The Essential Guide to Payroll Outsourcing
Payroll Outsourcing: The next generation

Payroll outsourcing is nothing new, indeed companies were outsourcing payroll decades before HR Outsourcing came on the agenda, yet until recently the reality of a truly European or global payroll outsourcing deal remained elusive. This is no longer the case with a number of pan-European payroll outsourcing contracts now well established, which in turn has increased acceptance of payroll outsourcing and offshoring among staff, unions and works councils. Nowadays payroll outsourcing providers offer flexible global solutions, pre-configured systems and template processes; accelerated implementation methods and flexible financing models make payroll outsourcing easier and lower risk than in recent history. Many of the major providers offer solutions for companies with both large and smaller dispersed operations, such that a company truly can hand over its payroll to a single provider.

This guide aims to help companies who want to take advantage of these developments by addressing the main considerations for an organisation considering large scale transference of payroll activity to an external provider. As well as reviewing the plethora of options and models for payroll outsourcing, it provides hints on key steps to follow to ensure a successful outsourcing operation.

This guide complements the Essential Guide to HR Outsourcing and also the findings of a more detailed report from Orion Partners entitled ‘Human Resources Outsourcing: Solutions, Suppliers, Key Processes and the Current Market’. To obtain your copy contact: info@orion-partners.com or +44(0)2079934699.
This guide gives an insight into the rationale for outsourcing payroll and the dynamics of the market including:

- How to tell if outsourcing your payroll is right for you?
- How to identify the right solution for you
- Overview of the European payroll outsourcing market
- How to select your payroll outsourcing partner
- What typically gets outsourced, what are the typical scopes?
- How payroll outsourcing can drive transformation within an organisation
- The key steps to outsourcing your payroll
- The role of transition in ensuring success
- Risks and lessons learned in payroll outsourcing
How to tell if payroll outsourcing is right for you?

There are a number of different reasons for outsourcing, the main ones being to drive compliance by using a supplier’s expertise in the complex and frequently changing payroll rules and laws; to eliminate the expense and risk of retaining in-house payroll system expertise; to allow a focus on more value-added activities and also to save costs.

There are outsourcing models and providers to suit companies of all shapes and sizes, from local suppliers who will conduct the payroll calculation and produce the payslips, to suppliers who will offer full end-to-end payroll management for a global organisation. You can use an existing system or take advantage of supplier’s own pre-configured platform, which will eliminate the headache of maintenance and hosting. The major providers will also offer full scope HR outsourcing, including areas such as recruitment and learning administration; others provide systems and processes that integrate with ‘best of breed’ HR modules from niche providers. Suppliers have developed standard implementation programmes and pre-configured platforms which have reduced the cost of implementation, making payroll outsourcing cost effective for much smaller organisations than was previously the case.

So the main question to ask yourself is whether your organisation is ready for outsourcing? Does your company have an outsourcing culture and a history of successful outsourcing programmes? Are your business leaders backing outsourcing as a valid strategy for ensuring success in the future?
Here are some key questions that you should answer before deciding to proceed down the route to outsourcing your payroll.

- How does outsourcing fit with your company’s overall strategy and its HR strategy? How will payroll and HR administration integrate in the future? It is quite common for payroll to be outsourced while HR administration sits on a company’s ERP system, but this must be carefully managed. You will need a common database of all employees and some degree of integration.

- Are you prepared to support the payroll system in-house? Do you have a robust source of skilled technicians to maintain your payroll system?

- Are you prepared to champion the implementation of employee self service and manager self service for a broad range of payroll events such as absence management, promotions, status changes and time management?

- Do you have a clear view of what payroll activities can be outsourced, and which you need to keep in-house? Has an independent party challenged your thinking to make sure you are taking maximum advantage of the benefits of outsourcing? Do you know the art of the possible – which aspects of payroll are others outsourcing?

- Do you have a complete view of your internal costs, cost drivers and what potential savings you would need from an outsourced arrangement in order for a deal to be viable? Have you factored in a small retained organisation to complete key tasks which cannot be outsourced and to manage the service from your provider?
• Do you have a clear view about the capabilities, experience, reputation and geographical presence of the main outsourcing providers? Who will suit you best in terms of cultural fit as well as breadth and depth of service? Do you want a provider who specialises in payroll, or one with broader HR Outsourcing capabilities?

