CEO: Can Your Human Capital Support Your International Expansion?
The HR challenges that arise as international expansion gains pace become central to an organisation’s success or failure. HR is a company’s backbone with payroll being the key way to recognise the most important asset.

As such, core HR touches every aspect of a business, and the health of an organisation depends on how well core HR data and functions are integrated with company systems. According to the 2011 ADP paper, ‘A worldwide employee view fosters good decisions and better results’ where 89% of companies believe that having a complete view of their employees is “critical.” Yet only 30% of them actually have that complete overview, meaning that they are in turn exposed to risk and compliance issues.

A lack of standardised HR or integrated payroll fast becomes a problem for multinational corporations. The dream is of harmonised payroll in an organisation’s subsidiaries throughout the world. Yet in practice, companies operating in several countries worldwide have to cope with very different payroll rules. The complexity of international payroll can slow down the pace of expanding into new lucrative markets, thus limiting the speed to take advantage of new opportunities for growth.

The challenges and barriers to succeed internationally therefore come down to standardisation. Yet, few organisations know how to do it, or dare to even try. It is helpful to understand the main challenges, see where organisations are going wrong, and identify where HR can step in to put it right.

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Other reports include:

- **CHRO:** Can your HR support an international workforce?
- **CIO:** Can your IT implement an effective multi-country HR strategy?
- **CFO:** Can your finance efficiently manage the impact of international HR?
- **CEO:** Can your Human Capital support your international expansion?
Can Your Human Capital Support Your International Expansion?

International CEOs are increasingly rethinking and redesigning their human capital management strategy. According to the 2014 PwC CEO Survey, 93% of CEOs recognise the need to change, or are changing, their strategies for attracting and retaining talent. However, 61% have not yet done so. The three factors CEOs see as vital for success are: creating new value through digital transformation; developing diverse and dynamic partnerships; and finding different ways of thinking and working in multinational environment.

Make sure you address the 3 most important international HR challenges.

**Challenge 1: Increasing profits by monitoring HR costs**
A survey of 1,300 companies by the Manchester Business School found that 88% of cloud users experienced cost savings and 56% found that cloud services actually helped them to boost profits. Jeitosa Group International’s Global Benchmarking Study 2013 found also that high-performing organisations are far more likely to have a global payroll team that has both visibility to and accountability for the functioning of payroll at the country level across the entire enterprise. By moving HR into the cloud and by having a consolidated global payroll, CEOs are able to increase their profits and shareholder value.

**Challenge 2: Flexibility as a driver of business success**
Over half (54%) of CEOs have entered a new sector or sub-sector, or have considered it, in the past three years. Expansion abroad will attract by far the largest amount of investment capital in the next three years, with two-thirds of CEOs now expecting foreign revenues to be greater in three years than they are now. Global payroll outsourcing offers multinationals of all sizes additional flexibility as they grow. Expanding businesses are relieved from acquiring local payroll knowledge as they settle into new markets and territories. Forty-three percent of CEOs also foresee greater movement of skilled labour between markets. CEOs therefore want a strong connection between digital investments and business objectives; 86% say a clear vision of how digital technologies can help achieve competitive advantage is key to success.

**Challenge 3: Having control with accurate and standardised Human Capital data**
CEOs need to have a snapshot of the talent within the organisation and a direct link with KPIs and business objectives to ensure employees are working towards the same organisational goals. Amongst the highest rated concerns for CEOs in 2015 are ‘Cyber threats including lack of data security’ (61%) and ‘Speed of technological change’ (58%). By transforming Human Capital and payroll, CEOs are not only able to align their talent management to their strategy through effective monitoring, analysis and reporting. They can also increase the security of their Human Capital data and keep up with latest technology.

