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HR Challenges and Solutions



Maintaining Compliance
and Mitigating Future Risk

In partnership with:



Global Complexity and the Case for Employment-Related Compliance

Employing an international workforce used to be exclusive to a small cadre of multinational corporations. In the last 20 years, the globalization trend has tripled the number of employees working for a subsidiary of a multinational corporation¹. As a result, the language of business is becoming more standardized. One thing remains as culturally complex as ever: employment law.

With the volume of tax, employment and payment-related regulatory changes continuing to increase, it is becoming more difficult than ever for human resources and finance executives to maintain compliance and mitigate future risk. In fact, according to the 2013 SmartCompliance survey, 'Managing Compliance in a Changing Environment,' nearly 75% of CFOs say the task of monitoring tax, employment and payment-related rule changes has become more time-consuming over the last two years and expect the increased complexity of newer tax regulations will take up additional company resources over the next two years.

Compliance isn't optional – which means gaining control over and improving the efficiency of compliance management isn't just critical, it's a business imperative.

In difficult and highly competitive market conditions, the need for organizations to effectively manage their risk and compliance issues has never been greater – and at the same time, has never been more difficult to do internally. It has almost become an impossible task for any business to attempt alone. Organizations must know about and understand the risk and compliance issues they face in every jurisdiction where they conduct business.

Potential Costs of Non-Compliance Are High

Michael Magotsch, partner and Employment lawyer at DLA Piper with over 20 years' experience in German and cross-border employment law and author of 'Employment and Labour Law, Jurisdictional Comparisons', agrees that risk and compliance has been getting more complex for organizations in recent years.

However, it is not just rapidly expanding or large multinational organizations that face complex compliance issues. The risks to small and medium-sized companies can be just as great. They often lack the level of internal expertise and resources needed to keep abreast of ever-changing local, regional and national employment law.

Magotsch provides several examples of how easily organizations can fall into difficulties internationally. These errors can lead to serious and costly compliance consequences.

- What if a company moves staff or operations from country to country and does not consider issues such as 'do I thereby create a permanent establishment?' A social security or tax audit could result in criminal investigations and penalties for any mistakes in not properly having withheld income tax or not having properly filed social security.
- The classic mistakes that large US companies made 25 years ago when they entered non-US markets we are now seeing with young entrepreneur start-ups growing quickly. They hire many people, and are so successful that they don't have the time to basically monitor all their rapid steps of growth.
- We have worked with a company who had, due not to intent but simply negligence, disqualified freelancers and so-called contractors. Authorities looked at it and said 'no they are employees' and they were faced with millions in retroactive payments including unpaid social security and taxes.



CFOs become more predictive (anticipating and preventing compliance failures, rather than reacting after they've incurred penalties) and can control costs.

¹ Payroll at the heart of HR Outsourcing ADP 2013

- Germany has very well-established union systems with collective bargaining agreements in place with a clear set of regulations governing who gets paid what in what areas, how many hours people are allowed to work, the bonus and premiums to be paid on overtime.

Such regulations, Magotsch says, can make things very difficult for any size firm. Even the most static of companies would still require the resources to understand employment law and compliance legislation as it changes, is updated or amended.

Ignorance Is No Excuse

Many organizations however live in ignorance of the payroll and employment law that their operations breach. Given the costs in fines and potential damage to brand reputation, ignorance is not bliss.

In the words of Ernst & Young's Global Payroll Survey of April 2013, "When looking at why organizations operate their current payroll model, the old adage of 'if it isn't broken, don't fix it' seems to apply. Historic practices still dictate why organizations continue to operate many of their processes and systems. Of course, if little has changed in the way of business strategy, size, geographic scope, acquisitions or mergers over the past several decades, then this may be a perfectly appropriate response. In reality, however, relatively few organizations can make that claim."

At a Glance

In the US for example, not only does one major payroll company maintain a permanent team of compliance experts embedded at the IRS, the IRS also has a team embedded at the payroll provider in order to learn from each other. Similarly in Brazil, the new eSocial system designed to standardize labor, pension and tax information, was drawn up over three years with the same provider as part of its pilot group working to validate their models.

Non-Compliance Risk Goes Beyond Costs

The risks generally associated with non-compliance typically focus on costs; significant fines and the time and expense of correcting errors creating impacts on HR, accounting and reporting capability. These hard dollar costs are easy to measure. It is much harder to quantify the cost of damage to your brand reputation or lower employee engagement scores and increased turnover not to mention the opportunity costs of not claiming valuable business tax credits that help reduce an organization's effective tax rate. Payroll risks also vary across companies according to other major factors including industry sector, company background and culture, company size, and organization structure. In high turnover sectors such as retail, construction, catering and processing industries, for example, payroll has to cope with a large number of hires and leavers, and complex time and absence management.