• Have you standardised and simplified your payroll processes and procedures prior to considering outsourcing? You increase the chance of success and achieving cost savings by handing over tidy processes to an outsourcer.

This is not an exhaustive list, but the answers will take you closer to being able to judge whether outsourcing your payroll is right for you.
Key questions to help you identify the right solution

There are a number of solutions available in the market and you can only identify the right one by talking collaboratively with providers. You may wish to use your existing system(s) or the supplier’s own; you may wish to contract with one single supplier or several local suppliers, or a mix of these. Considering the below points will help to guide those conversations and help you select a supplier with the right offering for you:

- **What do you want to get out of your payroll outsourcing?**
  Do you want to increase the strategic capability of your organisation, improve service, increase flexibility or reduce costs?

- **In how many countries are you considering outsourcing payroll?**
  What are the key differences between the countries and operations?
  Is there a mix of large and small countries?

- **How important is flexibility at the local level?** Are you prepared to implement a standard solution across multiple countries and locations (flexing of course where local legislation requires) or do you want to allow each country or business to determine its own outsourcing scope and plans?

- **Are your payrolls complex and varied?** Do you have multiple sets of terms and conditions, legal entities, language requirements etc?

- **How complex is your system landscape?** What is your vision for the future? Do you want to run a single integrated system, or will you accept several interfaced systems? How important is global reporting?
• How customised is your system? Are you prepared to undergo the change needed to accept a supplier’s standard platform? (Suppliers will configure some element of the system to meet your needs, but the more it is customised, the more you pay...)

• How much internal resource are you prepared to invest in managing suppliers? How much expertise do you have already in this area?

• How often do you undergo significant structural changes? How good is your organisation at setting a strategy and sticking to it?
European market – key facts

Few organisations considering outsourcing their payrolls have had the benefit of exposure to the payroll outsourcing market or the key providers. Here we summarise Orion Partners’ view of the state of European payroll outsourcing.

The European market has come to maturity in recent years, with a number of pan-European deals worth over €50m.

- **UK continues to lead the way for payroll outsourcing, which is extremely common. Countries such as France and Germany are seeing an increasing amount of outsourcing and are typically now included in the scope of pan-European deals.**

- **Public sector payroll outsourcing is predicted to grow by 10-15% in the coming years. This growth will come from both new outsourcing deals and the increasing scope of existing deals.**

- **Pan-European payroll outsourcing deals have typically taken 18 months to get from strategy decision to contract, but this is speeding up with some recent deals being completed from strategy decision to contract within 9-12 months.**

- **Average contract terms are seven to eight years with break points at three to five years.**

- **Average European contract value is €35m.**

The arrival of truly pan-European payroll outsourcing capability has heralded a sharp increase in the number of pan-European payroll outsourcing deals. Recent contracts of note include the Unilever/NorthgateArinso contract and the ADP/IKEA contract which together cover over 30 countries globally.
European market – key providers

The European payroll outsourcing market is divided into providers who only offer payroll outsourcing, those who focus on payroll but also offer broader HRO capability, and those who offer payroll outsourcing only as part of a multi-tower HRO deal. Many of these providers use a sub-contracting network to offer solutions for smaller or dispersed organisations, eliminating the once common barrier to European or Global outsourcing - that it is hard to make a business case for implementing smaller countries on a global platform.

Global outsourcers with strong payroll heritage:

ADP

This highly recognised payroll outsourcing brand has partnered with SAP on its ‘GlobalView’ payroll and HR administration platform to provide a highly standardised payroll and HR outsourcing service on a global level. ADP’s ‘Streamline’ product offers payroll services and consolidated reporting for a client’s smaller, dispersed locations via sub-contracted relationships.

CERIDIAN

Ceridian is a UK leader and global provider of HR and payroll services, flexible benefits and employee assistance programmes (EAP). Established over 40 years ago in the UK as a payroll bureau, their fully managed services are now well established and their Software as a Service (SaaS) offering is well subscribed allowing them to serve a target market ranging from small to medium enterprises (SMEs) and mid to large sized companies to multi-national companies.
**LOGICA**

Logica offers HR and payroll outsourcing services across different platforms including SAP, Oracle and their own internally-developed solutions. Their services include the implementation and integration of HR & payroll systems, software hosting, ERP integration as well as payroll and transactional HR outsourcing.

