Rethinking Payroll Performance

Addressing the Limitations of Payroll Insourcing and Outsourcing

Considering the ongoing headaches associated with both conventional insourcing and outsourcing, many company leaders are seeking new alternatives.

Top executives at small and mid-sized companies often find themselves frustrated, disappointed or dissatisfied with their payroll function.

Companies that handle payroll in-house often worry about the threat of tax penalties, the burdens it places on management time and the added expenses associated with technology upkeep. Companies that outsource the function typically have limited access to payroll and human resources information, suffer hidden costs, and must file their payroll on their external provider's rigid schedule.

Considering the ongoing headaches associated with both conventional insourcing and outsourcing, many company leaders are seeking new alternatives. Fortunately, there is a third solution that draws on the best of insourcing and the best of outsourcing, while addressing the limitations of these two approaches.

This new solution — payroll co-sourcing — lets companies focus on what they do best. But it also gives company leaders the control, flexibility and realtime, data access necessary to manage their payroll and people in an optimum way. By providing a dashboard view of key information, this hosted solution enables companies to smartly analyze, manage and execute payroll and human resources (HR) activities. And better payroll and HR performance means better business performance.

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Confronting the Payroll Problem

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Payroll is critical to the operation of a business. With this in mind, many companies keep the function in-house so they can maintain tight control over it. However, companies derive no competitive advantage from payroll. They are often frustrated because they want to spend their time focused on core aspects of their business — those that generate revenue and profit. So some companies outsource payroll and rely on an external service provider to process payroll. Unfortunately, they then discover that this approach creates new frustrations.

Whether you are managing payroll in-house or outsourcing it to an external party, you are bound to confront a series of key performance limitations:

The Limitations of Insourcing

The trouble with managing payroll in-house is multi-fold. Here are some of the key limitations that companies face when insourcing their payroll management:

- **Payroll tax responsibilities.** The limitation cited most often is taxes themselves. Companies suffer severe financial penalties if taxes are misfiled. This is a major issue. According to the Internal Revenue Service, 40% of small businesses are fined each year due to violations of payroll compliance rules.

- **Data security concerns.** Companies in this situation also struggle to secure data, a growing concern given some of the high profile cases reported in the media involving lost, breached and stolen data. Inhouse databases are often difficult to secure. Server rooms often are wide open and anyone can walk off with a back-up tape or disk. While employee payroll and salary data is sensitive, many companies are vulnerable to negligence or malfeasance in this regard.

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- **Costs of hardware and software maintenance.** The other big problem associated with insourcing payroll is that it forces companies to take on the burdens associated with software and hardware upgrades as well as the personnel costs linked to system maintenance. Federal and state tax tables and the software itself must be updated on a periodic basis. Hardware must be purchased for data storage and processing. Technical experts must be employed not only for system management and maintenance but also to ensure data is not lost should there be a system shutdown, disk crash or even a fire or natural disaster of some kind.

The Limitations of Outsourcing

Outsourcing also is fraught with problems and frustrations. Among the key limitations associated with payroll outsourcing:

- **Inflexibility of providers.** The core problem that companies experience with outsourcing is related to the inflexibility of their providers. While companies value the ability to manage payroll on their own schedules, most outsourced payroll companies require you to adhere to their own rigid deadlines. The other aspect of outsourcer inflexibility that can be problematic is one's inability to verify that all payroll information has been properly entered and assembled prior to the actual issuing of checks. Mistakes, which are common under such circumstances, can lead to added fees and charges in order to fix them. Otherwise, employees will be paid incorrectly or late.

- **Limited functionality.** In particular, outsourcers, which often run their services on legacy mainframes, have little or no ability to provide real-time, ad hoc and custom reports. Such reporting on payroll and HR is often critical to business leaders who want to smartly track company trends and strengthen their decisions. Without these capabilities, a business owner is unable to dynamically review employee payment data or adequately keep track of employee training and development. Nothing is more important to a company than its people, but outsourcing often means that key data about a company's people is largely inaccessible.

- **Complex pricing.** Outsourcers also have frustrated their clients by creating complex pricing methodologies, loaded within hidden fees and veiled price increases. Clients often feel nickeled-and-dimed as check delivery charges, printing costs and reporting fees are tacked on to their bills. Some companies are known for raising their service fees deep in the summer when staff members often are out on vacation and are less likely to notice. In fact, payroll service fees tend to be drawn directly from payroll accounts — where they are simply added to salaries, wages and taxes—so clients often end up paying more than they realize. While fees are itemized in payroll reports, it's often difficult to decipher exactly what fees have been added and how they line up with what has been previously quoted.

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The Absence of Relevant HR Capabilities

Whether companies insource or outsource the payroll function, they face a further limitation in terms of integrating relevant HR information with their payroll systems or services. Just as companies need to manage payroll data well to ensure their employees are paid accurately and on time, they need to analyze, manage and act on HR and personnel information in order to ensure their employees are well managed. Unfortunately, few companies now effectively integrate these types of HR activities with payroll — leading to higher costs, legal risks and the suboptimal management of company talent.

