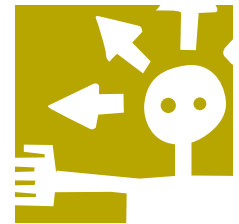
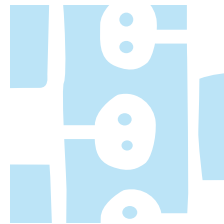
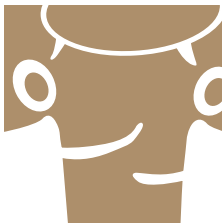




PAPER



WHITE

Payroll Outsourcing in Europe

An ADP Publication

**Payroll
Outsourcing**
in Europe

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FOREWORD



In this book we discuss the emergence of "payroll outsourcing", which can reasonably be dated back to 1949. What was to become a major B2B service industry was born in that year out of the simple idea of providing a service to a small business whose payroll manager had taken ill. That is how our company, ADP, came into being.

Today, we are proud to be a leading provider of outsourced HR services, a broader set of solutions than the payroll outsourcing we started with. But this position brings certain responsibilities, the most important one being to share our knowledge.

However, in order to effectively do so in this book, we had to avoid being tempted to replace objective truths with selling points. So I asked our experts to write with the sole aim of enlightening our readers – and to undertake to do so. Just as HR and company managers assess the day-to-day service we provide, so they will assess these pages, which are intended for them.

If, after the first ten minutes of reading, they no longer wonder about the payroll paradox, we have honored our commitment for the first chapter.

If, a few minutes later, they know why a Danish service company does not approach outsourcing in the same way as an Italian industrial firm, we have achieved our objective for the second chapter.



Perhaps, having successfully reached this point, they will keep going and read chapter three. Mission accomplished: they will now know about the different types of solutions.

With it taking less than an hour to read the whole book, by the end of chapter four they will have read all the "do's and don'ts" and be ready to discover in the closing pages the ultimate factors involved in deciding to opt for "payroll outsourcing"... a strategic change for HR and company managers.

I hope reading this will bring you valuable insights. Your own experiences and your feedback on this white paper will be greatly appreciated.

Anish Rajparia
President
ADP Employer Services Europe



HOW TO DO AWAY WITH THE
PAYROLL PARADOX

HAVE YOU EVER DREAMED OF A
HARMONIZED EUROPE?

WILL EXPERTS EVENTUALLY
AGREE ON COST ASSESSMENT?

PAYROLL: WHAT ARE WE TALKING ABOUT?

For a company to run steadily and implement ambitious HR strategies, paying everyone accurately and on time is a basic requirement. But it's not that simple. A closer look at payroll reveals how complex and costly it can be. Assessing payroll-related processes is a significant effort that companies should make in order to decide on the most relevant strategy and keep this critical function under control.

■ HOW TO DO AWAY WITH THE PAYROLL PARADOX

Employees and executives sometimes know little about payroll. After all, why should they learn more about it, as long as it works and everyone gets paid accurately and on time? Payroll is often considered a company commodity, a succession of recurring and standardized tasks aimed at issuing payslips on a regular basis according to a defined legislative environment.

A MATTER FOR EXPERTS

But payroll is complex. A quick look at a payslip with its many and varied lines confirms this. Payroll specialists would say this is just the tip of the iceberg: the amount of data to be collected and processed before employees can get paid is impressive. Payroll is about handling a wealth of information of all kinds and turns out to be a multi-faceted, fragmented and very exacting activity.

Payroll operations are therefore made up of multiple sub-processes that are combined in a consistent value chain. Each sub-process corresponds to a series of tasks that require dedicated skills and expertise. And, within an HR department, payroll processing is certainly a matter for experts.

Payroll processing notably relies on information that is handled by personnel administration: employees' permanent and variable data, work contracts and social benefits. In fact, payroll and personnel administration are closely related. Both are essentially administrative activities requiring similar skills, performed by the same HR experts in most companies.

Payroll also varies with collective agreements, which further adds to the complexity. Country-wide payroll expertise is not enough. Payroll experts need an in-depth understanding of

PAYROLL ['peɪrəʊl] A DEFINITION

The business process, best practices and applications used to calculate the components of pay, support the distribution of funds and maintain regulatory compliance. It includes all activities related to the production of payroll: data capture and control; calculation of salaries, wages, allowances and deductions; editing and dispatching; third-party declarations; legal maintenance.



industry-specific rules to manage differences such as types of employee, contract and status.



Payroll is at the centre of the relationship between companies and employees."

THE PAYROLL PARADOX

With many of the features of an administrative task, payroll often sounds like a commodity to many executives. Does this mean payroll is of secondary importance or perhaps considered as a minor function? In a word, does this mean payroll is not strategic?

When positioning the cursor separating strategic and non-strategic activities, businesses usually treat payroll administration as a non-core activity. But this should not mask the activity's vital importance. Payroll is at the centre of the relationship between companies and employees. It is the main – if not the only! – tangible part of the company's reward for the skills and work supplied by its employees.

Payroll is therefore of symbolic importance, which is essential for social links within the company. Paying employees – accurately and on time – is more than a legal responsibility for a company, it is also a basic commitment to employees and a mandatory prerequisite for internal stability.

THE PAYROLL VALUE CHAIN





“

Payroll at the European scale is a particularly complex exercise.”

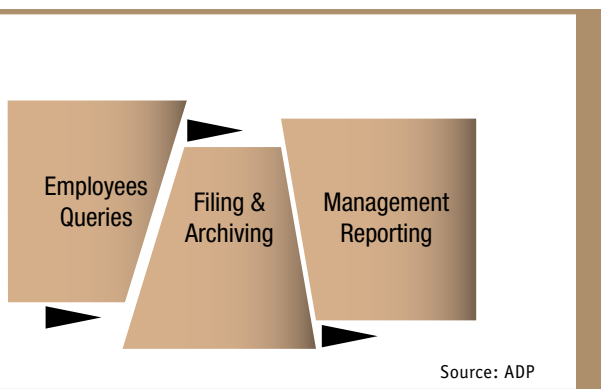
In addition, payroll data is the foundation of a reliable HR Information System. Payroll thus ends up being a paradox: perhaps non-core, but in many cases extremely mission-critical. And all HR departments have to face this paradox. Can they free themselves from that burden – as it is a basic HR function – in order to focus on truly strategic HR issues?

■ HAVE YOU EVER DREAMED OF A HARMONIZED EUROPE?

Have you ever dreamed of harmonized payroll rules in all your subsidiaries across Europe? Of course, the "European Social Chapter" aims to harmonize work rules, and its influence on HR management is growing. Breakthroughs are significant, notably with regard to working time, fixed-term contracts, collective bargaining, vacations, etc. Nevertheless there is still a long way to go. Companies operating in several countries still have to cope with very different payroll rules in each one.

WIDE DIVERSITY

A wide range of factors add complexity to payroll management across Europe. Payroll frequency can vary – weekly, monthly, fortnightly or lunar. The number of third-party deductions and declarations (tax, social contributions, and benefits), different working time rules, and types of work contracts are some of the key factors that make multi-country payroll management complex. This is reflected in the number of lines on payslips. Furthermore, the frequency of legislation changes, very high in some countries, is another factor of complexity. Finally, regulations can be defined at different levels: state, region, branch (through collective labor agreements), company, or any combination of these, giving wide scope for interpretations and variations.

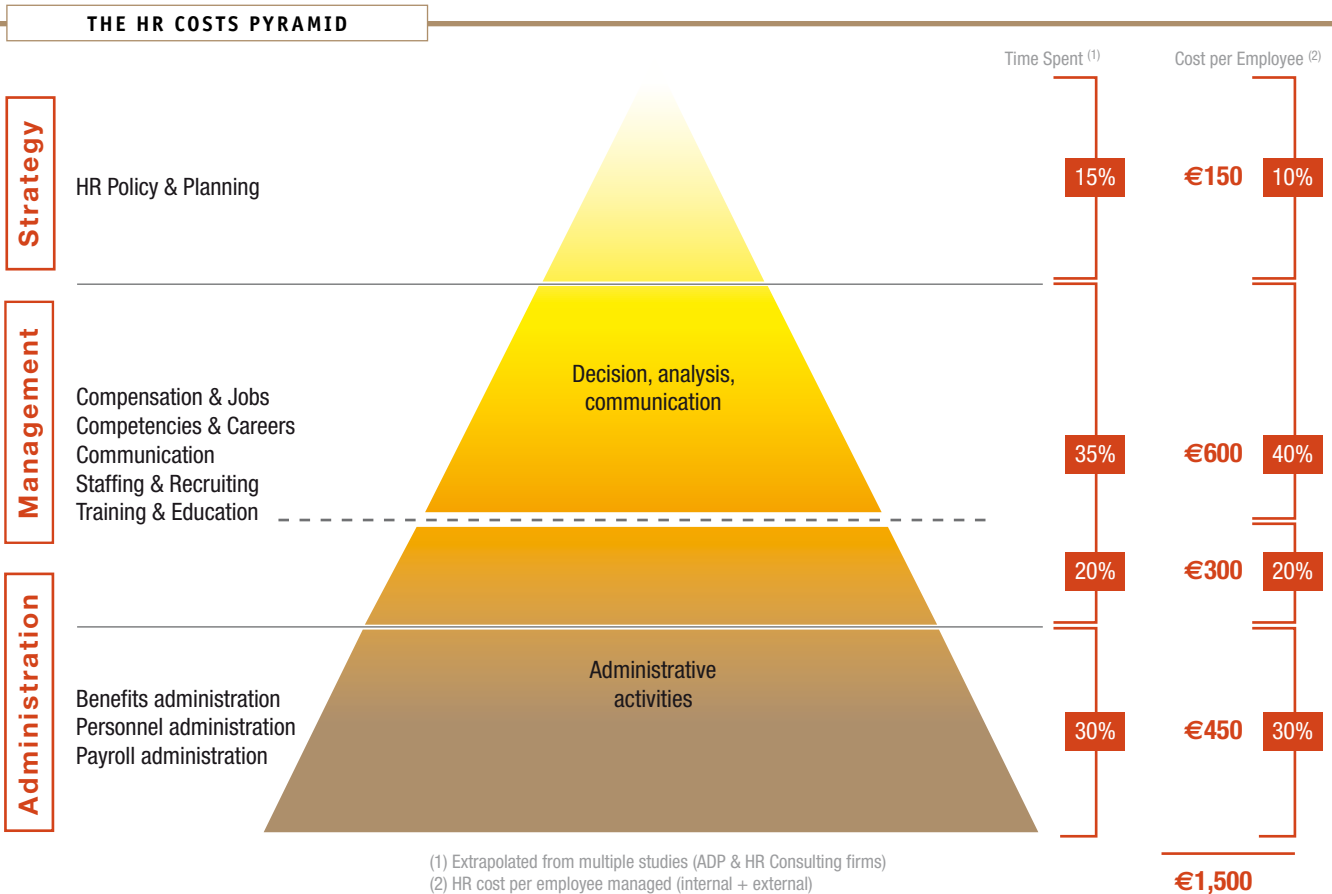


■ WILL EXPERTS EVENTUALLY AGREE ON COST ASSESSMENT?

Evaluating the cost of in-house payroll is a prerequisite for making possible savings, but it is not an easy exercise. Different studies conducted by HR consulting firms and ADP have helped to develop clearer understanding of Total Cost of Ownership (TCO) of payroll as a subset of overall HR costs.

A VISIBLE COST OF €200 PER EMPLOYEE PER YEAR ACROSS EUROPE

Looking at a general HR picture, studies converge to evaluate payroll combined with personnel administration as representing 30% of total HR costs. An average estimation of annual HR costs across



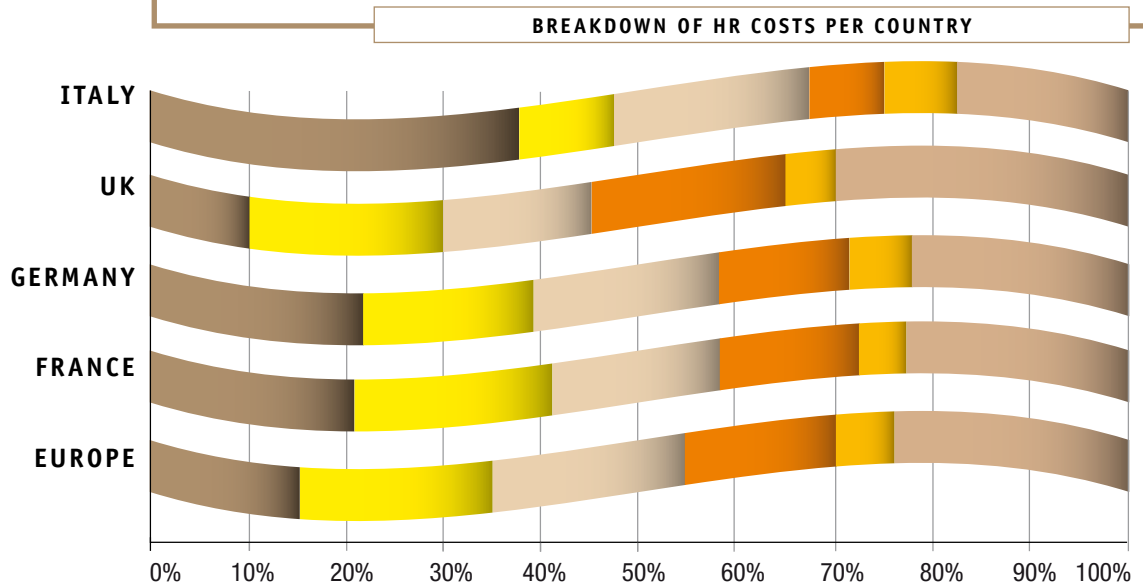
Europe is €1,500 per full-time employee (FTE), of which €450 are spent on payroll and personnel administration. Being around half of this, payroll cost amounts to €200 per FTE per year at least with respect to its visible and most easily measurable part.

