
Key Considerations in Payroll Management:

The View from APAC



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Executive Summary

An effective payroll management strategy provides far reaching benefits to an organization – by improving employee satisfaction, reducing compliance risk, and thereby, enhancing the effectiveness of human capital management. Organizations in the Asia-Pacific (APAC) region are growing fast, while competing with or complementing global organizations. Payroll management presents unique challenges in this region including diverse and evolving business conditions, changing regulatory requirements, and rapidly increasing number of employees.

This paper is based on a survey conducted among payroll professionals in the APAC region, aimed at understanding their payroll practices and strategies. While smaller organizations are still using in-house payroll systems or just plain paper- or spreadsheet-based systems, larger organizations tend to outsource end-to-end payroll management. The paper also highlights the impact of fragmented payroll systems on compliance and some of the key questions that can be used to assess payroll management vendors.

Key Questions Answered

- How do organizations administer payroll in APAC?
- What are the key payroll compliance risks and costs to the organization?
- What are the key parameters to evaluate your payroll partners?





Table of Contents

2 Executive Summary

4 Introduction

5 Payroll Professionals are Largely Dissatisfied

6 How Organizations are Administering Payroll in the Region

7 Organizations with Smaller Operations in APAC Tend to Use In-house Payroll Solutions but Rely on Outsourcing as their Headcount Increases

8 Why an Integrated Payroll Solution Makes Sense

9 The Risks of Non-compliance in Payroll


11 Choosing the Best-suited Payroll Vendor

12 What's Next for Payroll Management in APAC?

Introduction

Managing payroll is growing more challenging with each passing year in the Asia-Pacific region with constant legislative changes, evolving technologies, and changing work habits. Organizations in the region are witnessing rapid growth, resulting in a growing headcount. Payroll management presents unique challenges in this region including diverse and evolving business conditions, changing regulatory requirements, and increasing number of employees. Late payments, inaccurate calculations and deductions, and similar errors can lead to friction between HR teams and employees, while also impacting the financial accounts. A robust payroll strategy is therefore critical to minimizing the risks of legal and auditing compliance.

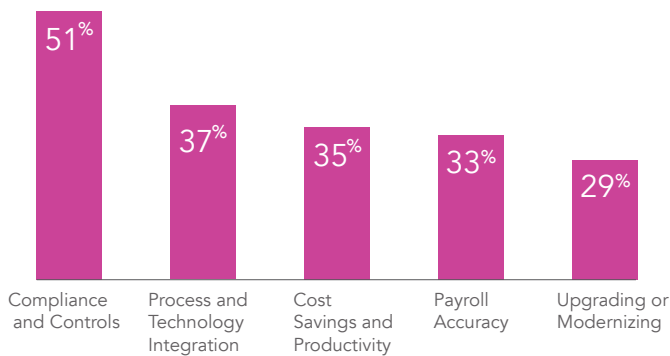
Leveraging automation and technology can greatly enhance the value of the payroll administration. In addition, analytics, industry benchmarks, and other key performance indicators can augment the payroll management of an organization. However, our survey showed that organizations, both large and small, are still using paper- or spreadsheet-based systems and in-house solutions to complete these increasingly complex tasks which raises the following question:

A woman with long dark hair, wearing a grey sleeveless dress, is standing in a modern office environment. She is looking down at her smartphone in her right hand, while holding a white coffee cup with a brown sleeve in her left hand. The background shows a blurred office interior with a staircase railing.

How satisfied are Asia-Pacific payroll professionals with their current payroll solutions?

Payroll Professionals are Largely Dissatisfied with their Current Vendor's Services

A research study from Deloitte on Global Payroll Operations, Dec 2014 reveals that dissatisfaction outweighed satisfaction in many important areas of payroll management. The most common focus areas that need improvement include the vendors' compliance with current processes and regulations and enhanced integration with other systems.



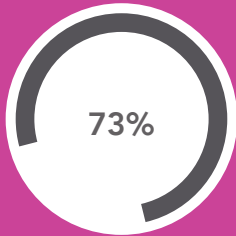
1 in 2 payroll professionals in APAC are not confident of their organization's ability to protect itself from a security breach

Figure 1 : Percentage of payroll professionals selecting each item as a top area of improvement

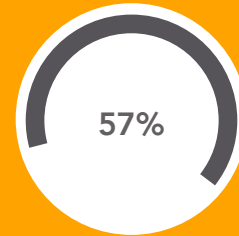


How Organizations are Administering Payroll in the Region

The study indicated that almost a third of the organizations in APAC were using only paper- or spreadsheet-based payroll management systems, or had payroll systems that were developed in-house.



of organizations in Indonesia
and...