Companies need HR expertise even if they can't afford to hire a full-time director of human resources. Managers need to be able to quickly look up information pertaining to state employment law — whether the issue is hiring practices or parental leave. They also need employee profile data such as skill requirements and the ability to track employee events such as scheduled training or performance reviews. While it makes sense to integrate HR and payroll data in order to manage one's people most effectively, small and mid-sized companies rarely have been offered an integrated solution of this kind.

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The Convergence of Payroll Management

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Payroll processing has evolved along two separate paths over the past 50 years. It has two histories: one for in-house and one for outsourced processing. However, these two histories are now poised to collide — or converge.

The do-it-yourself, in-house approach began with graph paper, ledger books and hand-written spreadsheets. With the introduction of the personal computer and programs such as Lotus 123 and Excel, companies began to automate their payroll activities more actively. Payroll software then became more feature-rich with the introduction of products such as QuickBooks. In recent years, still more sophisticated software packages have emerged, often providing industry specific templates and capabilities.

The outsourced, service provider approach began in the 1950s when payroll was among the first large-scale computer applications. Service providers such as ADP and Paychex emerged in the 1960s and 1970s, enabling companies to outsource payroll. Outsourcing has improved since then, but many of the best known companies still operate on the legacy systems that were built decades prior. They have created Web-based front ends for their systems, but their features and capabilities are constrained by the limitations of their underlying systems. While they offer HR capabilities, such offerings are typically packaged and sold separately from payroll.

The Payroll Co-Sourcing Solution

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Now, we have come to a point of convergence. The Internet has evolved to allow real-time, secure and feature-rich access to software functionality that is hosted on the Web. Hosted solution providers — also known as "on-demand providers" or "application service providers" — now have the ability to rapidly roll out new features without requiring any downloads or upgrades on the part of the user. They can give users the ability to outsource application management and payroll processing services without sacrificing the control, flexibility and accessibility associated with an in-house payroll function.

The convergence of payroll insourcing and outsourcing — addressing the limitations of both — can best be described as payroll co-sourcing. It's a Web-based and hosted solution that allows businesses to have all the control over payroll information and processes that has encouraged many to keep the function in-house in the past, while also gaining the ability to focus on the core aspects of the business that generate customer value and competitive differentiation — an advantage that has encouraged other companies to outsource over the years.

In addition, payroll co-sourcing providers are now able to leverage the economics of the Internet to cost-effectively integrate key elements of HR analysis, management and support into the overall solution — giving business executives and managers the ability to better manage their people as well as their payroll.

It is described as "co-sourcing" because it is based on a cooperative and collaborative relationship between a business and the hosted solution provider. The business executive is outsourcing payroll activities that clearly are not core competencies (such as payroll tax management or software and system maintenance), while keeping firm control over the aspects of payroll (such as the payroll and employee data itself) that are, in fact, critical to the strong performance of the business. Among the key advantages and benefits of this approach are:

Management Control. Critical to the effective operation of any company is the ability to control, manage and analyze payroll and employee data. Payroll co-sourcing provides all the control over such data — the ability to analyze it through executive dashboards, slice and dice it through query tools and generate custom management reports — that is typically associated with inhouse payroll functions.

Process Flexibility. With payroll co-sourcing, business leaders have the same flexibility to file their payroll and check it for errors and inconsistencies that they would have with in-house payroll. They would also be liberated from the rigid deadlines and schedules of conventional outsourcers.

Real-Time Data Accessibility. With on-demand access to information, the distinctions between accessing data from an in-house network and over the web melt away. Company leaders gain immediate, real-time access to the data they need to plan, make decisions and execute payroll and HR activities. The data is clearly accessible; it is not hidden in the legacy mainframes of a conventional outsourcer's system.

Core Business Focus. While conventional outsourcers leave much to be desired in terms of control, flexibility and data accessibility, they do offer the benefit of allowing their clients to focus on the aspects of their business that truly drive value and differentiation. Of course, they take away with one hand what they provide with another. Payroll co-sourcing is designed to enable companies to focus on core competencies without outsourcing key payroll management factors that are critical to overall performance.

Payroll Scenarios: With or Without Co-Sourcing

In order to fully understand the business value that payroll cosourcing can deliver, consider some typical scenarios.

In order to fully understand the business value that payroll co-sourcing can deliver, consider some typical scenarios that illustrate how it can be a solution to existing payroll problems or address a company's current dissatisfaction. Here are two typical cases — one based on outsourcing, one based on insourcing — that show payroll co-sourcing can address the challenges and limitations that companies might face.

Imagine a small business owner with 25 employees who outsources payroll. He has clients calling constantly in need of assistance, employees that need salary information and company bills to pay. He does the best he can to manage his schedule, but he often gets called into client meetings during the time that he sets aside for doing payroll. That's no excuse to his outsourcer. It has set a bi-weekly deadline on Wednesday (when payroll is due on Friday). But there have been many changes leading up to the deadline this particular week. New employees were hired. New bonuses have been earned by members of the sales team. So he must rush to get payroll completed on the payroll provider's schedule.