VARYING ACCORDING TO MULTIPLE FACTORS

Studies have also revealed large differences in the reality of payroll TCO, beyond the €200 average. Payroll cost varies significantly depending on a number of factors, such as complexity of legislation, industry sector, company size and organization.

National legislation sets the level of payroll complexity. Simply consider the number of deductions, statuses, types of contract, and time and attendance regulations. This makes the average payroll cost vary from €100 in countries where it is simple, to four times more in countries that apply complex legislation and sophisticated rules. In addition, this influences the relative weight of payroll in overall HR costs.

- Payroll
- Benefits & Personnel Admin.
- Training
- Recruiting
- HRIS
- Other HR



Source: ADP



Studies commonly indicate a one-to-two ratio between perceived and actual payroll TCO."

INFLUENCE OF INDUSTRY SECTOR

Industry and associated labor agreements are also key influencing factors. Payroll cost can be as low as €35 per FTE in some labor-intensive industries and reach €400 in heavily regulated sectors. These variations are not correlated to those observed for overall HR costs.

Some industry sectors or branches manage payroll as "negative payroll" – regular monthly salary payment – whereas others use "positive payroll" – wages paid by calculating actual hours worked. Of course, each type of payroll has different costs associated with it, as it relies on a different process, especially in terms of data collection.

NO ONE-SIZE-FITS-ALL APPROACH

Company size also has a big impact on payroll cost. Observations show that payroll TCO tends to be higher in small- and medium-sized organizations, with fewer than 500 employees. Costs benefit from economies of scale when the number of employees increases, with major thresholds at 1,000 and 5,000 employees.

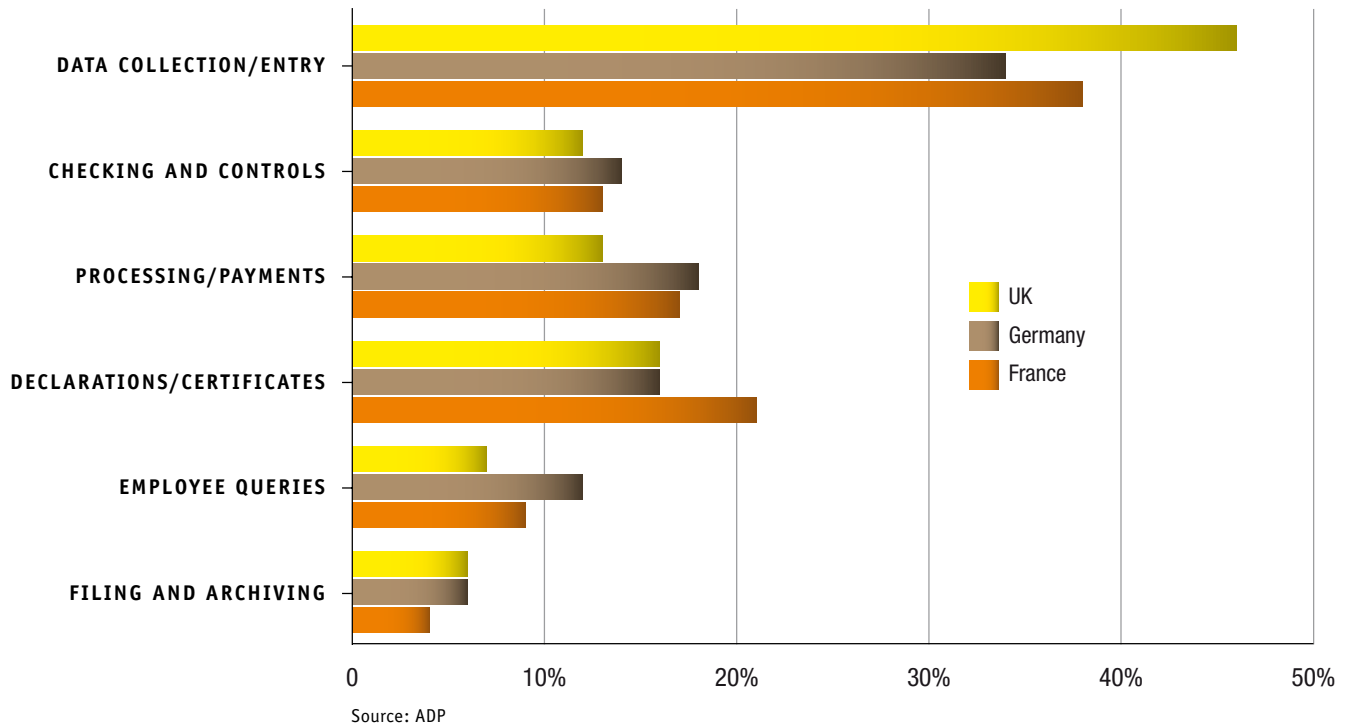
Actual staffing of in-house payroll departments provides further evidence that there is no one-size-fits-all approach to payroll. In Europe, on average, one full time payroll expert is dedicated to supporting 350 employees. But the range is actually between 100 and 1,500 employees, depending on the sector of industry and the company structure.

YARDSTICKS FOR ASSESSING PAYROLL TCO

Willing to assess your own payroll TCO? The key here is to determine what should be taken into account and to identify hidden costs. In other words, to precisely track processes and tasks as well as components contributing to payroll production.



PAYROLL INTERNAL LABOR COSTS

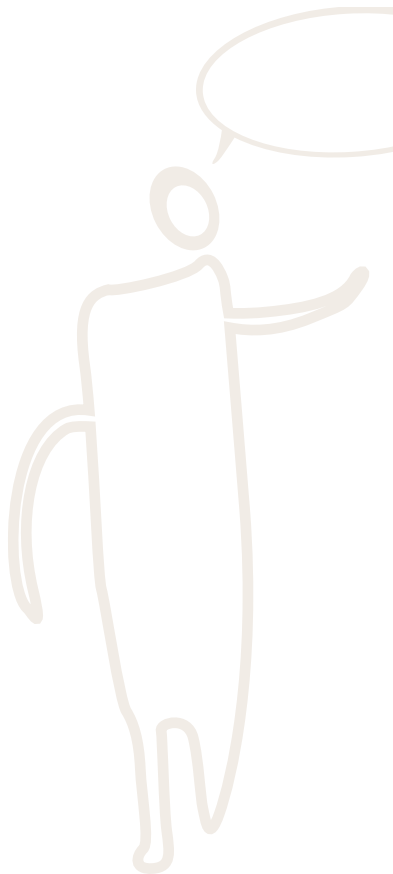


Such an in-depth analysis that breaks down your payroll processes may reveal higher than expected costs. Studies commonly indicate a one-to-two ratio between perceived and actual payroll TCO. As an example, an ADP study conducted in France showed that, whereas people believed the cost per payslip was €17 per month, the actual costs turned out to amount to €37 per payslip per month. That is €444 per year, way above the European average of €200.

It is interesting to note that breaking down payroll cost by sub-processes usually reveals higher costs, but also similar structures and content across companies and countries. Data collection and data entry combined reach over 30% of payroll cost, representing the most significant proportion. These processes, which are made up of multiple decentralized and manual activities, include a large part of hidden costs.



IT components are amongst the hidden costs of payroll.”



A METHODOLOGICAL APPROACH

Generally speaking, measuring is too often limited to direct visible staff costs, while indirect invisible costs or non-formalized activities are left out of the picture. Personnel administration (PA) processes and IT components are often the hidden parts of HR costs that must be considered when assessing payroll cost.

Organizational structure comes into play. Some payroll-related tasks may be decentralized to business units and sometimes be carried out by employees and managers themselves. The detailed TCO analysis should take such distributed costs into account.

As already mentioned, IT components are amongst the hidden costs of payroll. Real costs include software fees, hardware purchases and implementation as well as maintenance and upgrading, IT costs chargeable to HR, HR staff time spent on IT and any external costs (rental, subcontracting).

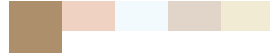
Finally, the cost of risk should not be forgotten either. A disruption of the payroll process leads to additional expenses – fines, back-up plans, reinforcement using temporary employees – for which provisions must be made and which of course are integral to overall payroll cost.

This exhaustive approach leads to better estimates and a clearer perception of what payroll cost really represents. Nevertheless, benchmarking payroll cost for a specific branch or country remains complex. But HR and payroll specialists have now acquired enough experience of payroll cost assessment to pave the way for optimization options, and possibly an alternative organization of payroll... as a non-core but mission-critical function.

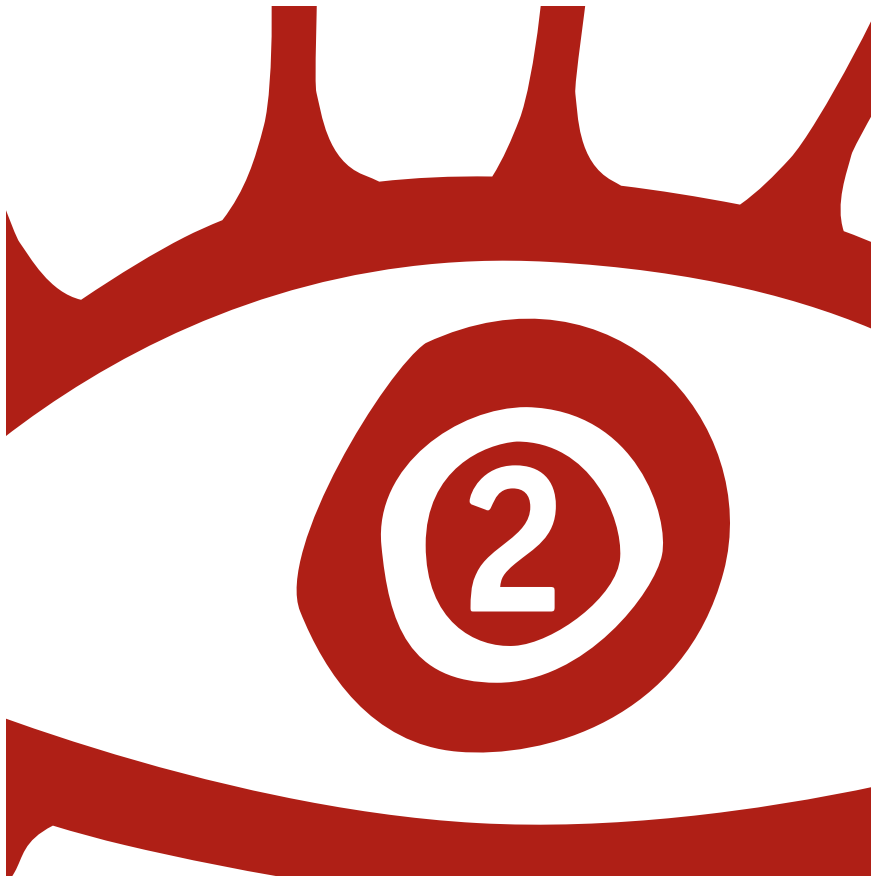
IN SHORT

- Non-core but mission-critical, payroll is a paradox. It is sometimes considered a commodity. Employees and executives do not realize how complex this function is.
- A matter for experts, payroll is about handling a wealth of information of all kinds: financial rules, labor laws, employee benefits, etc.
- In Europe, payroll is made even more complex by the variety of legislation. International firms have to cope with different payroll rules wherever they operate.
- Payroll is a multi-faceted and fragmented activity that forms a value chain combining numerous sub-processes.
- Payroll is at the center of the relationship between companies and employees. Paying employees accurately and on time is a tangible link between the company and its personnel.
- Evaluating the cost of payroll is not an easy exercise. It requires identifying processes, tasks and components that contribute to payroll production. Studies reveal a one-to-two ratio between perceived and actual cost.
- Studies converge in estimating the visible and measurable part of payroll cost to be €200 per employee in Europe on average.
- Payroll cost varies according to multiple factors: national legislation, industry sector, company size and organization have a major impact on complexity and cost.
- Beyond direct visible staff costs, personnel administration and IT costs include hidden components to be considered. The cost of risk also comes into play.
- HR and payroll specialists have acquired enough experience in cost assessment to pave the way for optimizing payroll processes.





PAYROLL: WHAT ARE WE TALKING ABOUT?



INNOVATION OR
LONG-TERM TREND?

WHY ARE THERE
SO MANY DIFFERENCES?

HOW HAS MULTI-COUNTRY
PAYROLL BECOME A REALITY?

PAYROLL OUTSOURCING: TRENDS AND PRACTICES

When was payroll outsourcing invented? One thing is certain: payroll outsourcing has been around for a while. Demand for this kind of service remains strong today. Of course, new motives for trusting an external partner have emerged over time, but historical drivers still remain valid.



Getting accurate payslips on time is a historical driver to payroll outsourcing.”

■ INNOVATION OR LONG-TERM TREND?

Payroll outsourcing has been around for a while. Companies' initial need was for a service to fulfil a legal obligation. The rationale was often to prevent disruption should the key person in charge of payroll be absent for any reason. The provider was expected to deliver accurate payslips on time. The foundation for payroll outsourcing to become a market was laid.