Many organizations focus on improving HR efficiencies, technology and speed while forgetting about accuracy and risk mitigation. An over-reliance on in-house teams or historic legacy processes can leave organizations believing they are compliant when in fact they are exposed to potentially damaging non-compliance issues. In some countries, this can even lead to jail time for company executives.



HR Experts can do a better job and provide more strategic guidance.



STAYING IN BUSINESS OR CLOSING THE DOORS: THE IMPORTANCE OF COMPLIANCE

“If we do not comply with those requirements, our subsidy of about EUR 80 million could be lost in full, even if we miss 2 percent of our reporting. For us, that’s everything or nothing – it’s an enormous risk and why it’s very important that we comply with legislation.”

Based in the Netherlands, Pantar Amsterdam is a social work company providing employment for 3,500 disabled people in the Amsterdam area in all kinds of activities including landscaping, cleaning, packaging and handicrafts. One of the biggest compliance issues for Pantar is government subsidies. Because they employ people with disabilities, they are required to report on very specific items.

Pantar previously used a tailor-made internal HR system, which had become tremendously complex and expensive. It also meant that Pantar did not actually know what impact any HR legislation changes would have on

the total system which resulted in serious compliance risks. “There was always a worry of are we up-to-speed, are we compliant or are we not?” according to Roland Heijnen, Management Board Director at Pantar. This was having a huge impact on their people causing a lot of undue effort and stress.

Pantar decided outsourcing would enable them to change to a regular, standard HR system including payroll. Heijnen states, “The system we now have is cheaper, easier to manage, and far more reassuring.”

Dutch law changes on a regular basis. According to Heijnen, “If we had to do it ourselves there’s a chance we could miss it, because we’re not specialised in dealing with these issues. Scanning every change in the law is not our core business or the best use of our HR departments’ time. For our partner, it is their core business and they have developed state-of-the-art HR processes which we are able to leverage.”

Now to modify the system to any incoming legislation, Pantar can rely on their outsourcing partner to monitor changes in the law, look directly at the impact to their systems and processes and make the necessary changes.

Simple Changes Result in Large Repercussions

Due to the complex nature of employment legislation, there are often seemingly simple changes or new obligations that require substantial changes to systems of record and reporting.

Drop into any office around the world and you'll find a similar story. For example, tracking legal changes and legal compliance is one of the biggest issues for HR because the legal environment is constantly changing, ambiguous and not predictable. Knowledge of links between different regulations is also crucial, as change in one area may influence regulations in others.



believe they comply with national regulations despite 33% of the same respondents having been **fined or penalized** in the previous 12 months for non-compliance.

Managing HR, payroll and benefits generates a wide range of issues from compliance and risk management to costs. So how can organizations know they are continually meeting their HR and payroll compliance obligations against the latest, ever-changing regulations?

Recent ADP research finds that 80% of organizations believe they comply with national regulations despite one third of the same respondents having been penalised for non-compliance in the previous year. On average, 6.4 fines or penalties were assessed due to each non-compliance occurrence. Penalties typically made up 25 percent of the total tax amount owed, with some reaching as high as 90 percent.

A 2013 Ernst & Young payroll survey of more than 160 multinational organizations found that the key issues businesses today face relate to legislative compliance (23%) and consistent payroll processes (18%). The survey also found that the most frequent payroll errors include incorrect tax withholding and existing payroll operations that are unable to remain compliant with increasingly complex legal or regulatory requirements. So it is not surprising that the same study found that 85% of respondents desired improvements in their current payroll policies and practices.

Tap into Comprehensive Skills and Compliance Expertise

The increasing volume and complexity of regulatory changes is fuelling the demand for people with the ability to implement and understand their impact across HR systems and processes. We're now talking more and more about a complete flexible HR where staff work across borders and are mobile, with people switching from one location to another – that immediately triggers HR, social security and tax consequences that need to be carefully looked at. Companies are totally overwhelmed by it because if they don't hire experts in that field they end up in difficulties very quickly.

The question for companies is: how are they possibly going to attract and retain that talent to maintain their compliance?

HR managers need to have an operational overview of the HR risk and compliance issues that their organization faces. However, there are areas of knowledge that no internal professional, no matter how competent, could be expected to know.

This level of expertise would require significant investment outside of any organization's core business. It is the core business of an HR outsourcing provider not just to have the technical knowledge to offer a service, but also the level of insight to know what legislation is coming around the corner and be ready to comply to it before other organizations are aware of the changes being proposed.



HR Directors can maximise productivity and engagement in their department by focusing on employee productivity rather than compliance issues.