**NORTHGATEARINSO**

NorthgateArinso is one of the leading global providers of HR software and services. Their main software solution, EuHReka, is a pre-configured SAP-based platform. They also deliver outsourced services on their own SME product Resourcelink. Their target clients are in the public and private sectors and range from SMEs to large multi-nationals.

**Solutions for smaller or dispersed organisations:**

**CELERGO**

Celergo delivers local and expatriate payrolls in more than 80 countries around the world. Payroll changes can be provided in a range of formats and Celergo will produce the payroll, handle payment remittances and produce consolidated reports, providing a single point of contact.

**PATERSONS**

Patersons offer a software solution for dispersed HR and payroll management and a solution for international payrolls via a consolidation service and sub-contracting network. They also offer a payroll bureau service in UK. Patersons' network covers over 150 countries worldwide.
SAFEGUARD

Safeguard's international managed payroll is available in 76 countries. Like their competitors, they offer consolidated global reporting and a single point of contact. They have their own payroll engine and accept payroll inputs in a variety of formats.

Emerging providers:

CALIBER POINT

This India-based provider of full HRO services, including outsourced payroll provision is emerging as a viable and low cost option for payroll outsourcing where companies are comfortable with a higher than usual level of offshoring.

CEGADIM SRH

Cegedim SRH specialises in HR and payroll outsourcing solutions with a presence in France, the UK and Switzerland. Their payroll and personnel administration offering ranges from process outsourcing to fully managed outsourcing.

HR ACCESS

A well known payroll software brand in France, HR Access are increasing their presence in the outsourcing market in Europe, in particular while building on their deep understanding of the complex French market. Their service is based around their proprietary software and ranges from a bureau service to a fully managed service.

TDS

TDS, part of Fujitsu Services, provides IT outsourcing, HR services and IT/SAP consulting to the Germany, Austria and Switzerland. They offer a range of software solutions including SAP HCM, TDS-Personal and PAISY. Their service offering ranges from ASP through to BPO for payroll and HR administration.
STERIA

Steria provides payroll and HR outsourcing services using a platform independent approach from centres of excellence in India and Europe.

European / Global providers of payroll as part of multi tower outsourcing deals:

ACCENTURE

Accenture is a truly global provider of IT and outsourcing solutions for a broad range of business functions including HR. Their target is mega-deals, which may include payroll, but payroll is far from their focus area.

EXCELLERATE HRO

Excellerate HRO is an HP company formed from the combination of the HR outsourcing businesses of EDS and Towers Perrin. They offer a flexible, global portfolio of HRO services, including payroll. Their target is multi-tower HRO deals, but in certain circumstances they will engage in payroll only deals.

IBM

One of the market leaders in IT outsourcing, IBM has operated in the HRO arena for over five years. They target larger, multi-country, multi-tower HRO deals.

INFOSYS

Established as a global IT services and consulting company, Infosys has made a successful entry into the HRO market, offering a full range of HRO services delivered via a mix of offshore and on-site resourcing. It can be said to be one of the strongest players of Indian origin in the HRO market.
How to select the right payroll outsourcing partner for you?

The payroll outsourcing marketplace is made up of a variety of suppliers who can demonstrate credible client lists and offer comprehensive services; so how do you decide who is the best payroll partner for your needs? Organizations need to evaluate their unique needs for a payroll outsourcing project against several company-specific factors. Orion Partners works with organizations to develop an appropriate supplier assessment process from developing a detailed Request for Proposal (RfP) through supplier selection workshops and visits, to an auditable shortlist based on agreed selection criteria.

In deciding which supplier is best for you, it is essential to understand which of the criteria are most relevant for your organization – which will make the biggest difference to you? Competition in the payroll marketplace and increasing commoditisation make it possible to meet all of your organization’s requirements whilst delivering a financially viable solution.

The table overleaf lists a number of considerations to help you choose the most appropriate partner for you.
Geographic scope and location strategy

Does the outsourcer have a presence in your primary geographies? How will they ensure local payroll knowledge is applied? To what extent are you ready to contemplate offshoring as part of the solution? How will the supplier’s delivery locations impact whether your staff will transfer to them and therefore how knowledge can be retained?