As early as 1949 in New Jersey, Automatic Payrolls Inc. (ADP's previous name) started helping local businesses to process their payroll. Today, ADP associates sometimes cite their company as the first payroll outsourcing provider. In any case, there is no doubt that payroll outsourcing existed long before the IT era.

In some European countries, payroll outsourcing has been supported by local authorities. For example, in Belgium, employers' associations created the "Secrétariats Sociaux" in 1945, whose mission is to assist small businesses fulfill their legal obligations – which include payroll. And these institutions still process payroll for 80% of the employees in the country (99% in small businesses).

HISTORICAL DRIVERS

From the start, companies gradually discovered multiple reasons to outsource payroll. Most of them are still valid today. The first historical driver of payroll outsourcing was risk reduction. On-time delivery of accurate payslips proved to be a critical contribution to business continuity.

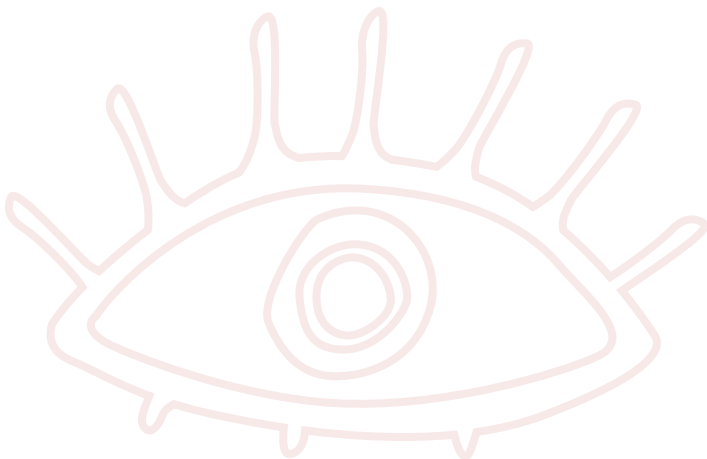


More and more companies consider payroll a non-core function that could be outsourced.”

Enterprises also figured out that outsourcing payroll would free them from the task of keeping up to date with ever-changing legislation. The service provider is responsible for guaranteeing legal compliance. This weighs even more heavily with the emergence of IT: now applications have to be upgraded and maintained to reflect changes in laws and rules while permanent legal compliance implies on-going maintenance of software. Management needs can also evolve as a company grows, changes its organization, deploys new internal payroll rules, and so on.

Payroll complexity has not decreased. More and more companies consider it a non-core function that could be outsourced. In addition, wouldn't outsourcing be a way to turn fixed payroll costs into variable costs – more flexible and easier to adjust?

A last but rarely mentioned driver for outsourcing is confidentiality. In small companies as well as in large IT organizations, preventing disclosure of people's wages can be a challenge: the best way to protect sensitive information can be an external, secured environment.



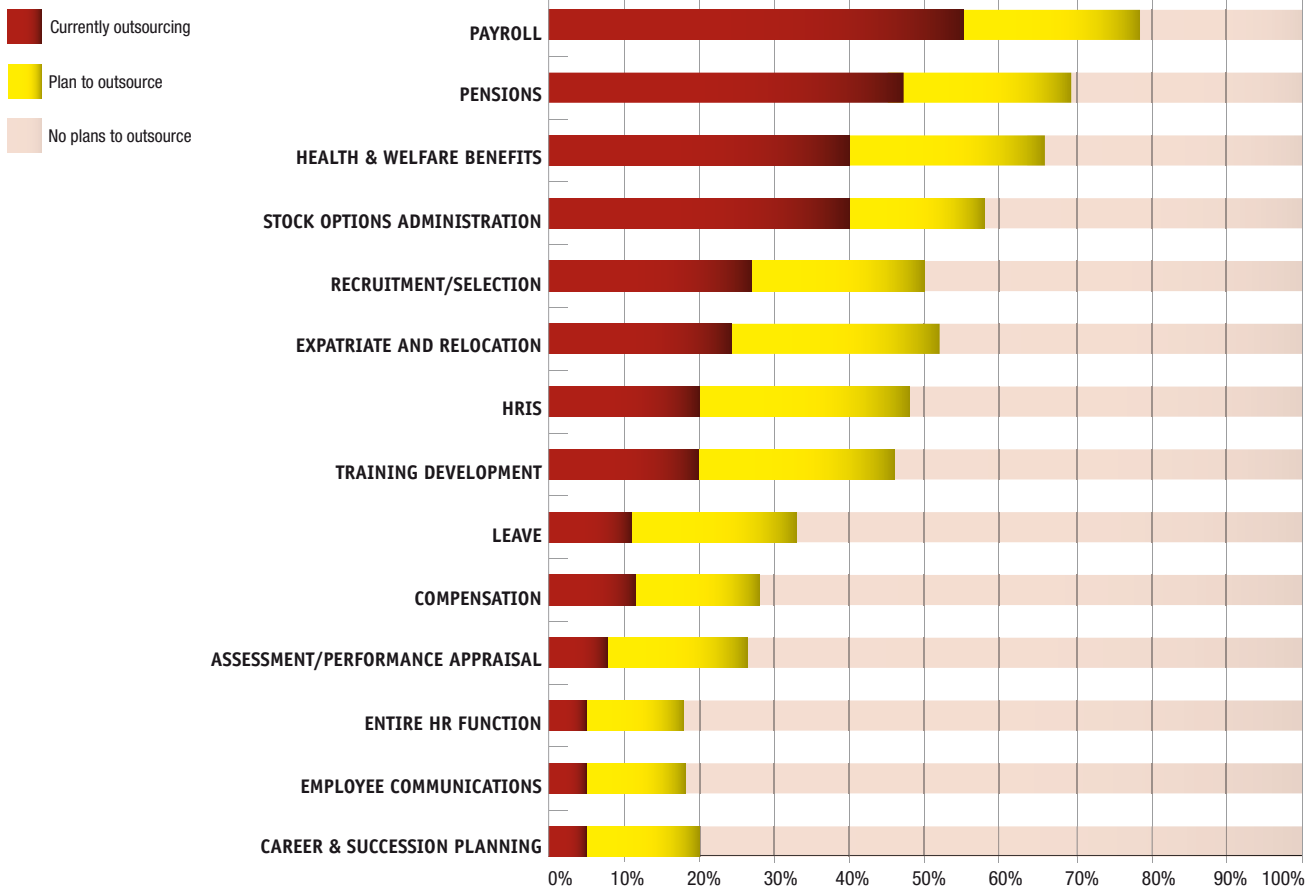


Payroll remains the most outsourced function.”

APPETITE FOR PAYROLL OUTSOURCING IS GETTING STRONGER

Recent studies converge in concluding that payroll remains the most outsourced HR function. New motives have emerged as organizations, business models and HR missions have evolved. Many of these "good reasons to outsource" are linked to major changes, especially IT innovations and globalization.

PROPENSITY TO OUTSOURCE BY HR FUNCTION



Source: HR Transformation Survey, European mid-size & large companies, ADP-HROA Europe, November 2007



HR departments have gradually established themselves as business partners.”



In this context, a majority of firms have deployed strategies to focus on – or get back to – their core business in order to optimize their value proposition for the market. The "do what you do best and outsource the rest" concept has accelerated outsourcing of non-core functions in many areas such as IT, purchasing and HR functions... naturally encompassing payroll.

NEW HR MISSIONS

HR objectives have been reshaped. As each function had to be evaluated, HR performance had to become measurable. How do we perform in terms of training, recruitment and so on? C-level management expects HR to contribute to overall performance and financial results. HR departments have hence gradually established themselves as business partners, delivering on core value-added missions. Should payroll be considered one of them? Most HR managers don't think so. Outsourcing payroll allows them to secure a transactional function and free up resources for more strategic tasks.

In addition, this provides HR departments with a workaround as, in some countries – such as the Netherlands – there is a shortage of payroll specialists in the labor market.

Payroll outsourcing is also an opportunity for HR departments to take advantage of the most recent technologies. For instance, Employee Self Service (ESS) and Manager Self Service (MSS) solutions optimize everyone's access to information in business processes.

In this newly outsourced environment, HR departments experience a new relationship with their IT partners: they become real clients facing a real provider, having sometimes been poorly considered by their internal IT department in the past.

All these drivers have also led companies to develop domestic or regional Shared Service Centers (SSC) for payroll and other functions. Such SSCs bring centralization, sharing and better control within large organizations. Rather than being an alternative to outsourcing, they are also considered as a first step in that direction.

“

HR departments become real clients facing a real provider.”

GO WITH GROWTH AND REDUCE COSTS

As we said, payroll outsourcing has its roots in helping companies face internal disruption in "trouble mode". But it has also been adopted by many enterprises operating in "growth mode", regardless of their size. Payroll outsourcing brings the flexibility to go with strong growth or geographical expansion, making it easier to set up a subsidiary in a new country or to harmonize payroll after an acquisition.

Standardization leads to faster deployment and updating, while giving access to an efficient service with best practices and consistent quality. Companies take advantage of economies of scale and consequently reduce their payroll Total Cost of Ownership (TCO).



In Europe, the outsourcing wave spreads from north-west to south-east.”

■ WHY ARE THERE SO MANY DIFFERENCES?

If you ask a Danish payroll specialist about payroll outsourcing rates in other countries, he or she will probably say somewhere above 50%, reckoning that this is a safe figure. While certainly being inspired by the local context, this response is far from reality: the outsourcing rate is quite low in some countries. Different factors have influenced adoption of outsourcing in Europe and created disparities from one country to another.

NATIONAL CULTURES

In Europe, the payroll outsourcing adoption rate ranges from 1% (in Switzerland) to over 80% (in Belgium and Denmark). A look at the map confirms that northern Europe is more open to payroll outsourcing, while today southern and eastern European countries have lower adoption rates.

One of the main reasons for these differences lies with national cultures. Historically, North American organizations were more likely to outsource than those in Europe, where the trend is to be more traditional and keep things in-house. So it is no surprise to see that the UK and northern countries were Europe's early adopters. Moreover, the UK is the primary location for USA companies that set up business in Europe. The outsourcing wave has spread across Europe originating in the UK, moving southwards and eastwards where it is steadily growing and sustained by the geographical expansion of multinational companies.

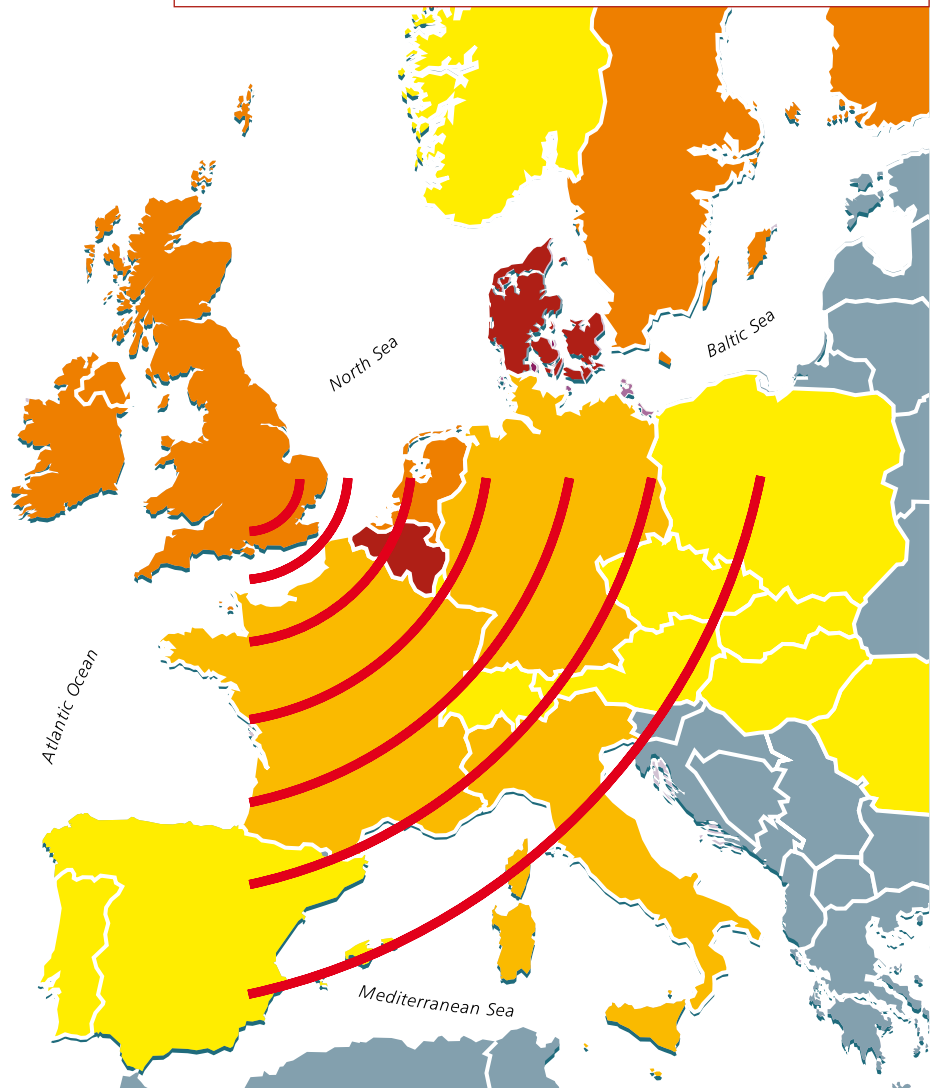
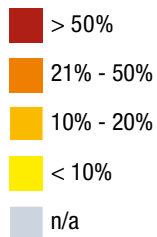


DYNAMISM OF PAYROLL VENDORS

The local presence and dynamism of service providers also play a role in the adoption of payroll outsourcing. National culture stimulates vendors' momentum just as new offers stimulate new demand for service.

