Graham Jenkins explores common causes of friction in payroll outsourcing relationships

Payroll outsourcing: ‘till death us do part?

By Graham Jenkins, Director, The Consultant Connection

Remember meeting your partner for the first time? The excitement? The emotional somersaults?

Those early days of getting to know each other are perfect. You’re both desperate to show yourselves in a good light, you’re on your best behavior – and you rarely let your guard down. After a brief courtship, you pledge your undying love to one another and begin creating your shared vision and life plan for the future. Then, with a solemn exchange of vows, you wander off into the sunset, clutching your sacred marriage contract - arm in arm, confident of everlasting love, health and happiness.

And that’s when the arguments begin.

This is when you start to see a side of each other that you never knew existed before. So many of the promises you made to each other aren’t fulfilled, and the new milestones in your ‘Plan for Life’ start to include mediation, separation and ultimately, divorce. The end of the relationship becomes inevitable – but not before bitter recriminations, blame, and financial pain.

Just like personal relationships, the act of courtship between multinationals and global service providers can also end in chronic failure. Infidelity is rarely the issue, thankfully – but negligence and unreasonable behaviour abound. And it often starts with a fundamentally unsound basis for the relationship:

Client: “Let’s concentrate on achieving the lowest possible implementation and operating price. The rest will follow because they covet us as a client and they’ll be contractually committed to deliver.”

Service Provider: “Let’s get ten years of recurring revenue booked. Oh, and don’t worry about implementation yet, their business can’t be that complex - and anyway, in the end they’ll do payroll my way or the highway”

There are challenging issues for clients who have a vague (if sincere) notion that outsourcing payroll is a ‘good idea’, payroll for them isn’t a core competency – and anyway, at the end of the day, payroll just always kind of happens so it can’t exactly be rocket science. And these challenges offer a real and present danger for the service provider.

Here are just some of the scenarios that present commercial and delivery risks:

1. Client has no in-depth knowledge of its ‘as is’ payroll landscape, including existing payroll software and services, costs, current contract commitments and performance. Put bluntly, it’s difficult to get to your destination if you don’t know where you’re starting from! Without this knowledge and perspective, it’s also difficult to judge the appropriate commercial position during contract negotiations. On the client side this isn't uncommon – particularly for complex, large, global clients with operations in 60+ countries. For service providers, a client who displays an early lack of knowledge of the current payroll landscape represents additional risk and challenge.

2. Client has no culture of process ownership at either a country, regional or global level – so there is little or no focus on payroll other than day-to-day, in-country payroll operations. It's becoming rarer to find businesses that haven't embraced some form of process matrix/ownership that crosses functions and geographies, but plenty of them do still exist. Yet with no process vision and no single point of accountability, where is the project going to be driven from? Service Providers need change agents and they tend to be process owners – at all levels.

3. Client has a mixed organisational model for payroll – some payroll teams report into HR, some Finance. At a global level, there is no clear ownership assigned. This very common scenario can lead to difficulties in getting consensus because of the competing priorities that will exist in HR and Finance.

4. Client has a history of acquisitions, often carried out with little or no infrastructure integration or alignment. This approach can produce layer upon layer of unique 'grandfathered' Terms and Conditions (Ts&Cs), and lead to multiple payroll systems and services in each country. Lack of standardisation of processes, rules and policies signals a potential unwillingness to change, and companies end up paying a premium to support non-standard working practices. Of course when a multinational makes a strategic acquisition payroll harmonisation won't be a priority, but the cause and effect needs to be understood.

5. Client shows no appetite to transform or reengineer HR processes and rules to simplify payroll processing. Many organizations have a culture that encourages heavy customization to meet its contractual obligations, such as complex international mobility packages. Others end up institutionalizing exceptions by processing payroll 'daily' in addition to scheduled on cycle payrolls. These companies are most likely to talk a good talk on reengineering, transformation and standardization, but ultimately individual business leaders may regard harmonization as downgrading employee Terms and Conditions, and corporate HR will rarely possess sufficient influence to force change through. This conflicts with the service provider model of offering standard services, and has an impact on cost and timing.

6. Client has multiple upstream HR, Time Recording and downstream ledger environments. This is common in global companies that have grown through Merger and Acquisition; it isn't a criticism, but it needs to be understood that this will drive cost and complexity and increase the risk of failure. An accurate 'inventory' of legal entities, as well as upstream and downstream feeds, will be needed during the RFP and Contract phases – these are key drivers of payroll implementation effort, complexity and cost and to a lesser extent, ongoing operating costs. Any inaccuracy in this area will lead to significant change requests further along the project.

7. Client does not understand its own payroll at a country level. Switching to a new provider is fraught with problems if the client is unable to define its requirements, validate business rules and ensure appropriate testing, including parallel runs. This leads to unrealistic expectations of the new service provider, and combined with lack of process ownership, it can really hurt the implementation project and drive up cost. In these scenarios, the client may even rely on its current payroll incumbent to articulate its detailed requirements and perform testing and validation: this is usually covered under ‘exit assistance’ agreements, but it’s not ideal and needs careful project management by both client and service provider.

8. Client does not operate a ‘tell’ environment – too many people have a say and progress is slowed. It’s true that consensus brings about the most effective ‘buy-in’ throughout the organization. Equally, though, there can be too much time wasted on change management cuddles and senior regional leaders passionately protecting their ‘sovereignty’. Projects need a clear, board-level mandate to make this journey happen.

9. Client leadership team only wants ‘good news’. When a client leadership struggles to deal with bad news, project issues will often be slow to surface – and when they do, it will be too late to remedy them. This will consume excessive project funds and create a pervasive ‘blame culture’. This isn’t just confined to the client’s internal management system: the complex nature of the outsourcing implementation and operating project will uncover issues arising from invalid assumptions, errors/omissions in the RFP, resource issues on the contract and so on. Reactions to ‘bad news’ will be observed at all levels within the project and will influence daily working relationships – and the danger is that these become unnecessarily confrontational, even bordering on dishonest.

10. The client’s focus on cost can lead to slavish adherence to off-shoring. There are some processes that do not fit the off-shore model easily and usually require in-country delivery, such as garnishment services in the US, check issuing, or off-cycle payrolls. Companies need to have the courage to be unfashionable and challenge working assumptions and process delivery design.

The second part of this article – focusing on challenges in the service provider side of the equation – will be published in January 2011.

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