transaction errors.

Doing it yourself

Keeping payroll in-house is the other option that should be considered. Businesses with labour-intensive operations that require close cost monitoring are advised to do their payroll in house.

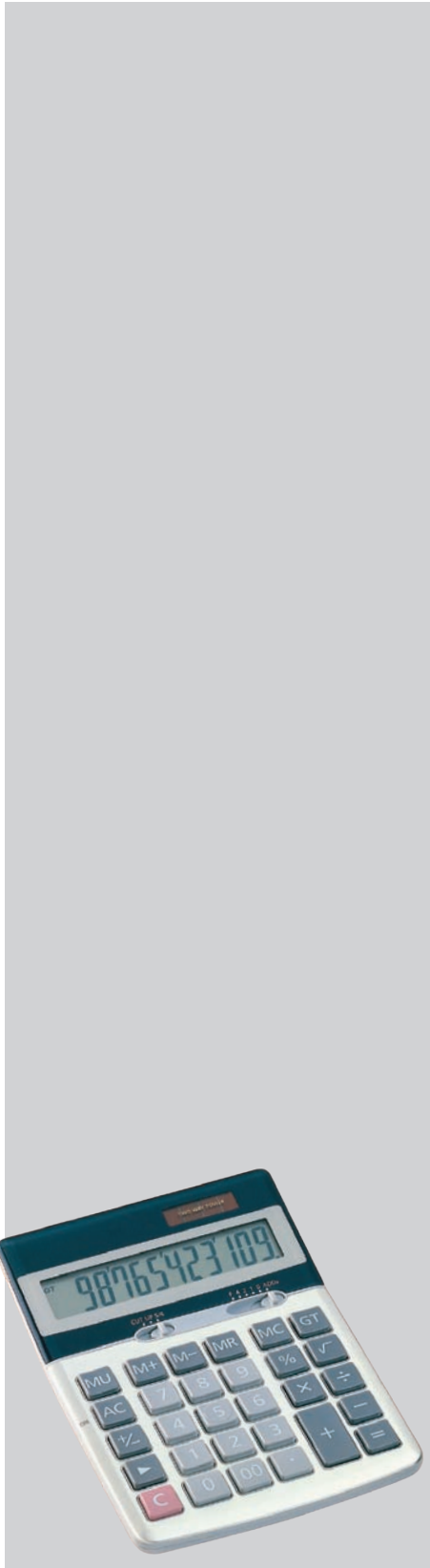
“If payroll is considered a part of the core business and extremely mission critical, it’s probably wise to run it in-house. If payroll is tied into the production process, where there are a lot of pay components and variations within the payroll from week to week, it would be better not to outsource it,” Kopoulos says.

Taking full control of their payroll operation right down to the last detail is one of the reasons why companies insist on in-house solutions. As technology becomes easier to use, advocates say doing payroll in-house is becoming a more cost-effective and efficient option.

“Outsourcing companies usually give you a cut-off date and any changes after that need to be done in the following pay period. There is no flexibility, so it’s harder to pay employees ad hoc. If you want to pay someone who has been terminated today, it’s going to cost you extra if you’re outsourcing. With the way technology is going, if you are a clever operator, you would do it in-house,” Snowdrop Systems business development manager Dylan de Szabo says.



Meredith Thompson, managing director, Software Choice



Deciding when and what to outsource

Software Choice managing director Meredith Thompson says the decision to outsource or run payroll in-house should be based on your company's unique circumstances.

"If you don't have sufficient internal resources, then it makes sense to outsource. Many organisations are having trouble getting or keeping quality staff. There's usually a high turnover in the payroll department and if you're having these issues, then outsourcing is for you. However, if your payroll is working well, it's wise not to mess with it. If it's not working and you want to get rid of it, you still have to compare the costs."

If you don't want to relinquish control of your payroll, but still need help, then partial outsourcing or the Application Service Provider (ASP) model may be the solution for you. ASP is where only certain parts of your payroll technology, operation and back office processes are outsourced to service providers. For example, you could choose to only outsource the printing and distribution of pay slips, or the hosting and maintaining of payroll applications, while retaining control of taxation and accounting in-house.