THE OUTSOURCING WAVE IN EUROPE

Payroll outsourcing adoption in percentage of total number of employees



Source: IDC and ADP



Nobody wonders anymore about the relevancy of outsourcing for mid-sized companies.”

Vendor innovation is another driver. By introducing well-tailored solutions and consolidating relevant business cases on the French market, GSI (now part of ADP) succeeded in convincing companies both large and small that payroll outsourcing would be of value to them. And today, with a variety of offerings in most European countries, nobody wonders anymore about the relevancy of payroll outsourcing for mid-sized companies.

ENTERPRISE CULTURE

Companies’ core business and business models also influence willingness to outsource. Manufacturing enterprises tend to keep some of their processes in-house, whereas service enterprises are accustomed to the idea of trusting an external provider for critical functions. Going beyond rational drivers, the acceptance of outsourcing eventually relies on some intangible factors.

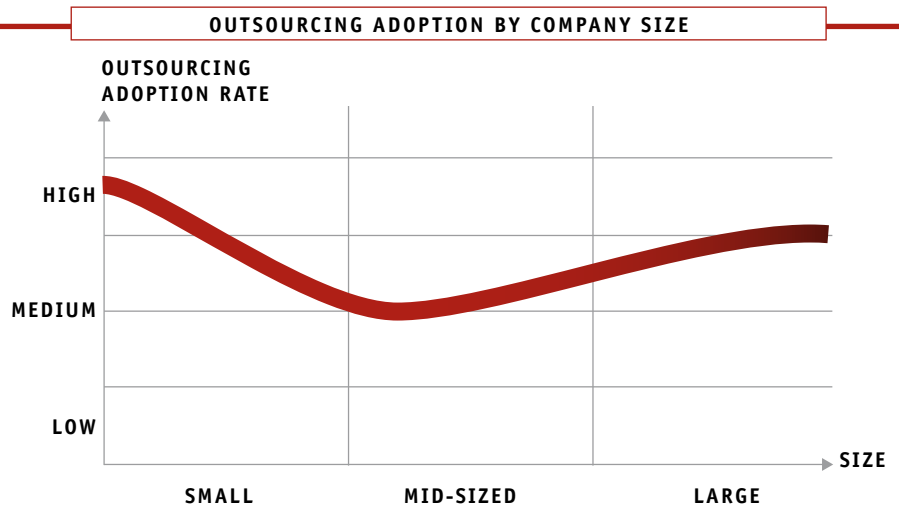
THE RIGHT FIT FOR EACH SIZE?

Enterprises of different sizes may consider payroll outsourcing in different ways.

Small companies with fewer than 50 employees generally don’t have payroll expertise in-house. They outsource by obtaining a package of services from accountants that includes a payroll solution. Without knowing it – and there is no real need to care – small companies might be benefiting from the expertise of large well-established payroll service providers that have developed offerings aimed at accountants, creating a two-tier outsourcing model.



Mid-sized companies have reached a size that generally justifies hiring internal HR resources, including payroll specialists. They therefore tend to integrate and keep functions in-house and, in many cases, outsourcing is considered only if they face disruption. After all, isn't this one of the primary and historical drivers for trusting an external partner? But today, as they rethink their organization, mid-sized companies tend to be more and more open to outsourcing.



Source: ADP

In large companies, outsourcing is promoted as a strategic practice, as they make a rule of focusing on core business and streamlining costs. HR's mission is to contribute to company performance by managing its human capital. Payroll is then considered a non-core transactional function and, therefore, is very frequently outsourced.

Multinational companies are raising and significantly accelerating the outsourcing adoption rate. Basically, and this will be developed next, outsourcing gives them flexibility for international expansion without having to deal with the complexity and subtleties of diverse national regulations.



Outsourcing brings flexibility for international expansion."



Payroll is the central component in 94% of HR multi-country BPO deals.”

■ HOW HAS MULTI-COUNTRY PAYROLL BECOME A REALITY?

In companies operating internationally, globalizing payroll has become a trend. This occurred right after an initial wave of globalization within HR departments, encompassing the HR Information System and a few HR functions that are "global by nature": stock options, expatriates, high-potential profile management.

But a closer look reveals that payroll tops the list of outsourced globalized HR functions. This is often achieved through a multi-local type of service delivered by a unique provider in the different countries. It is therefore not surprising that payroll is the central component in 94% of HR multi-country BPO deals.

AN ALTERNATIVE TO COMPLEXITY

Outsourcing payroll globally represents an alternative to the complexity of multi-country payroll management. Companies consolidate processes and service delivery for the various countries in which they operate. They free themselves from having to deal with a host of different local regulations, employee policies, labor conditions, currencies, languages and directives.

Having a single supplier for many countries optimizes vendor management. Even for small subsidiaries, this single sourcing brings significant advantages: beyond having a single point of accountability, companies also benefit from economies of scale.

OPTIMIZING GLOBAL INFRASTRUCTURE

Managing in-house payroll requires a dedicated infrastructure that has to be maintained. Consolidating many of these country-wide infrastructures is expensive. Outsourcing payroll

globally is a way to support a global workforce while minimizing investment in infrastructure.

Finally, multi-country payroll outsourcing facilitates the consolidation of payroll data at the company level and the subsequent integration of an HR management system including payroll and self service into a company-wide system – typically an ERP.

TOWARDS A GLOBAL EXPERIENCE

Multi-country payroll outsourcing helps set identical processes and indicators across the company. It delivers a more consistent service, guaranteeing the same company standards to employees anywhere in the world.

It is the best way for every company unit to share the same HR reference data, allowing comprehensive reporting: all subsidiaries speak the same language. Company management and HR obtain consistent, easy-to-consolidate dashboards.

Finally, outsourcing payroll is instrumental in ensuring that companies listed on the US Stock Exchange comply with the Sarbanes-Oxley Act by shifting regulation compliance headaches to the service supplier.

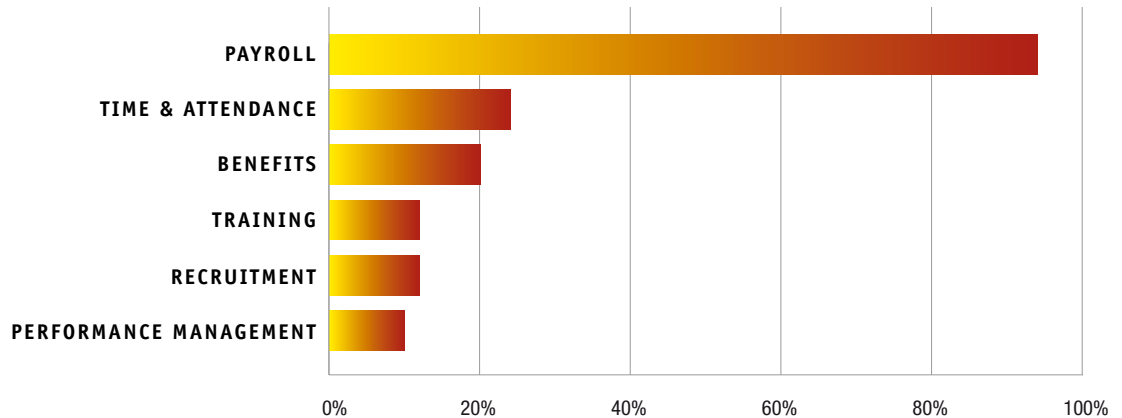
MULTI-COUNTRY OUTSOURCING IS GAINING MATURITY

In the past few years, the specialized press has given extensive coverage to large and emblematic multi-country HR BPO deals. In the large enterprise market, 82 multi-country HR BPO contracts were signed in 2006 compared with 66 in 2005. As a cornerstone of global HR BPO deals, payroll is hence increasingly being drawn towards multi-country outsourcing.

“

Outsourcing helps set identical processes and indicators across the company.”

FUNCTIONAL SCOPE BREAKDOWN IN MULTI-COUNTRY HR BPO DEALS



Source: Analysis of 50 European multi-country HR BPO deals 2003-2007, ADP

Multi-country payroll outsourcing projects benefit from the expertise and proven track record of service providers in supplying solutions that fit multiple client needs – a one-to-many approach. At the same time, BPO providers are keen to move away from a one-to-one, highly customized type of approach.

A FOUNDATION PLATFORM

Some leading payroll outsourcing providers choose to rely on a single standardized platform (such as SAP) and the organization of Shared Service Centers for the foundation of their multi-country offering.

Such powerful tools deliver consistent levels of service in different countries, while the shared environment contributes to cost efficiency. As an external partner is capable of serving different clients at the same time on the same platform, its technical and human resources are optimized. Again, clients benefit from economies of scale.



Deliver consistent levels of service in different countries.”

Providers manage to reduce implementation times on their platform using a template-based approach, which drives methodology and facilitates implementation in each country.

VARIETY OF OPTIONS

In addition to their single global platform, some service providers have geared their offering to the needs of international companies with subsidiaries of different sizes. Such offerings might combine a variety of solutions, including those designed for small- and medium-sized businesses. The minimal organization size to be eligible for multi-country payroll outsourcing has been reduced to the number of fingers on one hand, making it possible to manage thousands of employees in one country and two or three employees in another one.

Finally, providers' global footprint and capability to deliver around the world determine their ability to keep up with their clients' growth and geographical expansion. By building up a two-tier organization at the regional and country level, suppliers organize themselves to serve their global clients around the clock on a long-term basis.



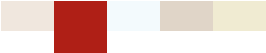
*A two-tier organization
at the regional and
country level.”*

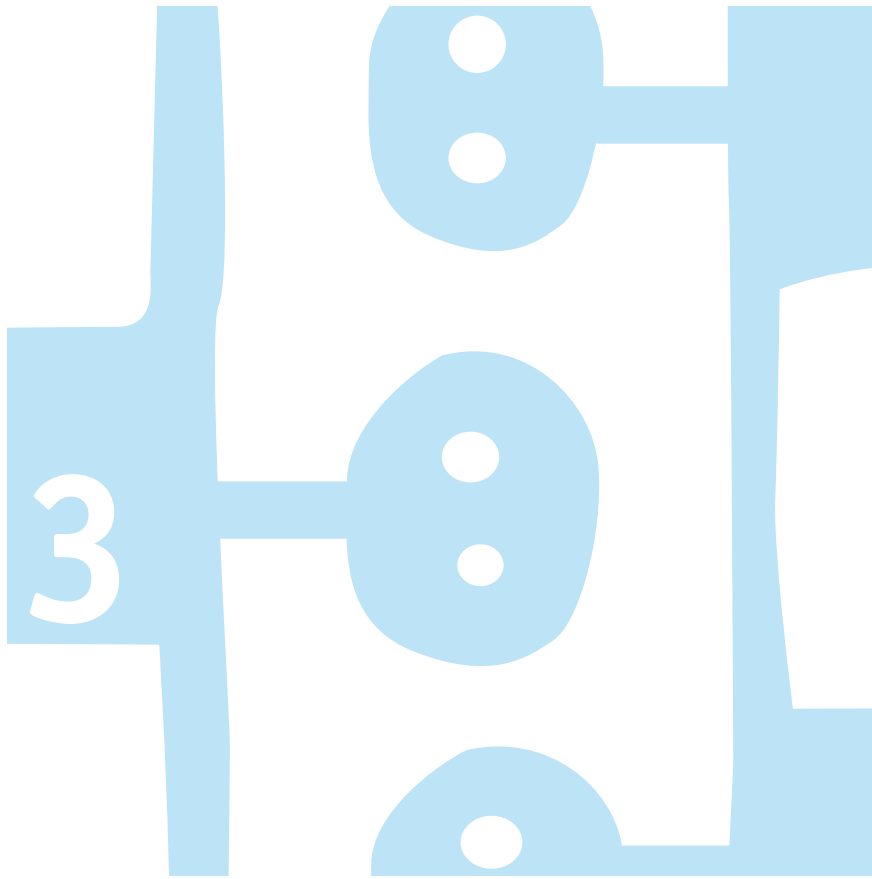


IN SHORT

- Payroll outsourcing existed long before the IT era. In the USA, in the late 40's, payroll was already available as a service aimed at preventing disruption.
- In Europe, the emergence of payroll outsourcing was facilitated by local authorities in some countries, for example Belgium, as early as 1945.
- Historical drivers for outsourcing are the need to get accurate and on-time payroll and maintain compliance with ever-changing legislation.
- While historical drivers are still valid, new motives influence the decision to outsource: flexibility, confidentiality, cost reduction, HR alignment with strategic objectives, focus on core business.
- Today, the momentum around payroll outsourcing continues and payroll remains the most outsourced HR function.
- The outsourcing adoption rate varies widely throughout Europe. It is stronger in the UK and northern countries. The payroll outsourcing adoption rate is lower today in central and southern Europe but growing.
- Factors such as enterprise culture and organization size also influence the adoption of payroll outsourcing.
- Multi-country payroll outsourcing delivered by a single service supplier has now become a reality and is a key component in almost every multinational HR BPO deal.
- Multi-country payroll outsourcing enables international companies to deliver consistent levels of service across countries, brings significant savings, facilitates compliance with various regulations and geographical expansion.
- Providers' global footprint and capability to deliver around the world determine their ability to keep up with their clients' growth and geographical expansion.