Proven track record

Understand the payroll outsourcer’s capability in depth. Do they have the proven experience of delivering the full range of services and scale for your business needs? What are other organisations’ experiences of working with this payroll provider? Have they delivered extensive process outsourcing, or are their credentials based largely on software provision?

Cultural compatibility

The payroll outsourcer needs to understand both your organisation and its expectations. There should be a sense of common values between both companies. It is beneficial to work with a supplier whose key account staff have a working knowledge of your corporation’s industry.

Technology strategy

What is the payroll outsourcer’s technology strategy? What kind of relationships do they have with the major application providers? Can you purchase preconfigured solutions from them or will they take over the management of your existing technology platforms? How do they manage and charge for system upgrades? How well will their offering integrate with your existing systems?

Governance

What is the outsourcer’s proposed approach to governance? Does it engage the right stakeholders and provide the right level of information and interaction? Does it provide a clear change control process to allow you to react to business changes in a timely and cost effective way?
<table>
<thead>
<tr>
<th>Strategic sourcing capability</th>
<th>What is the range of HR outsourcing services and solutions the provider offers? Can they meet your longer term sourcing needs? Will they help you take advantage of market developments?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approach to standardisation</td>
<td>You will need to understand the level of standardisation that may be imposed by the payroll outsourcer and the impact on your organisation’s processes. If you require more flexibility and more bespoke solutions then this will affect both cost and service levels, and may eliminate some providers from your list of options.</td>
</tr>
<tr>
<td>Readiness to invest in transition management</td>
<td>The medium to long-term success of a payroll outsourcing relationship will be heavily influenced by the initial investment in transition activities. Corners cut at the outset may impact service delivery at a later stage.</td>
</tr>
<tr>
<td>Quality of team</td>
<td>Organisations should feel confident in the knowledge and experience of the payroll outsourcing team allocated to manage their account. Do they have payroll expertise, or are they generalists? The outsourcer should also guarantee continuity of team and performance standards from pre to post contract.</td>
</tr>
<tr>
<td>Financial stability</td>
<td>Thorough due diligence should be undertaken to ensure the long-term viability of the payroll outsourcing partner. Any financial instability may have a negative impact on service or leave you looking for a new partner earlier than expected.</td>
</tr>
</tbody>
</table>
What typically gets outsourced?

Experience and best practice tell us that the tasks most frequently outsourced are those that are:

- Rule based and predictable
- Repetitive and frequently undertaken
- Able to be fully or partly automated by technology
- Able to be delivered from offshore or remote locations
- Non-core, not offering competitive advantage to the organisation

The majority of European HRO deals include payroll, employee data management, regulatory compliance and often a number of other modules such as recruitment or succession planning. It is also common for payroll to be outsourced on its own, while HR remains in-house, often in a shared service centre. Whatever the scope of the deal, the art of extracting value from payroll outsourcing is to ensure that routine transactional activities are outsourced to the maximum possible extent, allowing the payroll and HR team to concentrate on more complex organisational challenges and strategic needs.

In the case of payroll, the outsourcing scope can vary from the more traditional bureau model to the fully outsourced model. In a bureau model, the vendor is mainly responsible for the payroll calculation, printing, payment remittances and statutory reporting; all data entry remains in-house. In a fully outsourced model, the vendor is responsible for all transactional and operational activities, including data input and system maintenance.
The choice of the payroll model is driven by the organisation’s needs and culture, business strategy, the availability of in house expertise and the acceptability of outsourcing within the organisation. Whatever the final solution, it needs to be designed and owned by the payroll and HR function; this is not a process that Procurement or Finance should run for you.

Models to choose from:

1. **BUREAU** is the most basic payroll outsourcing service. Its scope usually includes the calculation of the payroll and remittance of payments and reports. The retained organisation will retain considerable control and their tasks will remain largely unchanged. There will be some need for supplier management. The client may use the supplier’s technology, or their own system, providing the payroll data to the client in a range of formats.