Outsourcing Models

Outsourcing provides the knowledge and technology infrastructure necessary for ensuring compliance. Two models for managing multi-country compliance have emerged, both with the goal of having a unified process and a single contract for subsidiaries around the world.

In the first model, a single platform—generally an ERP—and regional Shared Service Centers form the basis for their multi-country support. This model is aimed at large multinational organizations combining large subsidiaries—generally over 500 employees.

However, an ERP system may be too heavy for a subsidiary with only a few employees. In this model, processing is delegated to selected local specialists with in-country expertise and compliance with regulatory changes. The solution could include a central tool aimed at managing payroll workflow including deadlines, cut-offs dates and so on, allowing companies to know where they stand with compliance in each country at a single glance.

Utilizing Technology as a Compliance Driver

While technology has revolutionized many aspects of business over the past several decades, many organizations are still tied to the manual compliance management processes or multiple vendor contracts put in place years ago by their counterparts. Untangling the web of spreadsheets and paper documents, or the paths of information from various vendors, often proves to be extremely difficult internally. While these processes may have once been effective, they have, in many instances, become a significant obstacle as companies work to improve the efficiency of the compliance process and respond to legislative requirements.

This was the case with Campagnie Internationale André Trigano when they looked to outsourcing as a means to meet new reporting requirements in France.

Olivier Ortin, CFO at Campagnie Internationale André Trigano, the third largest camping company in France, is currently preparing for the new requirements 'DSN' (Déclaration sociale nominative or social security declaration) mandatory reporting that see a consolidation of company reporting into just one report. "It will not only impact on payroll but all organizational processes – it is going to change the landscape of company reporting due to the intensity of this evolution. The decision to outsource our compliance and payroll comes down not just to the price but also the ability to implement very complicated processes – it requires infrastructure, expertise and software, and we find it is easier and more flexible to outsource this. Our people who work on payroll and compliance are no longer stressed; now we can delegate all the pressure onto our partner's shoulders, and that's a key factor."



Line Mangers are more confident when answering employee queries.



COMPLIANCE AND OPERATIONAL EXCELLENCE

“At Bosch, costs are very important, but efficiency and operational excellence is even more important.”

The Bosch Group, headquartered in Germany, is a leading global supplier of technology and services with approximately 281,000 associates worldwide and 5,800 across Italy. Roberto Zecchino, Vice President Human Resources & Organization for Bosch Italy, is responsible for ensuring that the Italian offices follow not only corporate policies and procedures, but also adhere to Italy's numerous legislative laws and regulations.

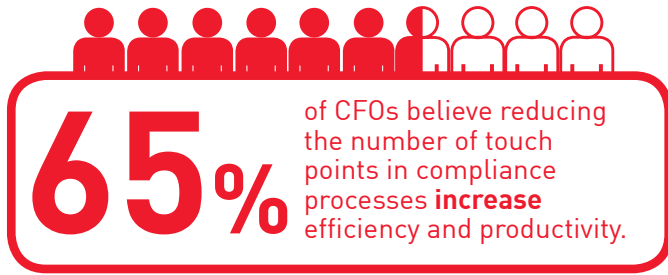
At Bosch, costs are very important, but efficiency and operational excellence is even more important. Our aim is to create a dynamic organization with lean structure and efficient process. Our payroll partner must provide the technical knowledge and expertise. Frankly speaking, when we are doing any outsourcing projects, the most important factor is efficiency of process.

Over the years there have been many organizational changes on our sites, so we need to have a clear structure and communication flow for our HR processes so

that a new manager can easily understand the background. That also means having a back-up solution no matter what the movements of people or changes are. This is very important especially in the complex environment of Italian legislation with different national and local regulations. The local laws vary from city to city - with 19 different locations.

From a compliance point of view, internal controls are crucial to Bosch. Zecchino stresses, “We must have total alignment with our provider to ensure local laws are respected and there is flow of information – this means we have to stay very close and synchronized with one another.” All the payroll processes have to be according to the law but also according to the Bosch company policies regarding compliance and risk-management procedures. We need to secure the necessary level of data management visualization so that we can monitor all the data and in case of any problems occurring can recover the system quickly. This is one of the key aspects for us.”

The benefits of working with an outsourced provider versus in-house for Bosch “include flexibility, cost control and agility. Greater agility means greater flexibility. The constant speed of new legislation and new information means that every time something changes from a compliance point of view, our provider has everything we need.”



Strategically Streamline and Automate

Even where new laws are intended to simplify or consolidate existing regulations, a large or sudden change can be just as difficult for organizations to cope with. Changes can be so fundamental it would not be possible for

an individual company to easily incorporate the vast specifications and alterations with the breadth of systems and compliance expertise required.

