



# What's Hot Now: Payroll Technology Trends

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To those who work outside of payroll, the job appears simple enough. Payroll is about paying employees on time and accurately—so why are we constantly trying to improve how we do it? More often than not, an on-time and accurate payroll is not the only demand on the Payroll Department. At the end of the day, there is a long list of projects that the organization would like Payroll to tackle, such as compiling special management reports or supporting a HR initiative, which helps shift the payroll function towards one that delivers broader strategic value to the business.

So the question becomes, “How do we find the time to invest in adding greater value to the business while ensuring the delivery of an on-time and accurate payroll?”

From our perspective, there are three key payroll technology trends that can help with this fundamental shift: a holistic approach to managing employees through greater integration between Payroll and HR, a greater use of self-service, and a move towards using metrics to identify opportunities within the organization.

## Greater Integration between Payroll & HR

One commonality among the trends we’re seeing in payroll is a shift towards a more holistic approach to managing an employee’s relationship with the organization. When you consider all the players involved in managing an employee, this is a natural evolution.

At the centre is the employee, who owns particular information, such as emergency contact details. There is HR, which owns the employment terms, with information such as the employee’s salary or pay rate. Of course, there is Payroll, which owns the information linked to administering payroll, such as benefits and tax deductions. Finally, there is the employee’s manager, who is responsible for the employee’s hiring, performance management and compensation.

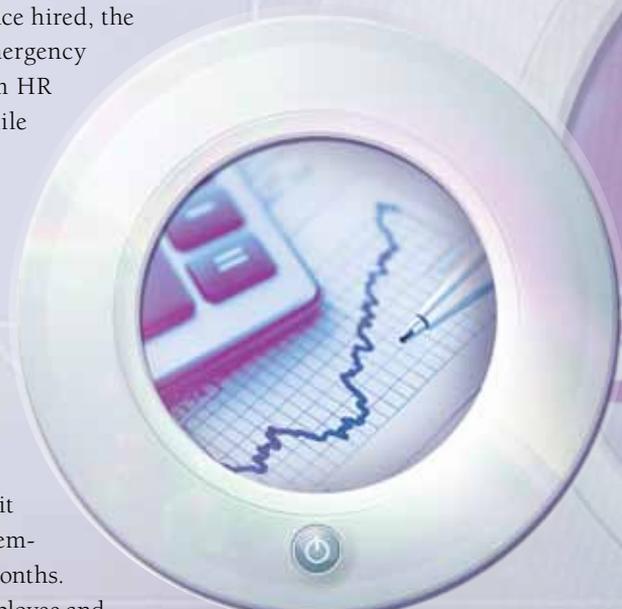
As you can see, the employee relationship is multi-faceted, but in many organizations today the relationship is seldom managed cohesively. For example, there are often separate forms and computer screens for Payroll versus HR for employees, and managers often feel overburdened with administration.

To understand how a holistic approach would work, let’s take a common task such as hiring a new employee. Once hired, the employee record must be created, HR needs emergency contacts, Payroll needs salary information from HR and deposit information from the employee, while the manager needs to define the employee’s goals.

Now imagine a new hire process that begins with the hiring manager, who simply designates a recruitment applicant as the successful candidate for the position. The new employee information is automatically available online through the recruitment process, and the manager only needs to complete a few pieces of additional information. Once the employee starts, they log in online and provide emergency contact information, payroll deduction information and payroll deposit information. The manager defines goals for the employee and schedules a progress review in three months. The system will automatically remind both the employee and manager about the review when the time comes. With no intervention, Payroll has salary, deduction and deposit information for the new hire.

As you can see, with a more holistic approach, workflows can become essential to streamlining the entire employee experience while finding more time for the Payroll Department.

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## Self-Service 2.0 is Here

After years of cautious adoption, organizations are finally deploying self-service functions on a broader scale. Self-service is one way to improve an organization's payroll and HR efficiencies while reducing costs. It also positively impacts reductions in paper consumption, delivery costs and emissions.

Over the past 10 years, we have viewed self-service as a way of streamlining some of our payroll tasks, such as delivering pay statements online. Many organizations have endeavoured to deploy self-service to employees with mixed results, often not getting the traction they had expected. As we approach a more holistic perspective of managing the employee's relationship with the organization, self-service is becoming a linchpin in the process. So, if self-service is that important, how is it improving?

First of all, even the least sophisticated user is being increasingly exposed to the Internet and becoming more familiar with the basics on the web. Meanwhile, self-service solutions are becoming more user-friendly, often just as intuitive to use as any search engine or web mail on the Internet. This familiarity in form and function is helping close the user acceptance gap.

Self-service solutions are also becoming more sophisticated, including features such as the ability for employees to reset their own password, which studies suggest is the highest administrative burden of a self-service solution.