2. **FULLY MANAGED SERVICE** is the next level of payroll outsourcing where all activities of the payroll processing are handled by the vendor including data validation, payroll calculation and remittance, handling employee queries and providing subject matter expertise. In-house payroll resources will do data entry. The client will take advantage of the supplier’s software, ensuring that the system is always up to date with the latest regulations.
3. TOTAL OUTSOURCING – all payroll activity is outsourced, possibly as part of a broader outsourcing of non-core HR activities. The retained function may be limited to some contract management expertise and high level payroll expertise as part of a strategic role. The client will take advantage of the supplier’s software, ensuring that the system is always up to date with the latest regulations.

Typically, where payroll outsourcing is pan-European or global, the total outsourcing or managed service offering is adopted. The bureau offering is typically reserved for single country deals, or perhaps for tactical reasons for one or two countries in a pan-European or global deal.
# Frequency of inclusion within European Payroll Outsourcing deals

*Excluding single country bureau (calculation only) deals*

<table>
<thead>
<tr>
<th>Nearly always (more than 80% of deals)</th>
<th>Frequently (more than 40% of deals)</th>
<th>Infrequently (less than 40% of deals)</th>
<th>Hardly ever (less than 10% of deals)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll calculation</td>
<td>Absence and leave management</td>
<td>Time and attendance administration</td>
<td>Payroll policy and process design</td>
</tr>
<tr>
<td>Payslip production (hard copy or self service soft copy)</td>
<td>Employee master data maintenance</td>
<td>Compensation planning and management</td>
<td>Payroll accounting and reconciliation</td>
</tr>
<tr>
<td>Payroll compliance</td>
<td>Employee query handling</td>
<td>Pension administration</td>
<td></td>
</tr>
<tr>
<td>Statutory reporting</td>
<td>Payroll data entry (earnings and deductions, status change etc.)</td>
<td>Expatriate payroll management</td>
<td></td>
</tr>
<tr>
<td>Employee/ Manager self service system</td>
<td></td>
<td>Document archiving</td>
<td></td>
</tr>
<tr>
<td>Payroll system maintenance and management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll disbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to third parties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial reporting and interfacing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Frequently (more than 40% of deals)*

<table>
<thead>
<tr>
<th>Nearly always (more than 80% of deals)</th>
<th>Frequently (more than 40% of deals)</th>
<th>Infrequently (less than 40% of deals)</th>
<th>Hardly ever (less than 10% of deals)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll calculation</td>
<td>Absence and leave management</td>
<td>Time and attendance administration</td>
<td>Payroll policy and process design</td>
</tr>
<tr>
<td>Payslip production (hard copy or self service soft copy)</td>
<td>Employee master data maintenance</td>
<td>Compensation planning and management</td>
<td>Payroll accounting and reconciliation</td>
</tr>
<tr>
<td>Payroll compliance</td>
<td>Employee query handling</td>
<td>Pension administration</td>
<td></td>
</tr>
<tr>
<td>Statutory reporting</td>
<td>Payroll data entry (earnings and deductions, status change etc.)</td>
<td>Expatriate payroll management</td>
<td></td>
</tr>
<tr>
<td>Employee/ Manager self service system</td>
<td></td>
<td>Document archiving</td>
<td></td>
</tr>
<tr>
<td>Payroll system maintenance and management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll disbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to third parties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial reporting and interfacing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Hardly ever (less than 10% of deals)*

<table>
<thead>
<tr>
<th>Nearly always (more than 80% of deals)</th>
<th>Frequently (more than 40% of deals)</th>
<th>Infrequently (less than 40% of deals)</th>
<th>Hardly ever (less than 10% of deals)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll calculation</td>
<td>Absence and leave management</td>
<td>Time and attendance administration</td>
<td>Payroll policy and process design</td>
</tr>
<tr>
<td>Payslip production (hard copy or self service soft copy)</td>
<td>Employee master data maintenance</td>
<td>Compensation planning and management</td>
<td>Payroll accounting and reconciliation</td>
</tr>
<tr>
<td>Payroll compliance</td>
<td>Employee query handling</td>
<td>Pension administration</td>
<td></td>
</tr>
<tr>
<td>Statutory reporting</td>
<td>Payroll data entry (earnings and deductions, status change etc.)</td>
<td>Expatriate payroll management</td>
<td></td>
</tr>
<tr>
<td>Employee/ Manager self service system</td>
<td></td>
<td>Document archiving</td>
<td></td>
</tr>
<tr>
<td>Payroll system maintenance and management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payroll disbursement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments to third parties</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial reporting and interfacing</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Excluding single country bureau (calculation only) deals*
Outsourcing drives transformation in retained payroll and HR teams