BPO, SAAS, AMO...

WHAT DO YOU MEAN EXACTLY?

HOW CAN WE DIFFERENTIATE
BETWEEN ONE-TO-MANY MODELS?

WILL PAYROLL OUTSOURCING
EVER STOP EXPANDING?

MODELS AND SERVICE LEVELS CONSTANTLY EVOLVING

Payroll outsourcing has become an industry. Solution providers keep on innovating to meet the needs of their clients and comply with regulatory changes. As demand evolves, new offerings are introduced on the market with their own names, terminology and acronyms. A bit of deciphering is required before even benchmarking solutions.



Frontiers between outsourcing models are blurred, but territories are identified.”

■ BPO, SAAS, AMO...

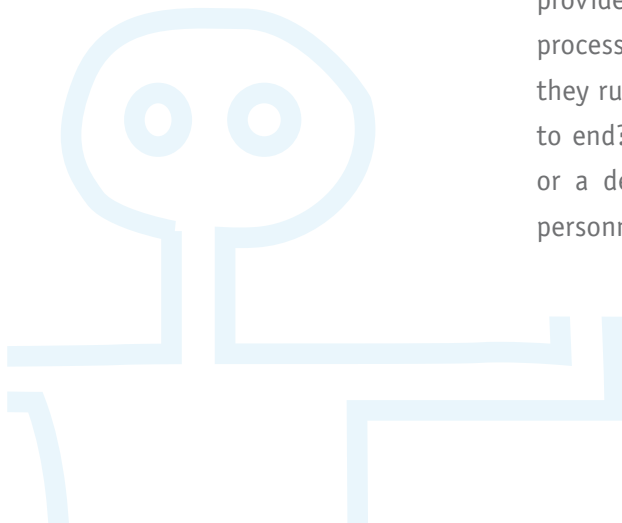
WHAT DO YOU MEAN EXACTLY?

The payroll of around 20% of Europe’s employees is outsourced. But if outsourcing were a planet, it would be a land of diversity with seas, mountains and countries. Application Management Outsourcing (AMO), Application Service Provider (ASP), Software as a Service (SaaS), Managed Services, Comprehensive Outsourcing Services, Business Process Outsourcing (BPO)... A rich vocabulary, a lot of acronyms and almost as many dictionaries! Even experts are sometimes confused! How can we obtain a clear definition of each model?

Carrying on with our image of a map, we would say that frontiers between outsourcing models are blurred, but territories have been identified. Is there a way to clarify the boundaries? By compiling a list of the available solutions on the market, an operational nomenclature of outsourcing models can tentatively be built. It is based on two criteria.

FIRST CRITERION: WHAT RESPONSIBILITY IS BEING TRANSFERRED?

The first criterion considers what is actually being transferred from the enterprise to its service supplier. Is it just IT infrastructure that is being entrusted? Will the partner provide application management? Will the service provider run processes – such as payroll processing – on our behalf? Will they run only a part of the process, or will they endorse it end to end? Ultimately, is there a complete transfer of a function or a department to a supplier? Is this supplier taking over personnel, or an entire HR department as in some cases?



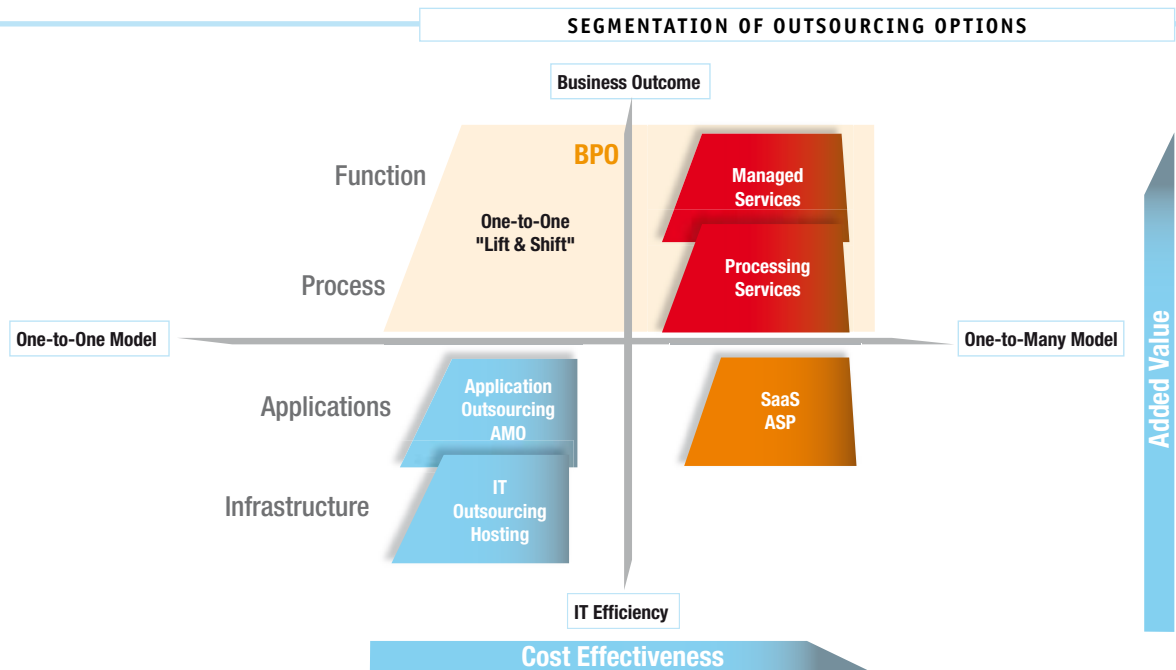


Is the service supplier providing means or results?"

Behind the nature of the transfer, the dimension of responsibility becomes apparent. A supplier that provides access to an application takes on the responsibility for its due delivery, but does not commit to the outcome of its usage. On the other hand, should a function or a department be outsourced, the partner is accountable for the achievement of measurable functional results. This highlights the distinction between performing a given task and assuming responsibility for the deliverables of an outsourced function or department.

A LOOK AT INVOICES

The ultimate question is: is the service supplier providing means or results? Figuring out the base unit for invoicing also helps clarify the actual nature of the transfer: outsourcing can occur at four different levels. These levels are represented vertically on our graph where added value increases with the outsourcing level.



Source: ADP (derived from Gartner)

AMO: APPLICATION MANAGEMENT OUTSOURCING, A DEFINITION

AMO refers to the purchase of ongoing application services from a service provider that supplies the people, processes, tools and methodologies for managing, enhancing, maintaining and supporting customized and packaged software applications. Services are usually provided at the client site and on a one-to-one basis. Pricing is typically based on a fixed fee or time-and-materials basis. AMO does not include responsibility for the underlying business processes or functions.

- **Infrastructure** – the service supplier hosts the IT infrastructure. The client is buying the service of installing, running and maintaining its applications. Invoicing is based on Computer Processing Unit (CPU) consumption, gigabytes of memory or storage and network usage. **IT hosting** and **IT outsourcing (ITO)** are at this level.
- **Application** – the service supplier hosts the infrastructure and the applications and commits to their availability and maintenance. The client makes use of these applications and remains responsible for operating activities correctly. Invoicing is either based on infrastructure and resources engaged or on application usage (pay per use). **Application Management Outsourcing (AMO)** and **Software as a Service (SaaS)** fall under this definition.
- **Process** – the client outsources the management and execution of a single business process. Performance metrics are primarily tied to accuracy, timeliness and efficiency. In the case of payroll outsourcing, invoicing is based on the number of payslips produced: the delivery of results begins here. **Processing Services** is a typical outsourcing offering at the process level.
- **Function** – the entire function is outsourced. This is Business Process Outsourcing (BPO). The service provider is in charge of the end-to-end value chain for its client and is fully committed to results. Both **"lift & shift" outsourcing** and **Managed Services** are BPO models. In the case of payroll Managed Services, invoicing is based on the number of employees managed. In the case of a "lift & shift" approach, invoicing is based on a due diligence assessment.

SAAS: SOFTWARE AS A SERVICE, A DEFINITION

SaaS is a software application delivery model where a software vendor develops, hosts and operates a web-native software application for use by its clients over the Internet. Clients do not pay for owning the software itself but rather for using it. The licensing model is either subscription or pay-per-use. The term SaaS has become the industry preferred term, replacing the earlier terms ASP and On-Demand.

SECOND CRITERION: IS OUTSOURCING SHARED OR DEDICATED?

The second criterion concerns the environment set up by providers to deliver their services. This important differentiator amongst a variety of outsourcing options is depicted horizontally on our graph.

- The service environment is **dedicated** – this is the one-to-one model. The provider sets up a specific environment for each client. Only a good learning curve and the streamlining of internal processes will generate economies of scale and, hence, cost savings.
- The service environment is **shared** – this is the one-to-many model. The provider serves multiple clients with the same platform and application environment. Using shared and more standardized means can be a significant source of cost effectiveness.

ONE-TO-ONE VERSUS ONE-TO-MANY

At the application level, AMO and SaaS illustrate the difference between one-to-one and one-to-many models. With AMO, the provider supports multiple application codes and versions and a customized data definition for each client. With SaaS, the provider delivers its application based on a single set of common code and data, which are consumed by all contracted clients at the same time.

A similar comparison can be made at the process or function level. With the "lift & shift" approach, teams and infrastructure remain dedicated to a client as per the one-to-one model. On the other hand, Managed Services and Processing Services are one-to-many services. They rely on shared infrastructure, application and teams for delivering a service to multiple clients. Such models offer a combination of commitment, strong expertise and economies of scale.



One-to-many models offer a combination of commitment, extensive expertise and economies of scale.”

■ HOW CAN WE DIFFERENTIATE BETWEEN ONE-TO-MANY MODELS?

As one of the key drivers for payroll outsourcing, cost control has generated interest in solutions designed according to the shared, one-to-many model: SaaS, Processing Services and Managed Services.

THE FINE LINE BETWEEN SAAS AND PROCESSING SERVICES

SaaS and Processing Services may look very similar. They both provide services online, delivered from a shared environment and billed on a transaction basis. But one difference remains: with SaaS, the supplier – usually a software vendor – provides just the system. SaaS suppliers can usually help and answer questions about the product but not about payroll, legislation or its application. In fact, it is a way of delivering and billing software.

With Processing Services, the supplier performs activities for its client. In this case, the supplier "transforms" information provided by its client and takes responsibility for delivering results. Processing Services suppliers have a deep understanding of payroll and can help a company use the system in the best way given its industry size and approach.

PROCESSING SERVICES VS MANAGED SERVICES

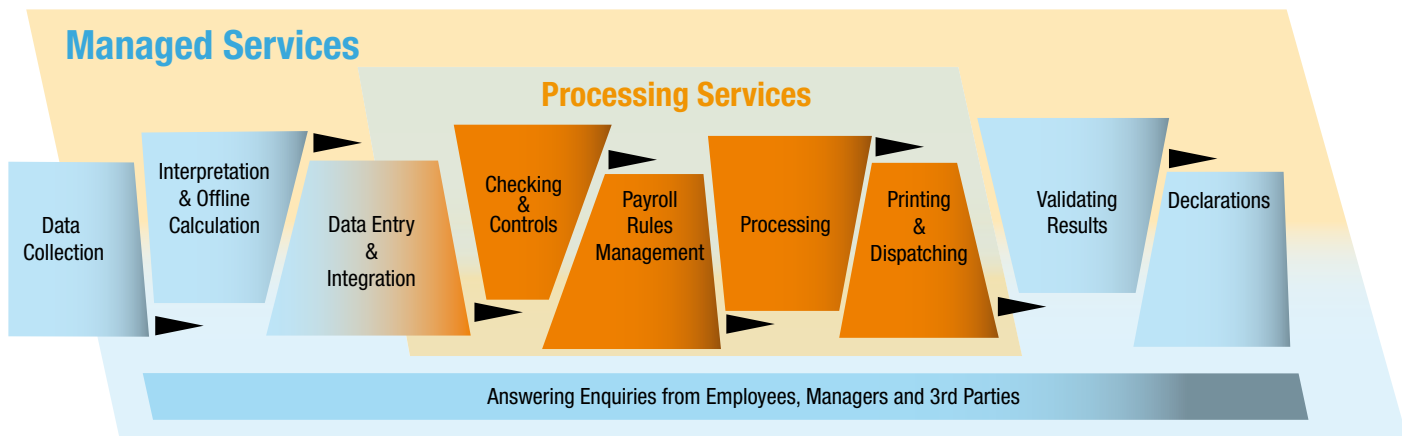
At first sight, the difference between Processing Services and Managed Services seems to lie in the portions of the payroll value chain that are transferred and the level of risk shouldered by the supplier. It is actually larger.

Processing Services corresponds to outsourcing the central – most transactional part – of the payroll value chain. This implies a strong commitment to service levels:

PROCESSING SERVICES

Processing Services involves the transfer of management and execution of activities of single business processes to an external service provider – in the case of payroll, from data integration up to printing and producing documents necessary for 3rd parties. Performance metrics for Processing Services are primarily tied to accuracy, timeliness, and efficiency.

PROCESSING VS MANAGED SERVICES



Source: ADP

MANAGED SERVICES

With Managed Services, the supplier delivers an end-to-end service, which, in the case of payroll, encompasses data interpretation, checking and controls, processing and 3rd party declarations. The enterprise transfers a department's responsibilities, while retaining its managerial decision-making capacity. The service provider assumes responsibility for all administrative procedures and obligations.

