



Payroll: Making the Case for Change

How to build a case for a unified payroll
solution that aligns with business goals

For most organizations, payroll challenges emerge at year-end, when the pressure is on. Problems common to legacy payroll systems such as reporting, balancing efforts, special file loads, reconciliations, unique file types, and more create time-consuming, error-prone bottlenecks. Managers start to think about how processing could be simplified and streamlined and start to shape plans to improve payroll. But too often these proposed changes get swept aside by the regular work of paycheck processing and another year goes by without implementing a solution that could improve payroll processing and contribute to the growing demands of the organization.

Every company wants to receive the perfect paycheck on every payroll run. Every employee in the company expects to receive fair and accurate compensation for work performed. But how can you achieve the perfect paycheck and solve year-end challenges if your existing payroll technology has not been updated for several years? Some of the challenges facing companies with legacy payroll systems include:

- Payroll is not integrated effectively, efficiently, and seamlessly with other applications, like HR, time and attendance, and finance
- The system lacks the latest technology to support automatic regulatory updates, possibly increasing risk
- You can't take advantage of self-service to engage and empower employees — and increase productivity
- Payroll process workflows aren't streamlined to increase efficiencies
- Without user-friendly reporting, managers aren't empowered to make data-driven decisions, and staff is burdened to create needed reports

But simply knowing what's missing in your payroll system will not be enough to convince the decision makers in your organization that it's time to invest in change. To get the attention of leadership and IT and persuade them to review and approve your business proposal, you'll need to answer this question:

“How will a payroll system assist the organization in reaching its critical business objectives?”

Organizations are turning to today's best-of-breed human capital management (HCM) technology to better manage the expectations and demands placed on them and to achieve greater business results. By investing in an HCM solution as an integral part of their workforce management strategy, businesses can align their payroll solution with key business strategies and goals. Employees benefit from the tools and processes they need to both manage day-to-day activities and undertake company-driven projects that can add value and improve bottom-line results for the organization.

Making a case for change is difficult. Executives have many competing projects to evaluate and finite resources available to implement them. So how do you get the case for payroll change on your executives' radar and acquire their critical buy-in? The answer is to prepare a business case that shows the financial benefits as well as the business

Five key areas to identify payroll costs:

- Payroll errors
- Payroll productivity
- Self-service
- Total cost of current system
- Compliance risk

problems that a unified payroll platform will help your organization solve. In this paper you'll learn how to gather the insight, evidence, and support you'll need to present a persuasive proposal for change that will successfully capture the attention of executive decision makers.

BUILD A CASE FOR CHANGE: DEFINE THE BUSINESS IMPACT

Your payroll business case will need to identify costs and potential cost reductions as part of the benefits from the payroll software. The following five key areas of payroll are commonly used to build the case for change.

1. Payroll errors

According to the 2016 Getting Paid in America Survey, 25 percent of respondents are less than confident that their payroll withholding and net pay are correct each payday.¹ And the stakes for employees are significant — 63 percent would find it difficult to meet their financial obligations if their next paycheck were delayed a week. Paycheck errors can be introduced from supporting data sources that feed into the payroll system, such as time entry, deductions and/or benefits changes, unaccounted overtime, wage garnishments, etc. But regardless of where the error originates, the result is an incorrect paycheck. When employees are uncertain about the accuracy of their pay, there is an immediate cost of having to correct the error, as well as a longer-term loss of confidence about their future pay that can negatively impact productivity and engagement.

The best way to determine the payroll error rate in your organization is to take the percentage of payroll where the error was in the company's favor (and has been fixed to pay the employee accurately) and assume that there is a one-to-one relationship to errors that are made in the employee's favor. Any reduction in this error rate through the implementation of a unified payroll platform can be considered a hard-cost savings — something your CFO is likely to be responsive to.

Research shows that by implementing new payroll technology, businesses can reduce their payroll error rate, even if the previous payroll system was automated (see Table 1). Companies that moved from partial automation to full automation achieved a 0.80 percent reduction in payroll error, while organizations that switched to a new vendor realized a 0.33 percent reduction in payroll error.²

Automation lowers percentage of total payroll paid in error

Automation Now	Automation Prior		
	Fully or Mostly Automated	Partially Automated	Fully or Mostly Manual
Fully or Mostly Automated	0.33%	0.80%	1.00%
Partially Automated	0.31%	0.37%	0.81%

Table 1. Average (total payroll error prior — total payroll error now.)

¹ National Payroll Week, 2016 Getting Paid in America Survey, <http://www.nationalpayrollweek.com/documents/NPW2016SurveyResults.pdf>.