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1. 18th Annual Global CEO Survey (2015), PwC
2. Rackspace Survey in conjunction with the Manchester Business School and Vanson Bourne (2013)
3. 18th Annual CEO global survey (2015), PwC
4. 18th Annual CEO global survey (2015), PwC
5. Global CEO Outlook (2015), KPMG
Multiple Local Payroll Systems Increase Cost

HR departments are under constant pressure to contribute to overall company savings and to find ways to reduce costs. The ADP white paper, ‘Payroll at the heart of HR Outsourcing’ finds that payroll combined with personnel and benefits administration account for 35% of total HR costs – or approximately $525 per FTE.

Payroll costs represent nearly half of this, reaching an average of $250 per FTE per year with variations by country. There are invisible costs too which are often overlooked as part of the due diligence process but impact the companies’ bottom-line. IT components form the greatest part, with software fees, maintenance and upgrade fees, system integration and interfaces, hardware and subcontracting costs, and time spent by staff on payroll systems. Multiply this with the number of countries HR serves and the costs can be substantial.

As organisations expand internationally they typically will either implement multiple local payroll systems (in-house or outsourced to multiple providers), or leverage the existing tools.

The administrative burden of managing multiple systems or vendors requires endless consolidation of information and reports. The resources required not only adds to the cost – it also impacts the ability to make good and timely business decisions.

Local Systems for Global Use

Pepita Morales Saldana, Global Payroll Manager at TomTom, a provider of GPS navigation which has gone from having a few offices in The Netherlands in 2006 to being operational in 40 countries today, recalls, “We were using a local Dutch payroll system and were using it as an HRIS system which you can imagine gave us a lot of difficulty. We had one local Dutch system and in there we had to register all the information of all the employees worldwide. There is a lot of local information that you need to store but your system is not built for global information - it’s just built for the local Dutch information.” Running international payroll in this way is time consuming and increases the costs of IT infrastructure, support and regular maintenance.

Is There a Better Way?

The Webster Buchanan Research report, ‘Multi-country Payroll: Analysing the Business Benefits and Challenges’, argues that the cost will be a key component of most multi-country payroll business cases, and where “organisations automate manual systems or streamline processes, there will be a potential for direct cost-savings.”

Jetsona Group International’s Global Benchmarking Study (GBS) found that “High-performing organisations are far more likely to have a global payroll team that has both visibility to and accountability for the functioning of payroll at the country level across the entire enterprise.” TomTom have developed a shared services centre where payroll has been outsourced, providing standardised processes and services with a better management of costs. “The fees are very clear so we have a good understanding about the costs that are involved with payroll. It is also not possible to have an expert in each country. So that’s why we also need to buy in that knowledge because we have a lot of countries with a few employees and it’s not cost effective to have a local payroll specialist in each country,” say Morales Saldana.

The benefits of standardised processes to tackling cost:

- Predictable and scalable fees
- One pricing scheme per region with a single invoice and single currency for invoicing
- Reduces Total Cost of Ownership (TCO) with managed services that eliminate maintenance and infrastructure costs
- Simplifies workflows by automatically updating country payroll data from central ERP or HRIS
- Strives to reduce costly errors that stem from lack of knowledge or visibility
- Provides awareness of overall payroll costs with a single invoice for all your countries
- Keeps systems updated with changing national statutes and payroll legislation
- Facilitates regionalisation or shared services initiatives by providing a single platform and user interface for global payroll processing

Philippe Mennrath, KNAUF

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Adapting to Market Conditions and a Changing Business World

Having systems and processes that make change very difficult limits the organisations’ flexibility and reactivity to market conditions. Poorly managed HR and payroll can crush any such desire for flexibility as internal teams find all their time and resources become devoted to simply keeping up with the monthly (or weekly) pay rounds instead of supporting the business.

Only 11% of companies will implement a global payroll solution when expanding internationally.