- payroll is processed on time and accurately, in conformity with legislation, collective agreements and the client's rules;
- service providers ensure payroll compliance with ever-changing legislation;
- the client company benefits from a support consultant bringing payroll expertise – and not only software knowledge.

Processing Services was an initial model in payroll outsourcing that evolved towards end-to-end coverage of the payroll function.

EXTENDING THE SCOPE OF RESPONSIBILITY

Managed Services encompasses the entire payroll value chain and is a comprehensive model for payroll outsourcing: the client controls remuneration rules, welfare policies, time, absences, etc., but outsources all the burden associated with payroll production. Managed Services minimizes risks and frees organizations of legislative and compliance concerns.



*Managed Services
is not a loss of control.”*

Managed Services is not a loss of control. Providers operate within thresholds defined by the client company and some steps still require mandatory validation and controls.

Managed Services can be extended to even cover employee query handling and services to manage payment to employees and third parties. Managed Services is gradually becoming the preferred model in Europe.

ADJUSTABLE TO FIT YOUR NEEDS

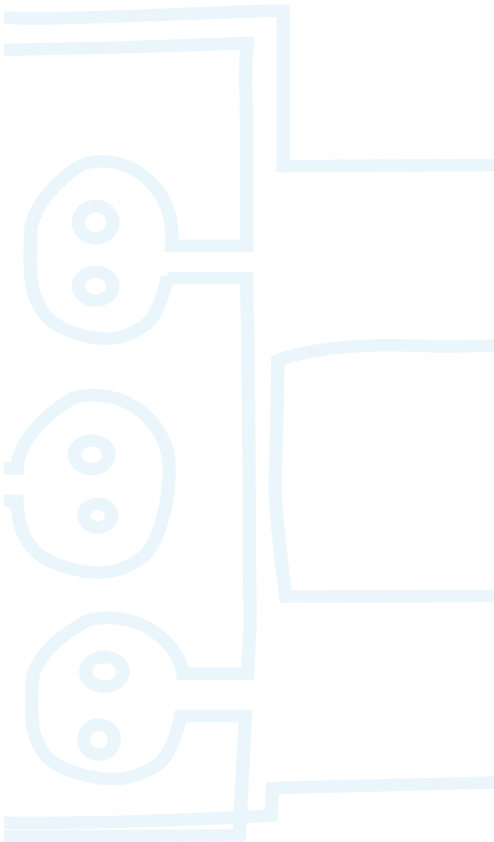
Managed Services can be adjusted to suit the clients' organizations. Some processes, such as time & labor data collection, might be decentralized. But the service provider remains responsible for checking data and therefore plays its full role as defined in the Managed Services model.

■ WILL PAYROLL OUTSOURCING EVER STOP EXPANDING?

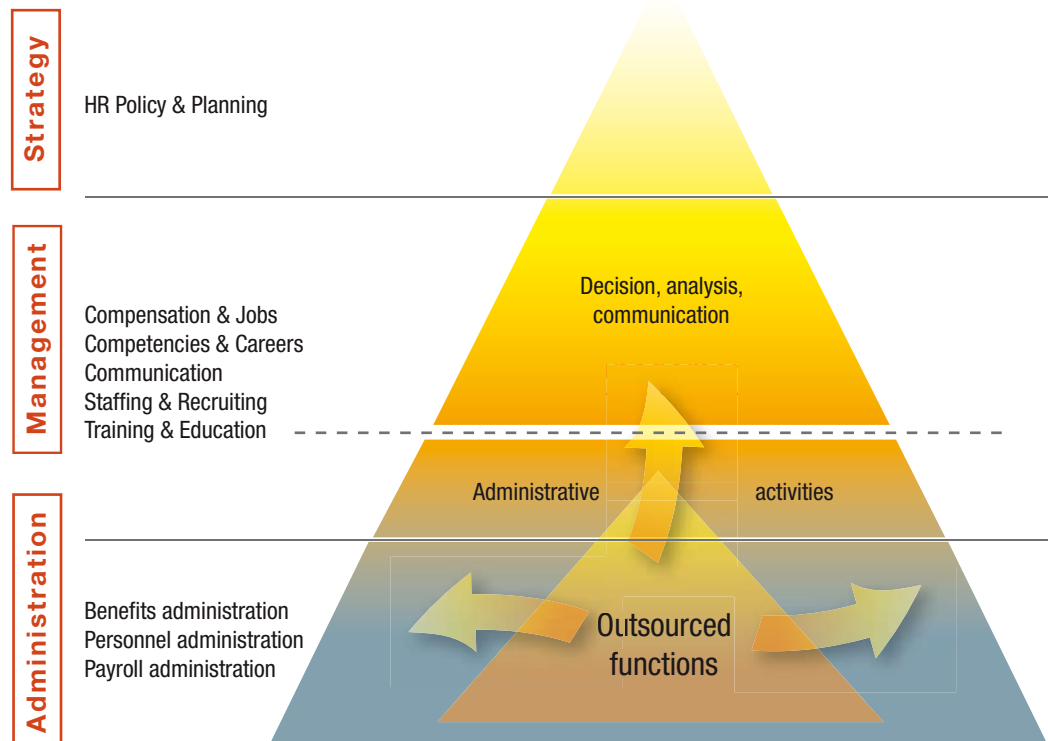
As they see and value outsourcing in their environment, companies often re-think their organization. Outsourcing then embraces more functions with a broader scope and enhanced levels of services.

ONE STEP FURTHER: EMPLOYEE QUERIES, MONEY MOVEMENT

Answering employees' queries about payroll is highly critical in the relationship that links an employer and an employee. Crediting salaries to employees' accounts and paying third parties possibly in foreign countries with different currencies are also critical, as they concern the companies' cash. Could these strategic tasks also be outsourced without any loss of control or any damage to the social link? More and more companies think so.



OUTSOURCING EXPANDING BEYOND PAYROLL



Source: ADP



The boundaries of outsourcing are simply shifting.

As it redefines its role, the HR function finds a new balance between what is "technically possible" and what sounds acceptable to employees and employers. The boundaries of outsourcing are simply shifting.

Providers have therefore developed capabilities to deliver new functions, for instance handling employees' queries. Such an enriched comprehensive managed service offering may also be called COS – Comprehensive Outsourcing Services.

Filing and archiving is also a new area of expansion for outsourcing services within the scope of payroll management. The point is to



New services are expanded within the company to reach every employee.”

PERSONNEL ADMINISTRATION PROCESSES

- Employee life cycle events
- Joiners and leavers
- Work contract
- Absences
- Time & Labor
- Temporary workers
- Expatriates, inpatriates

keep track of information that is becoming increasingly digitized. This also leads to services directed to employees, giving them exclusive access to a secure set of personal HR data.

OPTIMIZED WORKFLOWS

Web-based technology plays a central role in optimizing outsourced processes, in particular data collection and entry, which are the most time-consuming ones. With Employee Self Service (ESS) as well as Manager Self Service (MSS), key HR activities are expanded within the company to reach every employee or manager. On the intranet, data can be entered by the employees and approved by operational management and HR departments. This collaborative mode of operation is also expanding outside the company.

THE SCOPE OF OUTSOURCED PROCESSES IS EXTENDING BEYOND PAYROLL

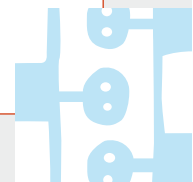
HR administrative functions other than payroll are natural good candidates for outsourcing, with personnel administration and benefits processes coming first.

But HR back office functions are not the only administrative tasks handled within an HR department. HR management functions such as performance management, training and recruitment also include a transactional dimension: recording training plans, managing and storing appraisal schedules, and keeping track of applications and candidate interviews.

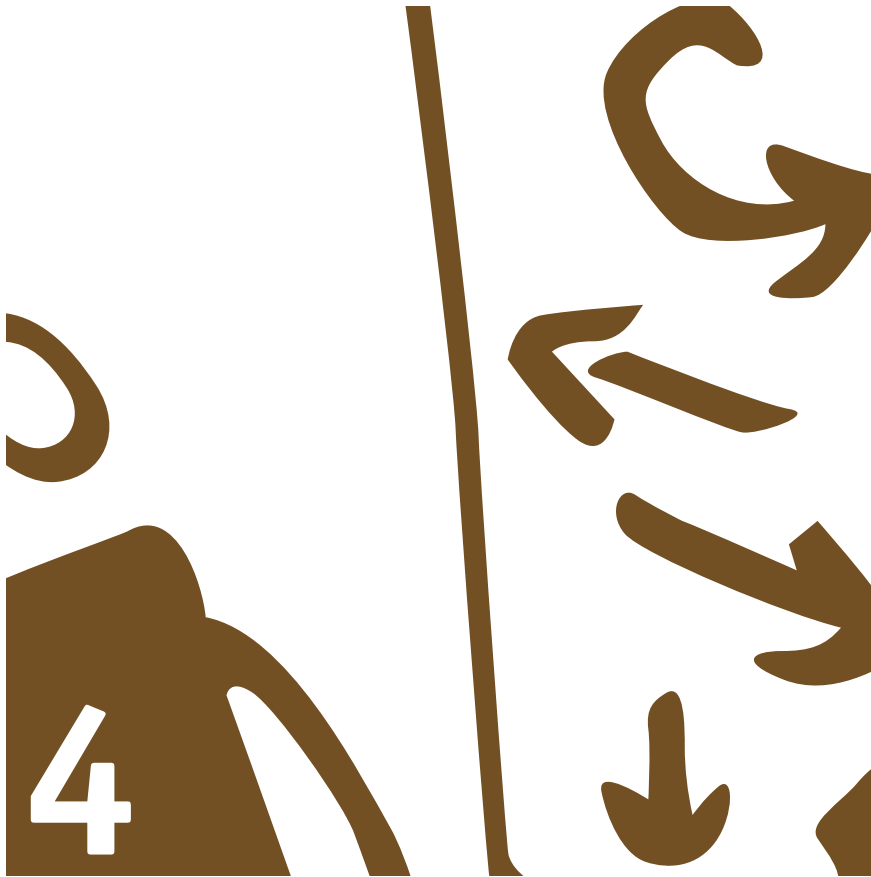
Nowadays large HR outsourcing players offer solutions to manage training, recruitment and performance evaluation. Outsourcing also improves efficiency of the administrative part of value-added functions, and provides HR metrics. Outsourcing expands towards value-added functions in the HR value pyramid.






IN SHORT

- The payroll of around 20% of Europe's employees is outsourced. Inside this there is a great variety of solutions designated by many acronyms.
- Outsourcing solutions can be classified according to two criteria: the responsibility that is actually being transferred and the type of environment – shared or dedicated – used by the supplier.
- In terms of transfer, the supplier can either provide means – at the infrastructure or application level – or take responsibility for delivering results – at the process or function level.
- The operating environment can be dedicated and specific to each client – one-to-one – or shared by multiple clients – one-to-many. The one-to-many approach is more cost-effective as it offers a unique combination of commitment, strong expertise and economies of scale.
- Current trends in outsourcing, such as cost control and willingness to focus on core business, drive demand towards one-to-many solutions, such as SaaS, Processing Services and Managed Services.
- SaaS provides on-demand access to an application supplying means to perform a given task. Processing Services provides execution of activities, with a supplier taking responsibility for delivering results.
- Processing Services covers the central part of the payroll value chain, from data integration to printing.
- Managed Services is a service model that encompasses the whole payroll value chain. The client retains its decision-making capacity while transferring all obligations.
- Web-based technologies help to optimize processes and expand the service to reach every employee or manager with Employee Self Service (ESS) and Manager Self Service (MSS).
- The borders of payroll outsourcing are shifting. Suppliers are covering new areas, such as handling employee queries and payments as well as personnel and HR administration processes.







- WHAT ARE THE KEY STAGES? 
- HOW SHOULD A SUPPLIER BE SELECTED? 
- HOW SHOULD THE CONTRACT BE NEGOTIATED? 
- WHAT IS THE KEY TO SUCCESSFULLY OUTSOURCING PAYROLL? 
- HOW SHOULD THE RELATIONSHIP WITH A SERVICE PARTNER BE MANAGED? 

GETTING READY FOR PAYROLL OUTSOURCING

Let's assume payroll outsourcing is a journey. If you are well prepared, there is no reason why it shouldn't go smoothly. Getting ready is a matter of learning from the people who have been there, hearing from the people who will take you there and packing your luggage carefully. Here are some guidelines to help prepare your payroll outsourcing journey, drawing extensively on years of experience and best practices.



Getting the most out of payroll outsourcing hinges on preparation and method."



■ WHAT ARE THE KEY STAGES?

You are now seriously considering payroll outsourcing for your organization. As stated in the previous chapters, there are many good reasons to go down this road. Besides, some of your drivers may be unique, closely related to your company's history, competitive environment or strategic goals. Being clear about what, how and why you want to outsource is therefore a prerequisite.

At the end of the day, outsourcing is more than just a cost reduction operation. It goes beyond a traditional procurement-oriented view that wrongly reduces outsourcing to a "lift & shift" operation. As companies move forward and outsource payroll, processes have to be redefined and some HR staff members take on new types of responsibilities. In a nutshell, getting the most out of payroll outsourcing hinges on preparation and method, which can be summarized in a three-step approach.

STEP 1 – DEFINE THE SCOPE – THE "AS IS" STAGE

An inventory of the current practices, processes and people in place in your organization is a recommended starting point. This will help underline current strengths and weaknesses. Listing objectively what is efficient and what is not is important to serve later as a solid basis to define expectations for an outsourcing strategy aligned with business requirements.