Evidence suggests that organisations frequently underestimate the impact of outsourcing on the retained payroll and HR functions. A lack of clarity around retained roles leads to uncertainty and a tendency to act as a ‘double-check’ on the outsourcer instead of focusing on strategic, value-enhancing services. Too frequently there is little effort put into redesigning and up-skilling the retained teams who will often struggle to understand what they should now focus on in the new world. In our experience significant additional benefits can be achieved through proper definition of the roles and responsibilities of payroll subject matter experts and appropriate training in those new roles.

Outsourcing can help the retained payroll team to reposition itself as a value adding business function; People Experts who focus on:

- **Policy and strategy development**
- **Reward and recognition strategies – keeping the business competitive at the cutting edge**
- **Reflecting the needs and priorities of the business in the payroll and HR service**
- **Driving efficiency and effectiveness in the payroll operation, including managing the supplier’s contribution to continuous improvement initiatives**
- **Managing initiatives which drive the function forward**
A correctly designed and skilled retained organisation can bring enormous benefits to the company such as:

- Proactive identification of improvement opportunities
- Improved service levels
- Improved understanding in the business of the cause and effect of actions and behaviours, which leads to better prioritisation of initiatives and changes
- Reduced cost of operations
Key steps to outsourcing your payroll

Having considered some of the items in this guide and defined the desire and objective of payroll outsourcing in your company, there are a number of key steps to ensure a smooth path to payroll outsourcing:

1. REQUIREMENTS DEFINITION Agree what is the desired scope of your payroll outsourcing deal (which countries, business units, processes, systems; how much of each process you want to outsource) and what you want to get out of outsourcing

2. MARKET ANALYSIS Which suppliers are likely to meet the objectives and requirements you have defined? Can you offer a deal they would be interested in? Consider that some suppliers have a minimum deal size before they will engage with a potential client and the broader your scope in terms of processes, activities and countries, the more likely you are to attract interest from a range of suppliers

3. SUPPLIER ENGAGEMENT AND REQUEST FOR PROPOSAL Document your requirements in a clear way that allows suppliers to respond efficiently and effectively to your request. This includes providing the right amount of background information and considering
carefully what information you want to glean from potential suppliers. Structured face to face briefings and discussions can save a lot of paperwork, time and effort for both parties

4. **SUPPLIER SELECTION** Select the one or two suppliers who best meet your requirements. Key factors to consider in this phase are fit to requirements, experience and geographical presence, cultural fit, your likely position and priority in the supplier's portfolio and financial considerations such as cost, upfront investment and flexible financing options

5. **CONTRACTING** This starts with preparation and internal alignment before entering the contracting process. How will your negotiating team be made up? What are the roles and responsibilities of team members? What is important to you, what are you prepared to give in on? Mapping your ingoing position will provide valuable insight to how the contracting process is progressing, and give important transparency to losses and gains in position. Preparation upfront will ensure a smooth and efficient contracting process

6. **IMPLEMENTATION AND TRANSITION PLANNING** Identify your responsibilities in ensuring a smooth implementation and ensure your team is properly resourced and skilled. Define any training and communications required for the implementation phase. Define your project governance processes and tools to be sure you maintain control as the project progresses. Define and track key milestones, go-live criteria and checkpoints to avoid surprises late in the day.
The role of transition in ensuring success

Planning and managing the transition of a payroll from in-house ownership to the outsourcer's control is one of the most demanding and intensive parts of the outsourcing process. It also provides an opportunity to set the tone and future success of the outsourcing relationship.

The following hints and tips are designed to help ensure a smooth transition:

• Don’t underestimate the amount of internal resource required to transition from one payroll system to another or from in-house to outsourced service provision. Your participation and input is key to ensuring a successful implementation while maintaining business as usual services. Ensure clarity around the split of responsibilities between you and the vendor, what tasks the vendor needs you to do, when, how long it will take and what skills will be needed.

• Define a clear and simple service management process for the transition including rules, frequency and nature of engagement with the vendor’s project management team. Make sure communication channels are kept open at all times.