² APA Payroll Processing Survey (2016).

More than 18 percent of payroll processing time is spent on data entry tasks, which also rank highest in error-prone activities at 35 percent.⁴

2. Payroll productivity

Many organizations are faced with a “do more with less” mandate, which extends to their staffing. Tight budgets are getting even tighter and staffing and resources are being impacted, which can affect the retention of administrative personnel. The expectation is that employees can still produce the same quality (or better) and the same volume of work with fewer resources. Under these circumstances, payroll is being pushed toward streamlined processes, fewer manual processes, and less data entry — changes that are necessary to accomplish routine activities and crucial if payroll is to contribute to the company’s goals and objectives.

To evaluate payroll productivity for your business case, you should look at how a new payroll solution can help you reduce both hard costs (overtime) and soft costs (freeing staff for new projects and strategic initiatives). The first step is to calculate the time it takes from obtaining gross data — including wrangling timesheets — to closing out the payroll period and generating reports. Mercer has calculated average cycle times for payroll tasks. If your organization is taking longer to complete these steps, you’re likely experiencing increased costs, inefficient processes, and lost opportunities to work on other payroll projects.

Payroll Process	Time to Complete ³
Weekly payroll cycle	1.9 days
Biweekly payroll cycle	4.6 days
Off-cycle payments	1.4 days

Automation will reduce the total processing time required, especially if the solution combines time and payroll in an integrated platform. More than 18 percent of payroll processing time is spent on data entry tasks, which also rank highest in error-prone activities at 35 percent.⁴ Reducing processing time delivers hard-cost savings through reduced overtime. Organizations can also achieve valuable soft-cost savings that allow staff to focus less on administrative tasks and more on the strategic aspects of payroll. The time saved can be reallocated to other projects and company initiatives.

³ Virginia McMorrow, *Mercer Payroll Benchmarking Survey 2015, Payroll Operations Country Survey United States*, Mercer LLC (2016), at 15, 22.

⁴ Virginia McMorrow, 19.

3. Self-service

Employee self-service capabilities increase payroll efficiency and productivity and contribute to a productive, highly engaged workforce. To build the business case for self-service, determine how much time staff spends keying in data. How many calls are required for tasks like reviewing paycheck data and confirming banking deposit information? How does your organization compare against these industry benchmarks?

- Roughly 1.5 payroll staffers are responsible for 1,000 employees⁵
- On average, for every 100 employees there are 79 inquiries annually⁶
- The average resolution time for a payroll inquiry is 24 to 48 hours⁷
- The most common inquiry is related to pay slip questions, at 25 percent, followed closely by missing pay, at 22 percent⁸

Giving employees self-service tools such as submitting tax and direct deposit information and the ability to view current and past pay statements reduces redundant administrative work for the payroll staff. Even if employees occasionally need assistance with self-service functions or make a mistake, your payroll department will still realize significant productivity gains. Employees will feel empowered by having the data they need in their hands and the payroll staff will be less burdened and more engaged, increasing morale.

4. Total Cost of Current Payroll Process

Many organizations may not realize the costs involved in the current system could add up to more than the cost of a proposed new payroll solution. And considering the likely advantages of better systems and technology, including greater speed and accuracy, more sophisticated report generation and analysis, and improved employee satisfaction and morale, the argument that such improvements more than pay for themselves appears to have some merit.⁹

In order to increase the efficiency of your payroll process, you must understand the total cost of your current process. Be sure to factor in all costs, from software and hardware to IT support, in-house printers, education and training, and more. The industry average cost per head for payroll is \$104 for a weekly payroll and \$96 for a biweekly process.¹⁰ The total payroll cost per head varies, depending on the level of automation.

- Cost per head with high degree of automation — \$79¹¹
- Cost per head with moderate degree of automation — \$97, a 19.6 percent increase
- Even greater costs with low degree of automation — \$208, a 62 percent increase

Remember to account for any customizations that have been made to the legacy system, since this can add to your ongoing maintenance costs and hinder your ability to receive critical, timely updates. Without these updates, pay calculations could be inaccurate and might require additional time and effort to record, pay and post, or possibly correct.

⁵ Bloomberg BNA, *Payroll Department Benchmarks and Analysis 2015-2016* (2015), at 51.

⁶ *Ibid.*, 209.

⁷ *Ibid.*, 188.

⁸ Virginia McMorrow, at 39.

⁹ *Ibid.*

¹⁰ BNA benchmark, 89.

¹¹ BNA benchmark, 91, 92.

A 1,000-employee company could be hit with \$21,800 in penalties (five audits per year x 1,000 employees x \$4.36 penalty per employee).