However, not everyone agrees that this type of partial outsourcing is a good idea. "I don't think it works well to outsource a little part of the process. It's best to have someone managing the whole thing. If you outsource different divisions it gets too messy, and that's when it gets out of control. The best way is to outsource the whole thing or nothing at all," Low says.

Setting up your payroll operation

If you are thinking of setting up or overhauling your payroll system, it's imperative to have a clear plan and well defined selection criteria.

Start by looking at your internal processes. Find out who checks pay and leave requests, who authorises them, how legal compliance is being met, and what training is being provided to your employees. Make sure you discuss the issues with all the managers involved and cover everything in detail so

PAYROLL SHOPPING TIPS

- ① **Know what you want** – Define your requirements and budget
- ② **Search widely** – Use multiple sources to ensure that you will not overlook offerings
- ③ **Shortlist quickly** – Eliminate solutions based on mandatory requirements and budget
- ④ **Seeing is believing** – Don't just take the vendor's word for it. Use your own data when trying software
- ⑤ **Stick to your shopping list** – Vendors are going to try to sell you their entire range of HR products. Always keep in mind what you really need and don't get distracted by the extra bells and whistles they're offering
- ⑥ **Get everything in writing** – Verbal promises are quickly forgotten. Protect yourself by having all the details and conditions written down
- ⑦ **Ask for help** – Enlist consultants where you don't have the time or qualified resources

Source: Software Choice



Jason Low, managing director,
The Association of Payroll Specialists (TAPS)

If you outsource different little divisions it gets too messy, and that's when it gets out of control. The best way is to outsource the whole thing or nothing at all

that you fully understand what functions a new payroll system will need to cover.

Next, check if your company has a suitable infrastructure. Most organisations these days already have hardware to run most payroll programs. You also need to evaluate the internal and possibly external network connections. To get this information, you will need to work closely with your IT team. Remember, payroll can generate a lot of data, so discuss the expected 'load' on the network with your IT team and vendors as part of the selection process.

Selection of payroll software is no longer just a technical issue. It should be based on function, licensing costs, flexibility and ease of modification, and how well it integrates with existing processes such as HR, accounting and sales solutions.

Make sure you have people who are going to push the payroll project forward and make it work. "It's useless loading a system or having a person using all the latest stuff if they don't take it on board. Having a department that is willing to adopt change and move forward makes a big difference. Unfortunately in payroll, a lot of people are reluctant to change," de Szabo says.

Thompson agrees. "I think the most important thing is the quality of the people you use in the project. You need a dynamic project manager who understands the business and what it's trying to get out of the payroll system. With something like payroll, there often aren't many people in the organisation who want to drive it because it's not sexy. But it's crucial to have somebody keeping it on the rails. You need to have the management buy in, without that you'll get nowhere."

Sizing up payroll partners

The payroll market is getting more competitive and it is crucial that you choose your payroll partner carefully to make the most of your deal. Kopoulos suggests you consider the following issues when you're looking for a payroll partner:

1) Experience and expertise. Meet with the actual person who will be

processing your payroll once or twice to assess how knowledgeable they are and to ensure they understand your business and your objectives.

- 2) Cultural fit. It's important that the person or organisation knows and understands your industry or sector so it can handle the challenges that may arise.
- 3) Service. Look at the clearly defined service level agreement and strategy. It should be flexible enough to adapt to your changing needs. A good provider will offer various choices and be able to provide support every working day.
- 4) Speed. Assess how quickly they respond to calls and check whether you will get a dedicated account manager. Find out how long it will take to correct an error.
- 5) Technology. Take time to evaluate the technology. Find out what technology they're using and what version. Can they demonstrate functionality? Is it a stand-alone system or scalable? Is it practical for you to use? Does it have functionality that enables you to use it in your internal payroll system?

"It's one thing to engage in a partnership, but in case you want to take your payroll back in-house, it's worth ensuring that your service provider has an exit strategy where they can hand the key over to the payroll agent and you can continue processing," Kopoulos says. **HC**