Unfortunately, the rushing has led to mistakes that were not visible until the checks are delivered. There was no way to use the web-based front end on the outsourcer's legacy system to detect these mistakes or verify that all information was accurate. Now he has the check vouchers in hand and several are inaccurate. To fix the problem and have the correct payments sent through direct deposit, he knows his company will be assessed added fees by the payroll provider. The inflexibility associated with outsourcing has led to errors that now are costing him money.

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The control, flexibility and real-time access gained through payroll co-sourcing allows for greater peace of mind when payroll is handled accurately and effectively.

Now, consider this same scenario with payroll co-sourcing. Instead of rushing to meet a rigid deadline for submitting payroll, this business owner could have managed the process on his own schedule. If he preferred, he could have gone home, had dinner with his family, put the kids to bed and then, could have settled down in his home office to complete the payroll preparation.

He now has the time — without interruption — to carefully check the figures and go over the details to ensure no errors are made. And once the information is submitted, he can check it again online the next morning to verify that all calculations are accurate and make necessary changes prior to finalizing the payroll run. The control, flexibility and real-time access he gained through payroll co-sourcing have given him greater peace of mind and ensured that payroll is handled accurately and effectively.

Or consider the case of a mid-sized business with 80 employees that has kept its payroll function in-house since it was launched 12 years prior. The company has a controller that manages payroll and depends on a payroll software package to handle the process. Unfortunately, the payroll software has experienced a glitch after an update. The glitch is making it impossible to complete the process.

With great haste and concern, the controller has called in an IT consultant to fix the software. While the consultant will not be available until midday, the controller knows that he must get payroll information out that afternoon to ensure direct deposits are made on time.

When the consultant finally arrives and is able to diagnose the problem, he informs the controller that key data was not backed up on the server and has been lost. The controller realizes he will miss payroll this week because it will take time to replace the data. So employees get paid late. They aren't happy. Neither is the CEO.

Had the company engaged in payroll co-sourcing, the data would have been securely backed up, protected and hosted in the service provider's data center. There would have been no in-house software that needed updating. Tax tables would have been changed and made visible through executive dashboards that are available online in real-time. There would have been no necessity for server backups. The controller could have completed payroll on time without fear of data loss. Payroll would not have been missed. And the CEO would not be angry with the controller.

What to Look for in a Payroll Co-Sourcing Solution

Payroll cosourcing represents the best of both worlds. It's an opportunity to gain the control, flexibility and accessibility of insourcing, while focusing on the core competencies of your business.

For companies that are interested in exploring the payroll co-sourcing solution still further, it is important to have a solid set of criteria to guide one's consideration and decisions with regard to potential service providers. Here are seven key factors to look for in a payroll co-sourcing solution:

1 **Sophisticated executive dashboards and management reporting tools.** Services should offer high value analytical and custom reporting tools that make it easy to analyze key data and assess trends and patterns.

2 **Payroll visibility.** The online service should allow you to view and verify the accuracy of submitted payroll data and calculations prior to finalizing the payroll run.

3 **Real-time, Web-based.** The solution should provide immediate access to payroll data from anyplace at anytime.

4 **No software to download or manage.** The solution should be completely hosted, freeing the customer from having to update software, back up the data or manage hardware. It should be fully Web browser-enabled with no need for special plug-ins.

5 **Integrated payroll and HR capabilities.** The economics of the Internet now make it cost effective to offer an integrated solution that enables the management of both payroll and human resources data.

6 **Bonded and insured.** One should ensure that the payroll co-sourcing company that accepts tax deposits is bonded and insured to reduce the liability of theft or fraud.

7 **Clear pricing.** It should be clear and obvious how services are priced and what you are being charged. There should be no hidden fees. If services such as check signing, delivery and custom reports require added fees, these should be clearly spelled out for your consideration.

Payroll co-sourcing represents the best of both worlds. It's an opportunity to gain the control, flexibility and accessibility of insourcing, while leveraging the benefits of outsourcing by focusing on the core competencies of your business. The key is to ensure you recognize the limitations of current approaches and can fully assess the costs and risks associated with them. If it makes sense to consider payroll co-sourcing instead, then it's vital to find a highly capable and trustworthy partner that can take your payroll and HR processes to the next level of performance.

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About MyPayrollHR

MypayrollHR enables companies to drive greater performance by effectively managing payroll and employees.

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MypayrollHR offers an on-demand human resource and payroll software solution that gives managers full control over payroll. employee and human resources data. With a fully secure data center, MyPayrollHR provides real-time access to management dashboards, custom reporting features and payroll processing capabilities that combine all the advantages of both insourcing and outsourcing.

MypayrollHR.com, which recently celebrated its 8th anniversary, develops software which addresses the payroll challenges of companies in a wide variety of industries. Its integrated payroll and HR software products are used by corporations processing payroll for employees in virtually every state and U.S. territory.

Come Take a Guided Executive Tour of MyPayrollHR

Business and financial executives are encouraged to come take a guided tour of the MyPayrollHR solution online.

The executive tour, led by one of our senior advisors, will let you see and experience the management dashboards, custom reporting and key features of the payroll co-sourcing solution.

To arrange a brief guided tour, contact us toll free at (866) 697-2947 or visit our site at www.mypayrollhr.com.