61% of legacy payroll systems are **five years old or older**.¹³

5. Compliance Risk

Organizations face an enormously challenging regulatory environment that cannot be easily managed with a manual or only partially automated solution. Many companies simply do not have expertise in every legal and tax change that payroll teams and systems must address in order to process payroll appropriately. Administrative leaders need to consider how new rules affect payroll and their organization, as well as how the organization should plan systems updates to remain compliant.

Constantly changing legislation and regulations expose payroll to the risk of noncompliance, with costly fines, damage to credit ratings, and, in extreme cases, incarceration. U.S. companies receive an average of 4.8 inquiries from regulatory agencies each year. A Mercer survey found that companies pay \$4.36 in penalties per employee per year.¹² Those penalties add up quickly: a 1,000-employee company could be hit with \$21,800 in penalties (five audits per year x 1,000 employees x \$4.36 penalty per employee).

Some compliance-related costs are harder to define but can still be harmful to your organization's bottom line. Employees who don't receive accurate, timely compensation can have their financial security threatened. Inaccurate pay, along with missed or wrong benefits and deductions or tax withholdings, can lead to lower levels of employee engagement, employee retention, productivity, and, ultimately, customer service.

Compliance challenges are compounded by legacy systems. As systems age, it becomes harder to automatically maintain regulatory requirements. Customizations start to become commonplace, and with each new customization, you face an increased risk of noncompliance.

BUILDING THE CASE FOR CHANGE: ESTABLISHING THE BUSINESS NEED

Now that you've identified the cost savings that can be realized from a new payroll solution, it's time to create a compelling argument to present to leadership. From staying abreast of current technology to remaining compliant to improved processing speed and efficiency, articulating the need and value in terms that will resonate with leadership is key to moving the case from a "nice-to-have" to reality. Most important, the business case must convincingly answer the question: Why should the organization spend its time and money investigating and implementing the proposed solution? For payroll, important business goals include streamlining processes, eliminating redundant data entry and manual processes, increasing productivity while reducing costs, and improving compliance and controls.

¹²McMorrow, Mercer, 15, 22.

¹³APA 2015 survey, 57.

To define the business need and provide supporting business drivers, the case should also include the following:

- **Business challenge:** What are the greatest challenges related to your payroll process?
- **Strategy:** Can you currently tie the company's business strategy to the existing payroll system and support the goals of the company? What opportunities could the organization take advantage of by going forward with the project? What risks or liabilities could be reduced or mitigated?
- **Change:** Why is now the time to make the change?

As you establish the business need, you must provide a complete view of what will be gained with a new payroll system as well as a detailed account of the current system and its shortcomings.

As you document the current system, use the following list of business drivers to illustrate where key areas impact the business and how technology can be used to make improvements (or ward against risk).

- ❑ **Increase Compliance and Control:** Changes and updates from federal, state, local, and regulatory agencies should be automatically updated in a timely fashion to the payroll system. In addition, a full audit trail and reporting capabilities should be intrinsic to the payroll application, providing needed audit compliance data when requested without having to dig for the information.
- ❑ **Reduce Payroll Error:** Workflows and checklists within the payroll application help organizations stay in sync and cut down on errors and time from manual and separate worksheets to track the payroll process
- ❑ **Eliminate Redundant Manual Data Entry:** Mobile and self-service promote employee entry of administrative personal data such as W-4 and direct deposit information, address changes, and state and local tax changes. The more that employees can enter their own information and seamlessly update the payroll system, the less time and effort for the administrative team.
- ❑ **Reduce Costs Through Mobile and Self-Service:** A unified payroll solution enables employees to see their payroll-related data easily, reducing time spent by administrative professionals on customer service activities. Administrative professionals can reallocate that time to other projects, benefiting the organization.
- ❑ **Improve Business Visibility Through Payroll Reporting:** Multilevel security and access for differing groups means that managers, leadership, and operations can schedule and view their own reports with varying degrees of detail. Managers can see the total cost of labor and make more informed decisions regarding operations.
- ❑ **Increase Employee Engagement:** Not just for the administrative team, but for all employees in the organization. Confidence with accurate, timely paychecks relieves stress and uncertainty for employees and increases productivity and overall engagement with the organization.

"Being able to show what the current technology and processes can deliver and what they are costing the organization is the first step in being able to provide an objective benchmark for the necessary capabilities of new payroll software."¹⁴

BUILDING A CASE FOR CHANGE: IDENTIFY STAKEHOLDERS AND GAIN SUPPORT

Organizing a team, identifying key stakeholders, and gaining support from connected departments are necessary for every project. Once you've identified the business drivers and defined the purpose for the change, you need to convey this information to others to garner their input and support. It's important to determine who the key stakeholders will be and what their concerns and needs are.