...in the Philippines and India
are still using only paper- or
spreadsheet-based, or in-house
developed payroll management
systems



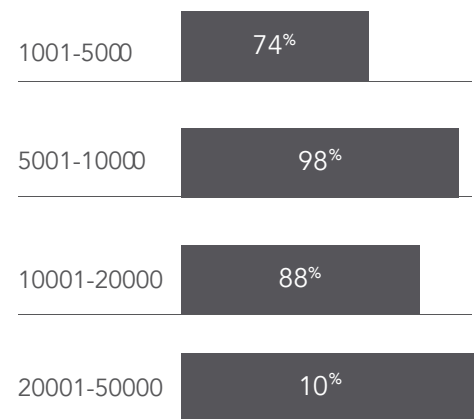
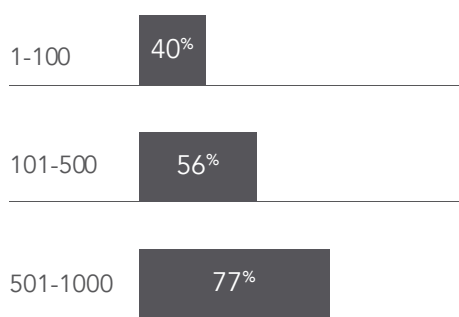
So what does this really mean?

- Are organizations reticent about adopting technology to make payroll efficient?
- What are their concerns in investing in state-of-the-art, automated payroll management system?
- What types of organizations outsource their payroll solutions?

For smaller companies, the decision to outsource may come down to cost and time saved. While these immediate measures are important, longer-term considerations can add value. For high-growth small and medium businesses, a key factor may be the scalability outsourcing offers. You focus on growing your business, and whether you add 10 people or 1,000 people, your outsourcer manages this volume without disruption to your daily activities.

Larger organizations in the region are leveraging outsourced solutions either partially or fully. 100% of organizations with headcounts between 20,000 and 50,000 have outsourced payroll, whereas only 40% of organizations with less than 100 employees have done so. Figure 2 provides a wider view of how organizational size is directly correlated to outsourcing of payroll services.

Organization headcount in APAC



■ Organization headcount in APAC

Figure 2 : Percentage of organizations using partially- or fully-outsourced solutions

Once an organization decides to outsource, adopting a holistic and integrated payroll solution is likely to prove more beneficial over the long run.

Why an Integrated Payroll Solution Makes Sense

Many multinational organizations are realizing the need to consolidate their global payroll as integrated payroll systems offer many advantages including ease of compliance, operational efficiency, and consolidated reporting. But, our survey shows 79% of organizations have fragmented payroll structures, and only 9% of organizations have one solution or vendor for APAC. And, on average, APAC-based organizations employ five payroll vendors and organizations headquartered outside APAC employ three payroll vendors

As companies globalize, there is a marked increase in the risk of non-compliance with regard to global payroll regulations. Frequent updates to payroll legislations across APAC make payroll administration increasingly complex as organizations need to stay informed of the latest regulations.

Fragmented payroll systems increase the risk of non-compliance.

Our survey revealed that by consolidating their payroll systems, organizations in APAC are able to improve their compliance with local payroll regulations. It further revealed that payroll executives who rely on multiple payroll vendors are less confident that their solutions help them remain compliant with ever-changing local payroll legislations. 80% of payroll professionals accessing a single payroll solution agreed that their solution helps compliance as opposed to only 60% of professionals who used six or more vendors.

There have been

562 Changes to Payroll legislations across APAC in the last 3 years



The risks in fragmented payroll strategy increase by **3.5 times** if the organization has **6 or more vendors**

The Risks of Non-compliance in Payroll

While the APAC region presents robust opportunities for growth, the diverse countries in the region pose several challenges in compliance across the different jurisdictions and governments. Legislations within the region continue to evolve rapidly. Ensuring compliance in this environment requires organizations to keep pace with the changes. Given the risks in non-compliance, oversight in adherence is not an option (see Figure 3).

1.24 M US\$



On an average, payroll non-compliance costs organizations a penalty of US\$ 1.24 million in over five years.