The "as is" stage is also the right time to assess existing costs. As mentioned in chapter one, hidden and invisible costs must be evaluated in addition to direct visible costs to obtain a realistic picture. Therefore IT maintenance costs, license fees and time spent on payroll by resources other than HR should also be included. As well as serving much later as a reference to calculate the return on investment (ROI) of outsourcing, the resulting figures can also be of immediate use to build a business case.



The 'as is' stage might reveal that payroll managers are in charge of tasks that are not part of the outsourcing plan."

Whatever a company's size, the business case – an assessment of the current situation and a projection of the expected benefits of outsourcing – will be useful for the rest of the journey: it will be instrumental in supporting the overall decision-making process, including selecting the appropriate service levels, the provider and, eventually, negotiating the contract.

Rather than being complex, a business case should be sensible, as close as possible to reality and relevant to the size of the organization. It can be built with very different tools, ranging from a spreadsheet to sophisticated simulators. Outsourcing providers may be of assistance here.

STEP 2 – PREPARE THE FUTURE – THE "TO BE" STAGE

Identifying objectives, listing major stakes and preparing to manage the implementation of payroll outsourcing is the second key step. Payroll outsourcing will require a transition in your organization. After having assessed current processes and people's actual roles, it is time to anticipate and, if appropriate, describe the changes that will take the payroll function to the desired "to be" state. For instance, the "as is" stage may have revealed that payroll managers are in charge of tasks that are not part of the outsourcing plan; managing the supply of safety clothing is a real-life example. The "to be" stage must ensure continuity in tasks such as these.

Besides organizational changes, the "to be" phase brings the expectations and objectives of outsourcing into line with the company's business goals. It is the right time to list the targeted benefits, such as improving services to employees (accuracy, query response time) or reducing the number of HR Information Systems.



The business case is a projection of the expected benefits of outsourcing.”

Doing so is a way to underline the benefits of outsourcing in your own environment and find in them a catalyst for transformation. Payroll outsourcing will then become not only an opportunity to reduce costs, but also to transform and improve your payroll and HR administration operations. Furthermore, as you refine the foreseeable outcome of outsourcing, your expectations of your future service partner will take shape.

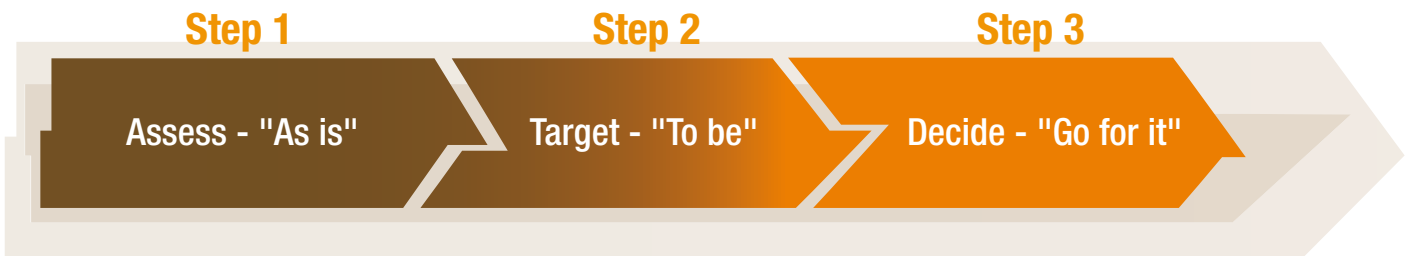
STEP 3 – VALIDATE THE CHANGE – THE "GO FOR IT" STAGE

The last step is to have the objectives validated internally. This is the best way to obtain full support within the organization, address any internal resistance and be sure of obtaining the appropriate resources to implement the outsourcing plan.

Moreover, an approved strategic focus founded on a structured business case will make it easier to determine the capabilities to look for in a service provider and to define realistic service levels that are pegged to your company's business goals.

This three-step approach is a generic preparation phase. It should of course be adapted to match the reality and complexity of the organization.

INITIAL STEPS OF PAYROLL OUTSOURCING JOURNEY



Source: ADP



C-level support turns out to be essential to address change management issues.”

THE IMPORTANCE OF INTERNAL C-LEVEL SUPPORT

The outsourcing of payroll or any other HR process generates changes in organizations of any size. For this reason, it is crucial to obtain support from the company's hierarchy and share a clear picture of the outsourcing plan with top-level management. All along the journey, and well beyond the go! decision, C-level sponsoring turns out to be essential to address change management issues and ensure resources are aligned.

Working closely with IT and finance is strategic too. Technology is the backbone of any payroll process, and IT experts can help define technological requirements and anticipate issues likely to arise during the deployment phase. Payroll is also closely related to finance – when it is not managed by the finance department. Buy-in and support from the finance department are required as it will have to interact with the outsourcer.

Finally, in the case of a large-scale, complex outsourcing plan, attention must be paid to clear ownership, by either assigning a skilled leader to present "one face to the supplier" or forming a small steering committee. Their role will be to assess the scope of the operation, manage change throughout it, identify possible improvements to the organization (training, restructuring, etc.), and communicate internally on progress. Last but not least, give your outsourcing initiative a name; it will enhance internal take-up of the outsourcing plan.

■ HOW SHOULD A SUPPLIER BE SELECTED?

Picking the right partner is the next challenge. But here again, if you have a clear vision of where you want to go, and a good understanding of outsourcing business models (see chapter three), it should be a smooth process.



Here are some important factors to consider:

- **Ability to help to prepare decision-making.** You may have to work upfront with a service supplier before even making your decision to outsource. Given their expertise, some of them have staff to help in the preparation phase. They can assist as you shape the scope to be outsourced, assess costs, build the business case. It's an opportunity to obtain a skilled, external opinion on your current organization.
- **Functional scope ("product fit") and related references.** This is a basic requirement. Pay particular attention to the supplier's ability to put you in touch with its clients who can share their experience. Understanding the different types of offerings on the market is key here – see chapter three.
- **Proven expertise in outsourcing.** Considering how long a vendor has been in the business and how many clients it has will reveal how established it is. Beyond that, looking at the supplier's culture will also provide some crucial indications. Outsourcing is a matter of service, which by definition translates into a day-to-day attitude. Established service vendors have become experienced in quickly integrating their clients' challenges and addressing client issues as if they were their own issues. Companies that have only recently developed their service and remain bound to product-based sales may lack efficiency.
- **Proven expertise in the outsourced activity.** Payroll is complex and a matter for specialists, as mentioned in chapter one. So is payroll outsourcing. Specializing in outsourcing in other HR functional areas is not enough to ensure success for a payroll outsourcing initiative.



Outsourcing is a matter of service which, by definition, translates into a day-to-day attitude."



Figuring out the efficiency of the supplier's technical environment and team organization will reveal a great deal about its capabilities."

- **Proven ability to provide economies of scale.** The number of clients and employees managed is an important criterion. But, as indicated in chapter three, it is worth having a look behind the scenes. Figuring out the efficiency of the supplier's technical environment and team organization will reveal a great deal about its capability to propose reduced production costs and high productivity. In other words, make up your mind about the type of approach to be used: dedicated (more expensive and longer to set up) or shared (cost-efficient, faster to set up). Payroll vendors that are able to set up outsourcing for companies within weeks have no secrets: they simply leverage their teams' expertise, the efficiency of their processes and the performance of their infrastructure.
- **Proven flexibility and adaptability.** Supplier agility shall also be considered, as you are embarking on long-term cooperation. Payroll legislation is constantly changing and suppliers must react and maintain an up-to-date offering. Ability to quickly leverage new technologies (the web being a recent case in point) can also substantially increase efficiency.
- **Financial viability.** Of course, the vendor's financial stability will give you greater peace of mind as you commit for a number of years. But it is also worth looking at the financial viability of the business models developed by a vendor. It is an indicator of the viability of the service itself. Again, no secrets here, vendors that operate with unprofitable business models have little chance of staying the course.
- **International capabilities.** A supplier's ability to serve the key countries for your business is another important decision factor. Regional or global footprint is a key indicator of



international capabilities. With the emergence of innovative service delivery models leveraging regional Shared Service Centers and business process management tools, suppliers are expanding their geographical reach in countries they serve and can thus keep pace with their clients' international growth.

- **A clear contractual framework.** The supplier must be able to frame its contractual commitments and leave no doubt as to who does what and what the expected results are.
- **Pricing scheme.** The terms and conditions and the pricing basis should be clear for all parties. Pricing for an outsourcing operation breaks down into the set-up phase and the on-going service. The pricing of the set-up – or implementation – phase may vary and must be analyzed carefully, as it may include different components such as an assessment of the functional scope, the streamlining of processes and, possibly, change management. On the other hand, the on-going service is the regular provision of operations, in this case payroll, usually on a monthly basis. The base unit for invoicing the recurrent service – payslip, employee managed, software usage – tells a great deal about the level of service you will obtain, as stated in chapter three.
- **Related potential savings.** This topic will obviously come up very quickly when pricing is discussed. But in any case, you should reasonably expect your supplier to be able to quantify the savings it will bring to your organization.
- **Ability to assist in change management.** Over time, outsourcing vendors have developed tools such as training plans and communication plans to support their clients with the process, since organizations may face major changes when outsourcing functions.



Vendors that operate with unprofitable business models have little chance of staying the course.”

■ **Ability to plan and accurately size both partners' resources.**

As already mentioned, outsourcing should not be reduced to a "lift & shift" approach. It won't start by pushing a button and requires an implementation phase involving different resources: IT, finance, HR, etc. As you select a supplier, it is essential to obtain a formal roadmap for your deployment plan, with deadlines and a list and table for committing resources.

- **Cultural fit.** Outsourcing is at least a medium-term partnership and ideally a long-term cooperation agreement. It is important for the client and the vendor to have common values. For instance, a multinational company with geographical expansion plans will be unlikely to trust a purely local player. At the other end of the scale, a small company will seek proximity with a local accountant or the local office of a global partner.

■ **HOW SHOULD THE CONTRACT BE NEGOTIATED?**

The drafting of the contract is certainly a key stage of the outsourcing process. By definition, it lays the foundation of both parties' commitment for the future. Since the two parties may have different perceptions of a situation, the contract process (negotiation phase) should aim to put together a clear-cut, mutual and flexible agreement that will define what your company and your provider will have to do. In other words, to translate the business case into tangible commitments.

THINK WIN-WIN

Contracts are essential to the success of a business relationship. But in addition to defining what the supplier will do, the contract also sets out what you as the client will do to create the conditions for success. As you negotiate, it is important to seek this win-win situation. For sure, cost reduction is key for



The contract translates the business case into tangible and measurable commitments."



The success of such a cooperative agreement also depends on people's intelligence and flexibility."

your company, but it is also your responsibility to remember that your vendor is working in line with its own business objectives. Otherwise the relationship may fall short of expectations.

And contracts won't fix everything upfront. Trying to include too much in the contract in order to anticipate any situation you can think of may be excessive. Outsourcing is a matter of people learning to work together. The success of such a cooperative agreement depends on people's intelligence and flexibility. And means striking a balance between formal commitment and a savvy business attitude.

KEEP IT FLEXIBLE

Contracts should provide enough flexibility to adapt to changing business conditions. Who knows what environment you will be operating in five years from now?

Going for mid-term contracts (five years) instead of longer-term (more than five years) contracts is a possibility that leaves room to renegotiate. The trade-off for flexibility here will be service pricing, as shorter contracts might mean a more costly service.

Contracts can also include an adaptable framework to provide room to maneuver in terms of functional scope and volume. Actual provider performance and a changing business environment may trigger these adjustments, in either direction: over- or under-performance.

Finally, contracts may be subject to periodic, scheduled reviews taking place once or twice a year. It is a way for companies to conduct a regular review of the contract, reassess its relevancy as business conditions change, react to actual achievements



The successful outcome of change management plans generally hinges on two words: communication and training.”

and, if need be, revise the terms and conditions. After all, isn't flexibility one of the drivers for outsourcing?

■ **WHAT IS THE KEY TO SUCCESSFULLY OUTSOURCING PAYROLL?**

Payroll outsourcing is underway. Service providers have enough experience to suggest useful roadmaps and determine which resources need to be allocated. Following those guidelines with a comprehensive deployment management method (plan, assign, deliver) is undoubtedly the foundation for success.

CHANGE MANAGEMENT

Setting aside the purely technical aspects, it is now time to cope with all the changes that you have identified during the preparation phase. New processes will be put in place, new technologies will appear, some HR people will switch to new roles. Such changes can be managed and monitored provided that the relevant plans are in place. The successful outcome of these plans generally hinges on two words: communication and training.

Different levels of training plans may be deployed. The HR staff will need to get accustomed to new processes and learn how to interface with the service partner. Executives cite HR skills as a key success factor. At the same time, payroll specialists will find opportunities to move into new functions that will require relevant training plans.

Training must also be offered to employees and managers: they will discover a new payslip and may have to learn about new tools such as Employee Self Service (ESS), and Manager Self Service (MSS), or new ways to obtain assistance.

Communication plays a key role, especially in the initial phase of outsourcing. There are different ways to keep everyone informed, depending on the size of the organization, but this is always a vital task. Recently, a leading elevator manufacturer put specific communication channels in place to keep country HR teams posted on progress made with its global payroll outsourcing initiative. They even addressed potential cultural resistance by having a representative of each country on the steering committee.