Adapting quickly to changes requires significant skills and knowledge. Without access to real-time, consolidated compliance data do your senior executives have the insights needed to proactively anticipate and prevent compliance failures? Or are they simply reacting after penalties have already occurred?

The SmartCompliance 2012 survey found that 65% percent of CFOs believe reducing the number of touch points in compliance processes could increase efficiency and productivity. Additionally, more than 75% of finance executives report having no access to real-time, consolidated compliance data.

According to the 2013 research report 'Managing Talent Risk: Data Management to Ensure Workforce Compliance' by consultants Aberdeen Group, "Even top-performing companies must find ways to deliver HR data to business leaders to guide decision making, and in order to do this they must use automated tools — instead of relying on manual processes — and find ways to integrate their HR data and systems. Tools and technology that help organizations consistently apply policies and rules around leave, overtime, and other critical workforce management activities are critical to maintaining a compliant environment."



Employees are more engaged in their work without having to worry about pay slips and their employer.



COMPLIANCE EXPERTISE IN MULTIPLE LOCATIONS

“It’s very difficult to find people with the right skill-sets across different geographies.”

Dierk Russell, HRIS Manager EMEA for Covidien, is responsible for 46 locations at the global healthcare product company. Their HR system was very fragmented with some basic tools to manage HR information which wasn’t necessarily accurate across the globe. “We weren’t sure of how many employees we had - the employee demographics were never really reliable or credible. The HR transformation that we embarked on was all about bringing in best practice HR. It was recognized that in order to be successful, we also needed to look at how we managed our payroll” says Dierk.

Covidien chose to outsource their payroll for many reasons including the limited number of dedicated payroll resources across geographies who were not closely involved in payroll legislations, in part through the use of limited outsourcing. It was also not a desire of their organization to increase payroll skills and increase payroll competency of the personnel managing payroll. “Our partner’s footprint met very closely with the 46 locations we operated in enabling our people to focus on the internal elements of payroll - the process that runs behind it is taken care by our partner. We have some compliance complexities where, for example, certain documents still have to be presented in person, so of course, we continue to need people in these countries to manage those payrolls. However, it is very difficult to find

resources that have a payroll skill-set across different geographies” highlights Dierk.

“There’s also less of a concern when new legislative changes take place because we are not dealing directly with the implementation. It’s really just a question of, what do we want to do? Is there a choice? Or is it just a de facto communication. There is a level of confidence that we have with our partner to apply the necessary rules and changes. We check them, but we don’t physically see how the changes are managed because again we’re using a service rather than a tool.”

“The beauty of working with an outsourced model is that we have no disruptions to our services when changes in legislations happen - we’re working with partners rather than a piece of software. The partnership model is much more important - the issues that are associated with having internal systems with multiple changes and upgrades are mitigated.”

“As an employer the overall responsibility is still ours, but outsourcing has transferred a degree of the responsibility to our partner. Whether that’s controlling the service and reporting or ensuring that there are no surprises which may lead to any labour relations issues specifically around year-end activity.

The commitment from our partner to constantly improve is great. We have quarterly meetings with our management group and their senior management to talk through areas for improvement and work experiences.”

Conclusion

According to research by the Loughborough School of Business and Economics, the benefits of outsourcing “go beyond the one-time cost saving. They strongly relate to the firm’s competitive advantage and therefore often represent the key success factors in a particular industry.” In other words, organizations unencumbered by maintaining cost and time-consuming in-house capabilities can find it a competitive advantage to work with outsource partners instead.



Risk and compliance complexity provides an opportunity to drive outsourcing and transformation

Executives however need to look beyond solutions and platforms that help simplify compliance management and select providers that are on the cutting edge of technology and innovation, provide the best local experts that know when legislation is coming and are ready to comply before other organizations are even aware of the changes.

With the heightened challenges and complexity of risk and compliance comes a unique opportunity for human resources and finance executives to help drive organizational change. By finding new ways to help maintain compliance, mitigate risk, improve business process efficiencies and, ultimately, help to drive organizational growth, human resources and finance departments can demonstrate the strategic value they provide to the company.



CEOs can manage overhead, regulatory burdens and mitigate risk so that they can grow the business without legal distractions.

About



IN THE BUSINESS OF YOUR SUCCESSSM

Automatic Data Processing, Inc. (NASDAQ: ADP), with more than \$10 billion in revenues and approximately 600,000 clients, is one of the world's largest providers of business outsourcing solutions. Leveraging over 60 years of experience, ADP offers a wide range of human resource, payroll, tax and benefits administration solutions from a single source. ADP's easy-to-use solutions for employers provide superior value to companies of all types and sizes. ADP is also a leading provider of integrated computing solutions to auto, truck, motorcycle, marine, recreational vehicle, and heavy equipment dealers throughout the world.

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