Downsizing and Growth

Papyrus, a merchant in paper, supplies and industrial packaging, is operating in a declining industry where competitiveness is the key to success and is restructuring the organisation accordingly. “The big challenge for Papyrus is to adapt our structure. We are starting to adapt our HR tasks and payroll to be more competitive, stronger, efficient, and to take the time to implement other HR tasks and not to use all our time on payroll. It will provide more flexibility and responsiveness to the business to help it adapt to market changes” says Karima Cherifi, HR Director at Papyrus France.

In contrast, Yankee Candle, a manufacturer of scented candles, has been experiencing global growth of 30% per year with “HR systems that could not cope” according to Rachael Merrett, Financial Controller at Yankee Candle. “There was a very poor HR system, and the payroll system, didn’t give us any of the management information we needed – even things like holiday records, which were all kept manually. Nothing was linked up.”

“In one calendar year, there were over 20,000 changes in payroll regulation globally.”

Out of the 161 respondents to the Ernst & Young Global Payroll Survey, 68 are considering expansion into new markets within the next year. Only 11% of these, however, were in the process of actively pursuing a global payroll solution implementation as part of their expansion. The growth of these businesses will be limited as HR will try and cope with the local laws and getting new people into the business.

Local Expertise is Critical

As organisations move into new geographies, they typically also lack local expertise. If there is no knowledge of local payroll practices, this creates risk. Regulations may vary by region, by city, by business activity with collective agreements, or by company with company agreements. When all these factors are combined, things start to get extremely complicated. Brazil, for example, has more than 10,000 union agreements and Japan nearly 300 different minimum wages, which vary from branch to branch and from region to region. In France, legal changes in 2014 impacted all aspects of HR: payroll with DSN (registered social statement), labour union relationship with BDES (basis of economic and social data), talent management with training reform, and benefits with CICE (tax credit of competitive employment).

Understanding and managing the volume of changes is a monumental task for HR, taking up staff time and resources. Greater complexity and risk often results in reduced flexibility and strategic input.

The frequency of legislative changes and the complexity of incorporating them either lessens, or intensifies the first. For example, in one calendar year, there were over 20,000 changes in payroll regulation globally. Adding to this pressure, the time companies have to implement changes required by new tax, employment, and payroll-related compliance regulations is shrinking.

Findings from a study conducted by CFO Research in collaboration with ADP show that more than 60% of CFOs surveyed agree that companies have experienced increased pressure to respond to tax, employment and payment-related regulations in increasingly shorter timeframes during the past two years. Understanding and managing the volume of changes is a monumental task for HR, taking up staff time and resources. Greater complexity and risk often results in reduced flexibility and strategic input.
Simplicity and Standardisation is Key to True Flexibility

The Jeitosa Group International report, ‘Driving Globally Strategic Payroll: The Paradoxical Journey to Efficiency and Innovation’, argues that, “A key characteristic of the International model is that it is especially adept at understanding the needs of its local business units and sharing best practices and innovations across the global organisation.” At Papyrus they understand that investments in HR and payroll is important, “We had to change our policy. It’s a cost saving policy but it’s to also share best practices between the countries” says Karima Cherifi of Papyrus France.

HR standardisation offers the potential for increased flexibility for HR, offering more efficient and cost-effective processes. Companies can free themselves from having to deal with a host of different regulations, employee policies, labour conditions, currencies, languages, and directives. As they globally outsource payroll, companies consolidate consistent processes for all the countries in which they operate.

Global payroll outsourcing offers multinationals of all sizes additional flexibility as they grow. Emerging businesses are relieved from acquiring local payroll knowledge as they settle in new countries. They simply ask their supplier to “open another country”.

Are You in Control or Are You Being Controlled?

Having a global view of the workforce is essential for executives managing their business, but only very few actually have this. Fragmented systems will not provide that single version of the truth, decisions being made based on information from disparate systems will not be accurate or up to date, introducing uncertainty into key decision making processes - making it impossible to provide data for business strategy or monitor key performance indicators for HR.