To encourage employee acceptance and use, some providers now provide roll-out material and best practices. This material focuses on conveying the importance of self-service to employees, getting executive endorsement and sharing how other organizations have succeeded in deployment.

One organization that has experienced the positive change adopting self-service can provide is Vancouver-based LUSH Cosmetics. As a leading manufacturer and retailer of cosmetics, LUSH's employee base grows during the holiday season to reflect increases in both the number of products it sells as well as total sales.

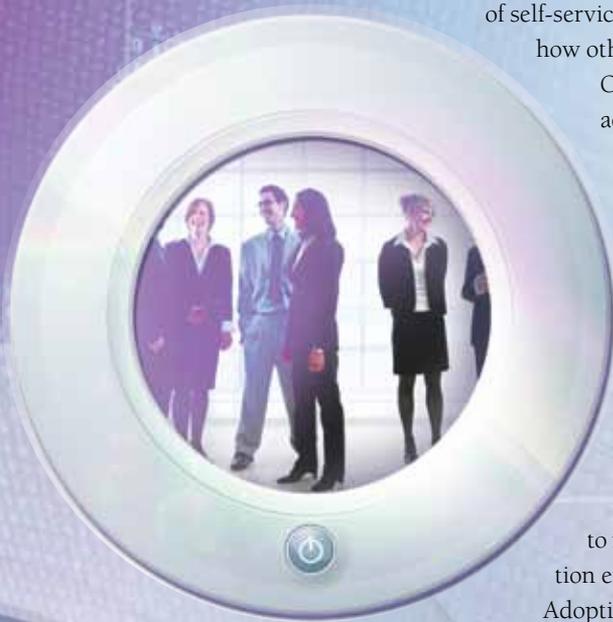
During peak season, the number of employees to be paid can double, going from 750 to between 1,300 and 1,700. LUSH incurs additional HR and administrative costs to manage the incremental payroll, paying more than \$14,000 in courier costs each year, for example, to mail pay statements to locations across Canada.

Another key business challenge LUSH faces is adherence to its green policy, which encourages a decrease in transportation emissions and paper consumption.

Adopting self-service was one way LUSH could streamline payroll functionality, save money plus reduce its environmental impact.

Using self-service allows LUSH employees to interact directly with the company's payroll system. They can change their address and banking information, verify tax deductions, and view and print all pay and tax statements. The easy-to-deploy system is designed to increase employers' efficiencies so they can focus on other business priorities while decreasing administrative costs.

For employers unsure of whether to take the leap and adopt self-service, the truth is that self-service does not impose—it empowers. It puts the control of information



into the hands of those who own the information—employees. Self-service enables employees to access the information they need, when and where they need it.

## Implementing Metrics

In the past, Payroll, though a mission-critical business function, was not expected to add strategic value to the organization. However this point of view is changing—largely due to the increasing importance placed on measurement and metrics. Measuring and managing performance is crucial in determining which large challenges are at hand.

Metrics measure explicit figures within an organization in order to identify internal strength and weaknesses. Ultimately, metrics assist in determining both the effectiveness and opportunities for improvement within the company.

As an example, let's look at benefits as a percentage of total compensation, an indicator measurement that is used to monitor non-taxable/non-cash labour costs. Tracking benefit cost as a percent of total compensation provides management with valuable information for use in managing the costs associated with benefits. This information can be useful when looking at hire versus lease or outsource decisions. Trends up or down in this factor will reveal costs that need attention or value that has been added with increasing relative costs.

Another key payroll metric is the total compensation as a percentage of revenue, an indicator measurement that is used to monitor labour costs. Tracking total compensation as a percent of total costs provides managers with valuable information for use in managing the costs associated with human capital, including evaluating the use of fixed versus variable compensation. Following this measurement will also permit an organization to determine if personnel cost (as indicated by base pay, incentives and benefits) is in line with organization goals, benchmarks and business plans.

One underutilized metric of corporate performance is profit per full-time employee, which upends the formula traditionally used for measuring a company's ability to create wealth. Instead of focusing on return on invested capital, this yardstick measures a company's success by the cumulative value created by its employees. While accounting for intangibles like employee knowledge, corporate reputation and customer relationships is a bit trickier than standard financial reporting, it can provide additional insight into how a company creates value.

Benchmarking analytics is about prediction. Discovering how an organization benchmarks against its peers can help spot an organization's challenges—and opportunities. If you use metrics to help predict the future with confidence, you will be a sought-after adviser with a key seat at the table.

## Embracing a Holistic Approach

We see an exciting future as Payroll continues to strengthen ties with HR and other business functions.

As tasks are evaluated across the various areas, organizations are discovering they can provide an improved employee and manager experience while increasing efficiency with tightly unified Payroll and HR functions. By taking this holistic approach, Payroll and HR can improve the facilitation of the employee relationship while finding time to contribute more broadly.

As Payroll integrates with other areas of the business, new insights will also be gained. ■



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