■ HOW SHOULD THE RELATIONSHIP WITH A SERVICE PARTNER BE MANAGED?

The transition to outsourcing will succeed if the level of service is maintained for a long period of time. Once the implementation phase is over, both parties need to maintain the win-win spirit that prevailed at the beginning and, as they keep on learning from each other, find new areas of efficiency. As already mentioned, payroll, although non-core, is critical. This makes managing the relationship with a payroll service partner strategic.

GOOD GOVERNANCE

So it is strategic to agree on a governance mode for the long run. Each partner must have a key operational person own the relationship, a "one face to client/supplier" approach. This could be a new task for a member of the HR staff. In large or multinational organizations, the recommendation is to have a steering committee made up of both parties' representatives.

“

Both parties need to maintain the win-win spirit that prevailed at the beginning.”





The governance plan should define roles and responsibilities, agree on communication protocol, define an escalation process and set the calendar and agendas of meetings.

Beyond the day-to-day operations, it is also crucial to have and keep management involved in the relationship, with counterparts at the same levels in each partner. In order to drive discussions properly, the operational leader must provide the management with indicators and, if needed, alerts.

MONITOR PERFORMANCE

Both parties should then arrange for regular reviews to monitor supplier performance, ideally every month during the implementation phase and every quarter afterwards. Corrective action plans or service extensions can be rolled out. Permanent performance management is the pivotal component of outsourcing.

Some companies may also opt for balanced scorecards, which may be a useful tool to consolidate performance of



Source: ADP

multiple processes. They have also proved to be an efficient, straightforward communication tool. They are extremely relevant for monitoring a long-term relationship.

KEEP THE RELATIONSHIP ALIVE

Business relationships also include an informal, unplanned dimension. Beyond transactional aspects, exhibitions, seminars and conferences are all opportunities to network with a supplier and... other clients. Sharing on issues, learning about future services and hearing from others is also an efficient way to get the most out of outsourcing as a business enabler and to fine-tune ways for your company to take advantage of it.



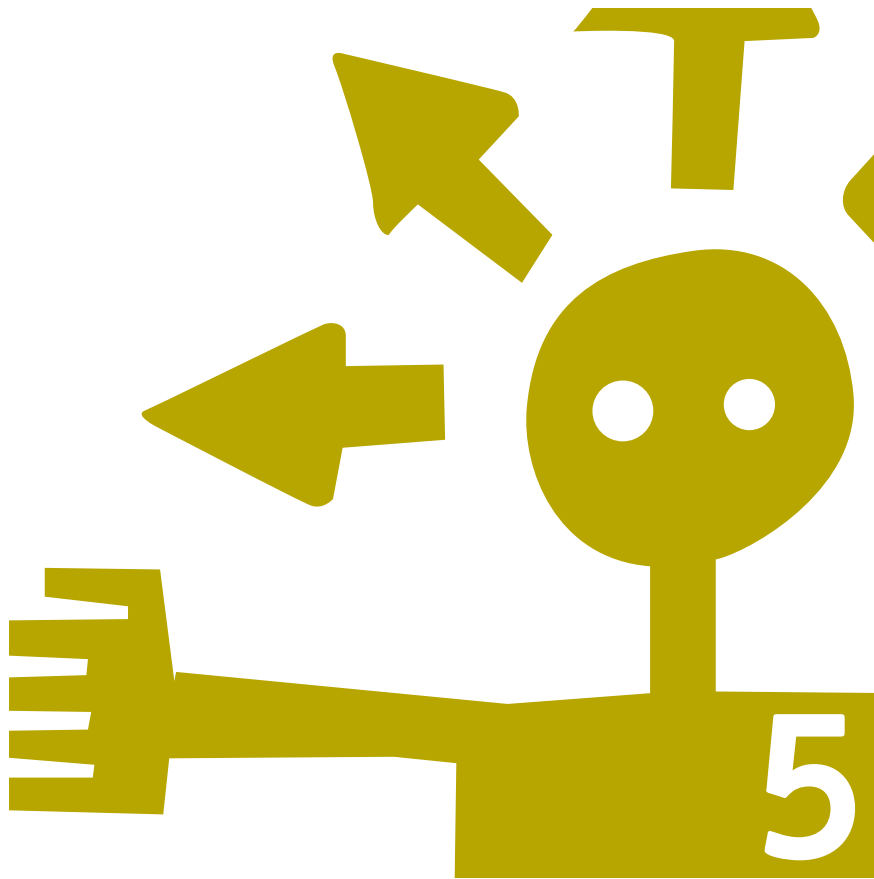
Permanent performance management is the pivotal component of an outsourcing initiative.”

IN SHORT

- Getting ready for payroll outsourcing requires preparation and method. An outsourcing plan cannot be reduced to a "lift & shift" operation with a procurement-oriented view.
- There are three initial steps: the first two phases define the scope (1-"as is") and plan future benefits (2-"to be") by preparing a business case, which then serves as a basis for formal validation (3-"go for it").
- Top management support is crucial throughout the outsourcing operation in order to address change management challenges and align resources.
- When selecting a supplier, proven expertise in the outsourced activity must be considered in addition to proven expertise in outsourcing.
- The pricing of an outsourcing operation comprises two parts: the implementation phase and the recurring service. Components of the implementation phase may vary and must be analyzed carefully.
- A change management plan based on communication and training is key to handling the transition that the organization will go through when payroll outsourcing is deployed.
- The wording of the outsourcing contract is essential for both parties to agree on their commitments. The contract should be aligned on business goals.
- The contract is a formal foundation for a win-win partnership between client and service provider that also relies on people's intelligence and flexibility.
- For a successful long-term service, the client and the service partner must agree on a clear governance mode, designate people "owning" the relationship and conduct regular performance reviews.







WHAT LIES BEHIND
THE MECHANICS OF RATIONAL
MOTIVES?

DID YOU SAY "OUTSOURCE"?

WHICH COMPANIES HAVE
TAKEN THE PLUNGE?

THE ULTIMATE FACTORS

With so many long-established, well-founded reasons to outsource payroll – reactivated, moreover, by globalization – all companies should take the step. And increasing numbers of them are certainly doing so. But it is obvious that they hesitate, and, in some cases, hold back. So we need to look beyond the mechanics of rational motives and look for the ultimate factors called into play when decisions are made.



The motives that persuaded the pioneers to outsource are just as powerful.”

■ WHAT LIES BEHIND THE MECHANICS OF RATIONAL MOTIVES?

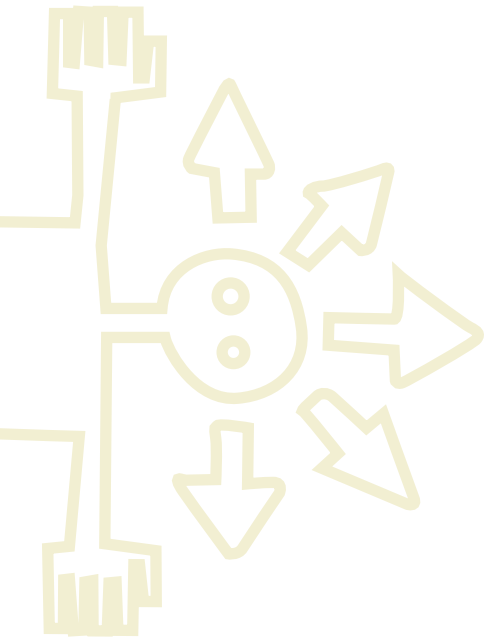
We could have ended this book at the end of chapter four, content with having described the payroll paradox and having shown how payroll outsourcing, one of the oldest and most advanced forms of outsourcing, now offers complete models for going all the way. Who could still doubt the pertinence of this solution, which takes charge of a company’s legal commitments without weighing it down with an unjustified cost?

Why still hesitate, knowing that the motives that persuaded the pioneers to outsource are still just as powerful, from legal compliance to operating continuity and from the need to simplify administrative processes to the urgency of refocusing on core business?

Why resist, with globalization, enhanced flexibility and optimization added to the above motives? Clearly outsourcing is a way of escaping from the maze of legislation, adjusting solutions according to variations in workforce and, last but not least, reducing costs!

The flip side of demand is supply. These days no sector of activity, from catering to banking and chemicals to automobiles, can claim a lack of suitable offerings. Suppliers have succeeded in segmenting their service offerings to meet the needs of businesses, large and small, multinational and local.

Lastly, outsourcing services can be picked a la carte – from simple data processing to the complete transfer of responsibility for a payroll department, from payslip production to financial flow management, and from overtime recording at the workplace to answering employees’ questions on their net salaries. The offering is so rich that we had to devote a





Outsourcing is much more than a function outside, it's a partner inside!"

whole chapter to describing the different types, even risking an experts' debate on the definition of SaaS, AMO and BPO. In short, the demand is confirmed, there are numerous concurring reasons, the offering is complete and well adjusted, the reference points have been defined and the traps and best practices identified. So?

So, if we had finished our book at the end of chapter four, we would have left one question unanswered. Some companies decide not to outsource because they are not mechanically influenced by the thousand good reasons for doing so. So, in addition to the rational motives, each of which should be sufficient in itself, one condition must be met. This still unanswered question is probably the most important one of all: what is the ultimate factor in decision-making?

■ DID YOU SAY "OUTSOURCE"?

It is a double-barrelled question. Because it involves both handing over an intimate function – closely linked with labor relations – and reaching that key point in a relationship with a potential partner when enough trust has been built up to take the big step. Yet the two barrels can sometimes be fired simultaneously: many companies – of a certain size in particular – have been convinced of the benefits of outsourcing by a service provider initially appointed to conduct an audit.

This is obviously a good time for the outsourcing company to make a name for itself. Weeks and even months can go by while teams collaborate, methods are rolled out, meetings step up the pressure, services are provided urgently and challenges are shared, while the top management demands assessments, measures and decision-aid tools.





Taking the decision to outsource means building up trust in people.”

The boundaries between client and supplier thus become blurred, and as days go by the latter often emerges as an obvious option for outsourcing... if one decided to do so. Could we go as far as to say that the roles of specifier and supplier are becoming confused? Maybe. But this approach shows that taking the decision to outsource means reaching a number of rational conclusions, and building up trust in people.

What comes to light in this maturing process is the reality of service commitment. Industrial as it may be – and it must be, to be optimized – an outsourced payroll service can only meet its promises in terms of punctuality and proactivity if the service-provider’s commitment is taken on board by each and every one of its associates: they are contractually bound to achieving a given result, not merely taking due care. That being the case, come what may, the client will receive his service.

A promise of this nature is understandably more credible in service companies where this level of staff commitment is part of the job on a daily basis. Elsewhere it is more difficult to foresee this radical change, where a client-supplier relationship replaces the traditional one between two departments within the same company. In large companies, where caution is sometimes proportional to size, it can sometimes take months or even years for individuals to find out about one another. Eventually a new paradox will take shape, echoing the payroll paradox that was the subject of chapter one: **outsourcing is much more than a function outside, it’s a partner inside!**

■ WHICH COMPANIES HAVE TAKEN THE PLUNGE?

We have attempted to describe the courting process, the approaches used to win companies over, the hesitation, the long journeys of building up trust. It is important to mention the companies that do outsource their payroll: once they have taken the plunge they rarely look back.

First, it helps to restore economic performance. A European chemicals giant springs to mind; badly shaken by the crisis that hit the sector, it found the path back to growth and enhanced performance by taking drastic action to refocus all its efforts on its core business. Payroll was seen as part of a general outsourcing programme right from the start.

Next, it helps to harmonize internal performance assessment. A leading global IT firm appointed a leading payroll outsourcing firm as a way of making all its subsidiaries adopt its best practices and the best reference data model.

Also, it helps to give each employee the same service and the same administrative guarantees. Like the leading furnishings company that is going to centralise payroll in spite of the fact that its employees are scattered around dozens of countries, by appointing a single service-provider to produce all its payslips and guarantee the same standards across the board.



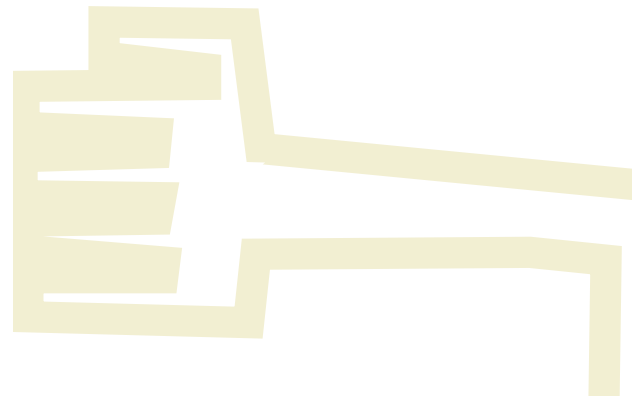
Once companies have taken the plunge, they rarely look back.”

“

*Outsourcing is
an unmistakable
sign for investors.”*

A SIGN OF MATURITY

Last but by no means least, it has been adopted by countless businesses that have tremendous potential, are passionately committed to their work, and are being swept along by the whirlwind of their growth. Over and above the objective opportunities offered by their business models, opening up to the idea of outsourcing their payroll, a function that is both critical and external to their core business, is a sign of early maturity in their managers. It is an unmistakable sign for investors.



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Payroll Outsourcing in Europe

This white paper contains compelling arguments to aid you in your decision to outsource payroll – and help you obtain buy-in from management and employees. Inside you will also find tips to make this HR transformation a success. In today's business environment, payroll outsourcing is the winning choice for HR managers and for the organization.



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