There are two key roles in building out a project and business case. Identifying who occupies these roles and gaining their buy-in prior to submitting the business case will go a long way toward making your project a success.

- **Sponsor:** A business case usually requires an executive sponsor. The sponsor is typically an executive within the functional organization who is driving the case for change. The sponsor often helps articulate and quantify the value the organization will receive from the investment. For payroll business cases, the CFO or CHRO is often the sponsor.
- **Business Owner:** The business owner bears the highest accountability for demonstrating and selling the case and providing the resources and guidance necessary to develop it. For payroll business cases, HR, Finance, or Payroll could be the business owner.

Payroll processes affect every person in the organization, and changing the way things are done can be unnerving to many people. It is important to get buy-in from different roles and departments within your organization and recognize their concerns, including what works and doesn't in the legacy payroll system, and what to watch for with a change to the payroll system.

¹⁴ Micah Fairchild, *Building the Business Case for Payroll Software — Part One*, PayrollLab.com, found at <http://www.payrolllab.com/payroll-software-business-case.php>

Key stakeholders and their concerns

Role	Interests	Concerns
Administrative Professionals	Ease of use, simple workflows and reporting, flexibility in configuration, reduction of multiple data entry	Ability to capture customizations and security of system
HR Professionals	Integration, employee self-service, ease and frequency of compliance updates	Employee engagement and change management
Internal Audit/Legal	Ease of use, reporting, security, and privacy of data	Difficulty to pull data, security and the cloud
Labor Relations	Ease of use, reporting, confidence in CBA adherence	Difficulty to pull data, security and the cloud
C-Suite	Analytics and reporting, ease of use, increased productivity, data consolidation to support business initiatives	Employee engagement and accurate checks, policies are enforced and auditable, legacy customizations are integrated in new system
Managers	Ease of use, mobile and self-service tools, reporting	Accurate, timely paychecks
Employees	Mobile and self-service access, ease of use	Accurate, timely paychecks

FINALIZING THE CASE FOR PAYROLL CHANGE

As you complete your business case, make sure that you’ve linked each new technology improvement to a benefit realized. The benefit might not always be hard-dollar savings, but every case should show how the new technology directly connects to an actual benefit for the company and the company’s goals. Quantifying the benefits in terms of staff resources and allocation, reduced costs, improved productivity, and increased employee engagement not only shows how your business case supports end-to-end payroll processing, but also how it helps the company improve profitability.

Each case will have its own unique set of business drivers and solutions. But each should be able to answer the following question as to why investing in new technology benefits the business:

What value does a new or upgraded payroll system provide that our existing technology does not provide?

The following chart shows how new technology improvements can be related to a benefit.

Technology Area	Improvement Made	Benefit Realized
Process Improvement	Using checklists and workflows within the payroll technology	Increases productivity, provides consistency, and is completely auditable
Mobile/Self-Service (Customer Service)	Employee access to their payroll-related data reduces costs and time spent on customer service requests	Increases efficiencies and reduces costs; improves employee satisfaction and engagement
Mobile/Self-Service (Reduced Manual Processes)	Promotes employee entry of personal payroll data (W-4, address changes, direct deposit, etc.)	Improves productivity and reduces manual data entry, time and effort for the admin staff; increases efficiencies
Simplified Reporting	Secured access to business partners within the company; better management of requests and output	Increases accuracy and efficiencies with less time and effort; business partners able to make timely business decisions with secure access
Synchronized Compliance Updates	Automatically delivered by the vendor (not manually entered by users); reduced customization; native audit trail reporting	Minimizes risks and potential wage suits; reduces time and effort so payroll can focus on providing insight to business leaders

CONCLUSION

The payroll business case is the starting point for any payroll software project. The more accurate and complete it is, the easier it will be to determine the impact of the project on the business. Effective HCM solutions, such as those provided by our service organization, are built on a unified platform and utilize a single source for payroll and timekeeping to deliver the improvements needed for end-to-end processing and creating real efficiencies.

We provide a single-platform HCM solution that works for your entire workforce — and across all of your workforce management needs — from time and attendance to payroll, HR, and more. Our HCM solution links your payroll and time and attendance data to help your organization manage payroll with ease, facilitate compliance, and improve workforce productivity and efficiency. In turn, your employees can be freed up to assist business leaders by delivering actionable real-time data and executing company projects and objectives that can impact organizational goals and improve bottom-line results.