Rachael Merrett of Yankee Candle recalls that before transforming HR and outsourcing, “We just didn’t know the information we needed about our people. This was not acceptable for the size of our business. Our US office was asking us for more and more information about headcount, what type of people they were (salaried or hourly paid, male or female, or average salaries). There was no control.”
Too much time is spent by HR getting the right data before they can make decisions or before they can assess the impact of decisions that have been made. Not only is time taken up in getting and collating that data, but also making sure that the data is accurate.

For Karima Cherifi of Papyrus France, “Because we’re in a cost-cutting environment, each month we have to rate ourselves against set rules on errors in payroll. My objective is to have 99% payroll efficiency, and these have to be achieved in parallel with other KPIs around severance costs, numbers of full-time employees, etc. Now we have extremely good visibility on things like this. We can exchange lots of data between management teams thanks to our outsourcing of payroll.”

HR standardisation offers the potential for increased flexibility.

Data visibility and a standardised set of processes enables companies to make real time critical business decisions and focus on the strategy of your company. Dirk Russell of Covidien notes, “With consolidated reporting we know obviously a lot more about our payroll than we ever were able to do. Even with a good finance system and good chart of accounts the type of analysis we have today is far beyond what we used to be able to do.” Visibility into the overall workforce is key and requires common policies and standardisation of processes to track key metrics and provide insights.

Internationalisation Needs Standardisation

A single data repository that enables reporting and analytics requires an integrating of HR data, common policies, processes, and tasks into one platform. With 37% of mid-sized companies’ data left sitting in Excel (ADP Global HCM Study, January 2014) or similar types of databases, the value of putting all data in one system, accessible to not just HR, but also leadership, managers and employees, cannot be underestimated.

This was the case for Yankee Candle, “Payroll was incredibly time consuming, so when it was manual we used to have to collect manually, put it into a spread sheet, send the spread sheet to payroll, get a spread sheet back, analyse it – it was just ridiculously time consuming.”

The Webster Buchanan Research report, ‘Multi-country Payroll: Analysing the Business Benefits and Challenges’ identifies that “every international payroll function is geared up to meet unique local regulatory and business requirements, they tend to evolve on a country-by-country basis, with little standardisation around best practices and processes.” Most multinationals will use a mix of in-house and outsourcing. “In a large company operating in a dozen countries, for example, you could easily find 15-20 different processing partners.” “It can be difficult to get visibility into individual payroll operations, ensuring they’re all compliant and guard against fraud. For Yankee Candle there has been a massive impact. “Now, I can run ad hoc reports, I can write reports, and I can interrogate the data all of the time. We can now extract reports that talk to our finance system. This has paid dividends because now we can easily put wage data into our ERP system,” says Rachael Merrett of Yankee Candle.

Centralisation is the key to streamlined service delivery and an HR operating model which world-class organisations are seeking to embrace. A network of in-country payroll specialists with deep knowledge of local legislation and HR details would lighten the load of shared services centres or local subsidiaries. By finding new ways to help maintain compliance and mitigate risk, improve business process efficiencies and, ultimately, help to drive organisational growth and international expansion, HR can demonstrate the strategic value they provide to the company.

The least innovative or agile organisations will see this as a fearful prospect. Those that will succeed in the global marketplace and expand globally, however, will embrace the benefits of standardised core HR and payroll – and will do so with HR leaders at the helm.

The value of having all data accessible to HR, leadership, managers and employees, cannot be underestimated.

**BENEFITS OF STANDARDISED PROCESSES TO INCREASING CONTROL:**

- Consistent SLAs and KPIs across the international organisation
- Central BPM systems to monitor payroll and human resources administration data workflow
- Single systems allows for multi-country consolidated HR reports
- Responsibilities and risks transferred to the third party outsourcing provider
- Compliance with local legislation worldwide
- Change is much more fluid and effective when implemented across an entire organisation
- Moving all regions to a single platform means teams feel the impact only once, with no extended reaction over time

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