• Agree a simple set of reports to help track progress and highlight project slippage early on, and then make sure they’re used.
• Communicate clearly what the new payroll service delivery will look like, what will stop, start and continue for line managers, employees and retained payroll staff in the new payroll delivery model.

• Thoroughly prepare the retained payroll and HR functions for the new way of working, including providing the opportunity to build the required skills and understand the new roles and responsibilities.

• Ensure regular communication with stakeholders, and that messages are consistent and accurate. Executive sponsorship is key to a successful implementation of payroll outsourcing.

• Ask your supplier lots of questions about the future service, and make sure they’re answered. Credible vendors will have no difficulty in answering your concerns and will generally be patient to ensure you have the answers you need.
Key risks in the transition phase

Orion Partners has identified the following potential risks in the transition process:

• Limited commercial experience of the staff involved in the contract negotiation can lead to a poor contract for the service buyer. Poor preparation on the side of the buyer can result in a contract which is does not reflect their specific needs.

• Incomplete transfer of technology or data, poor access and weak support can compromise service delivery during transition.

• In-house change management resources and skills are insufficient to sustain the transition program, which can cause the project to stall or take longer than planned.

• Continuity of third-party service provision during the transition is compromised as relationships with suppliers are lost with the transfer. In some cases existing third party providers may not want to collaborate with the new outsourcing provider.

• Loss of key staff during transition can compromise service delivery capability and quality both during the transition phase and after go-live.

• Incomplete transfer of knowledge means that the outsourcer’s staff don’t have the capability or documented information to handle complex cases.

• Loss of personal relationships with payroll staff members can lead to employee dissatisfaction. It is essential to manage employee expectations upfront of how the service will work, and what will be different in the new world.
Top 10 lessons learned in payroll outsourcing

1. Ensure you have a clear definition of your scope and requirements – what do you want to outsource? How does this compare to what others are outsourcing? What is important?

2. Engage early on with suppliers – this maximises the quality of the solution, the chances of selecting the right partner and minimises wasted time for all parties.

3. During supplier selection make sure you see and experience the supplier’s capabilities for yourself. Talk to their existing clients and ask them about their lessons learned. Also, visiting the premises where your services will be delivered from will help you gain comfort with the service you’ll be getting.

4. Don’t underestimate the importance of culture – if you and your supplier have different cultures, it may be difficult to make the solution work, even if it is the best one on paper. If a supplier operates in a highly standardised way, and you are used to flexibility, this will put unnecessary strain on the relationship even before the contract is signed.

5. Engage in the contracting process – this is where you learn about what you are buying and what you can realistically expect from your supplier.

6. Be realistic about what you expect of your supplier – an unduly harsh contract or unreasonably low pricing will impact service.
7. Allow sufficient management time to agree and apply contract change control processes upfront. Change happens frequently, so be sure you know change will be handled and what it will cost.

8. Define and use a robust service management process. Define simple clear reports, appropriate meeting frequencies and communication principles. Make sure these are used, not just theoretical processes.

9. Do not underestimate the importance of the retained payroll organisation – define their roles upfront, ensure they are properly skilled and have all the required information to support the outsourcing.

10. Continuous improvement is a two-way responsibility – you need to work together with your supplier to achieve this.
What does the future hold?

Outsourcing is increasingly a component of a company’s HR Transformation strategy, be it tactical or strategic. As the number of success stories and lessons learned increases, stakeholder resistance to outsourcing is decreasing. One by one the traditional barriers to payroll outsourcing are being eliminated, as suppliers are offering more flexible solutions including pay-as-you-go options, pre-configured platforms and better integration with other HR modules. Solutions exist today for smaller, dispersed organisations, where previously this had prevented many global companies from fully embracing payroll outsourcing.

For this reason we expect payroll outsourcing to grow in the coming years through an increase in the number of companies engaging in outsourcing, increasing use of outsourcing in the public sector and growth in the scope of payroll services being outsourced.

FOR MORE INFORMATION ABOUT HOW TO ACHIEVE RESULTS THROUGH PAYROLL OUTSOURCING CONTACT +44 (0)20 7993 4699

info@orion-partners.com

or visit our website at

www.orion-partners.com