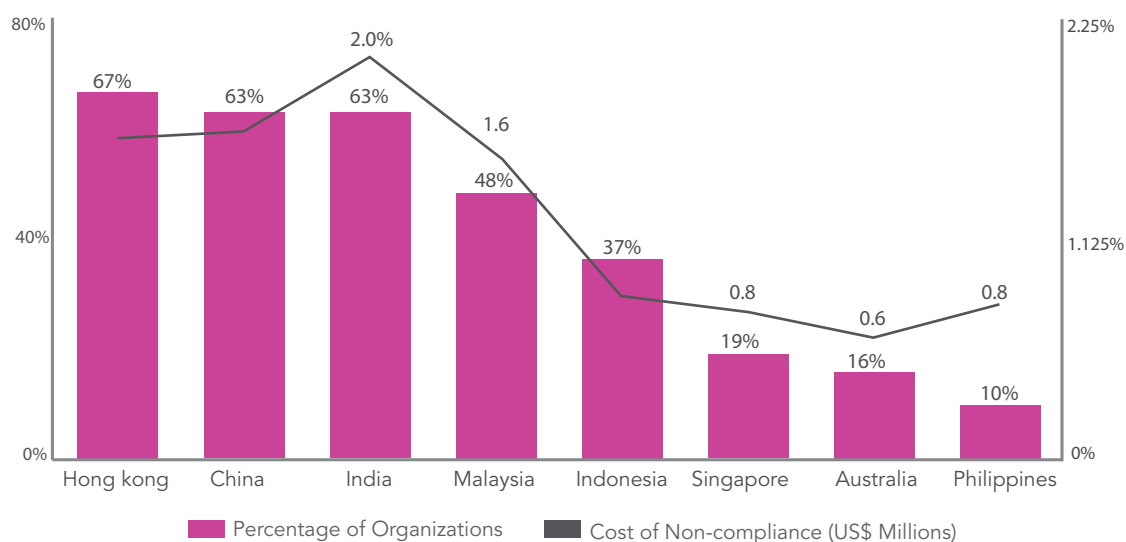


Figure 2: Percentage of Organizations that have had Non-compliance Issues about Payroll and Total Cost Incurred

A Majority of Organizations in China and India have Incurred Significant Costs for Payroll Compliance Over the Past Five Years

The survey shows that approximately 40% of organizations in APAC have faced non-compliance issues related to payroll in the last five years, including organizations in Hong Kong, China, and India. A Deloitte¹ study indicated that compliance and controls was a top area for improvement for organizations in the APAC region.

This brings us to the final question:

How can organizations evaluate payroll solutions providers?

¹Deloitte, "The Payroll Operations Survey Summary of Results," December 2014



Choosing the Best-suited Payroll Vendor

To build an effective payroll management system, it is critical to ask the right questions of the payroll provider. Whether payroll is outsourced as a managed service or payroll software is procured, it's important to evaluate whether the vendor has the scale and flexibility, and can provide value. Here are some questions that can help payroll professionals evaluate vendors effectively.

- What is the vendor's breadth of expertise in payroll management?
- What is the scale of operations the vendor is able to support?
- How robust are the vendor's IT systems and what support do they provide?
- What are the integration capabilities of the vendor?
- What types of training is the vendor willing to provide your team to manage payroll?
- How updated is the vendor in terms of global compliance norms?
- Does the vendor have granular knowledge of local requirements?
- How well versed is the vendor with tax and other requirements?
- What is the vendor's commitment towards customer support?
- How will the vendor provision access to information for your employees and suppliers?
- How does the vendor manage security across all available platforms?



What's Next for Payroll Management in APAC?

Organizations today operate under tight budgets and time constraints. Initial investments in robust payroll software can reduce the payroll costs of the organization in the long run. In order to choose the right payroll management system, an organization must evaluate several factors such as growth forecasts, employee satisfaction, and the vendors' capabilities. As organizations grow, they must also be able to envisage their future needs.

With increasing growth, the focus needs to shift from task management to value-based contribution. By outsourcing more administrative payroll tasks and employing cloud solutions with self-help functionalities, organizations can enable their payroll staff to move on to more strategic activities. These include analyzing payroll data to learn more about employees and identify opportunities for improvements, and providing management and executive staff with decision-making tools and insights through reporting. By adding control and flexibility back to the process, robust payroll management solutions minimize risks, and enhance productivity and compliance for competitive advantage.



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