

How to Build an Effective Payroll Outsourcing Model



Conflict of Payroll Department

Payroll, as a business function, is a non-revenue generating one. However, it is integral to the proper functioning of your organization because it determines the compensation that is due to all the employees of the organization.

There are some inherent complexities in the payroll function, which means that it demands an entire department dedicated to this activity if the organization is sufficiently large. If the organization can get by without a separate payroll department, then the HR personnel need to take on the additional duty

However, with the question of whether payroll belongs to Finance or HR hanging in the limbo, assigning roles for resources to handle payroll becomes difficult because HR people have to ensure that the payroll master's data is according to the agreement while the Finance team has to ensure that the compensation computation is accurate. A 'sign-off' by two different verticals creates a lag in communication, which could result in delayed deliverables. In this case, the deliverables are the disbursements of employee compensation. That is a potential lawsuit waiting to happen.

Outsourcing Payroll

Deciding to outsource your payroll department does not come easily. You have to weigh in the costs involved in having an in-house payroll department versus the cost of paying an outsourcing service provider for the payroll services. There are many benefits to outsourcing payroll. The business of [outsourcing service providers](#), especially for payroll, is becoming a lucrative business.

The problem with having an in-house payroll department is that you need people who are experts in the said field. To maximize the benefits and minimize the cost of operation of that department, you need to update the infrastructure which would involve a large capital outlay. You would also require people supervising the work of the lower levels, and even people who are well-versed with the law of the land. They should be able to prepare legally compliant reports.

All of this involves much expenditure. Besides, this is error-prone. Therefore, it makes much more sense logically for you to outsource your payroll department to third-party outsourcing service providers.

What is Payroll Outsourcing Model?

A payroll outsourcing model is, as the name suggests, a model that defines/outlines how the payroll process is supposed to be carried out. Without an effective payroll outsourcing model, businesses when carrying out their payroll functionalities can face various problems and hit unexpected snags.

Preparing an Effective Payroll Outsourcing Model

The first step is to assess your organization thoroughly. You need to have a clear understanding of your processes, practices, employee relationships, costs, and potential increments. This will help you identify your strengths and your weaknesses. As a result, you'll understand exactly what you're looking for and who can meet those needs.

However, in this outsourced payroll model, your system is only as active as the payroll service provider. When selecting a provider, you need to keep a few things in mind. Some of them are-

- Location and geographical scope of the provider
- Track-record of the provider
- Infrastructure available for computing payroll
- Assessment of the talent that this provider employs
- Consistency of performance
- Transition readiness
- Technological and strategic orientation
- Financial stability
- Confidentiality agreement

Terms of use of the data provided to the [payroll agency](#)

Entering Into A Contract

Once you've identified who your payroll provider will be, you need to enter into a contract with him. This contract is going to be the binding document that will determine the relationship between you and the service provider. Before entering into this agreement, you should have clarity regarding the nature of the relationship you want to establish with them.

You need to identify what your requirements are. This means that you need to be able to assess your organizational capabilities and how much of the payroll department you are willing to outsource. Your job as the primary does not just end after you've outsourced the role of payroll to third parties. Your HR and Finance personnel only assume newer roles.

The conflict would remain. The only difference would be that more resources would be freed up for use for your core revenue-generating activities. You need to be able to identify whether the outsourcing service provider will merely provide you with the means, or the final result. You need to assess the cost-to-benefit ratio of the co-sourced payroll system versus an entirely outsourced system of payroll.

Designing an Effective Payroll Outsourcing Model

There isn't any hard-and-fast rule that says a payroll model has to be a certain way. However, certain guidelines act as an advisory regarding how an efficient outsourced payroll model should function. At the very bottom, you should realize that the payroll function directly deals with funds. These funds are not only essential to you but your employees as well. It means that, if something goes wrong, there will always be more than one aggrieved party.

The most important aspect when designing any outsourced payroll model is that there should be proper checks in place. This is to say that the work done by the payroll service providers should not be taken at face value. The organization might have individual perks and benefits that they offer to the employees. Since these payroll providers work with a lot of organizations, it isn't an exaggeration to assume that mistakes would happen in this area.

When you try to outsource your payroll system, you should keep a few things in mind. They are-

Extent of Responsibility

You should figure out how much responsibility you are willing to give to the third-party service providers. You should also identify the new roles that these HR and finance resources would assume to ensure that the payroll computations are organizational policy, and federal law compliant. You should also determine whether the outsourced service provider will act just as a resource with the organization or whether they will assume the role of the entire payroll department.

This consideration is best answered by the trade-off between the cost of having an in-house payroll department and the cost of having an outsourced service provider. These services can be provided either at the process level wherein the invoices are raised for the quantum and value of the payslips generated, and at the function level wherein the payroll service provider would perform employee management services, cost analysis, preparing reports, maintaining the master roll, among other duties.

Degree of Contact

The same provider that provides you with one-on-one service will also offer a shared service wherein the resource is shared between multiple outsources. Depending on how complex you anticipate your payroll system to be, you should decide the degree of contact and response that you want the third-party service provider to have. Shared services are ideal when you have process-level outsourcing. Dedicated services are suitable at the transactional level, where you need to overhaul your entire system as it is. Therefore, depending on your requirements, you need to identify what it is that you want

Is Outsourcing Worth It?

Outsourcing for the sake of outsourcing does not make any sense. It would be best if you had a robust payroll outsourcing model. When we say a robust or effective model, we mean to say that the agreement that exists between the service provider and you should be comprehensive, and should meet your demands in real-time. It should decrease your costs and help you divert essential resources towards better activities. The bottom line is always that outsourcing is beneficial for supporting businesses. However, the actual extent and scope of such outsourcing should be determined by how complicated your organizational structure is.