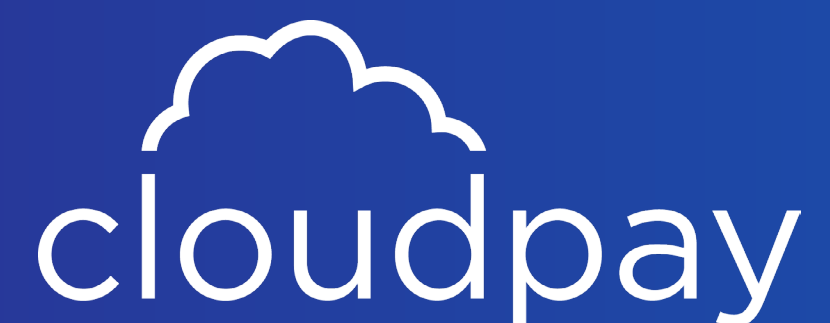


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AVOIDING GLOBAL COMPLIANCE TRAPS

How advances in payroll technology improve visibility
and control for global business leaders

CFODIVE Industry Outlook Report Q4 2023



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EXECUTIVE SUMMARY

There’s little disagreement that the nature of work has changed.

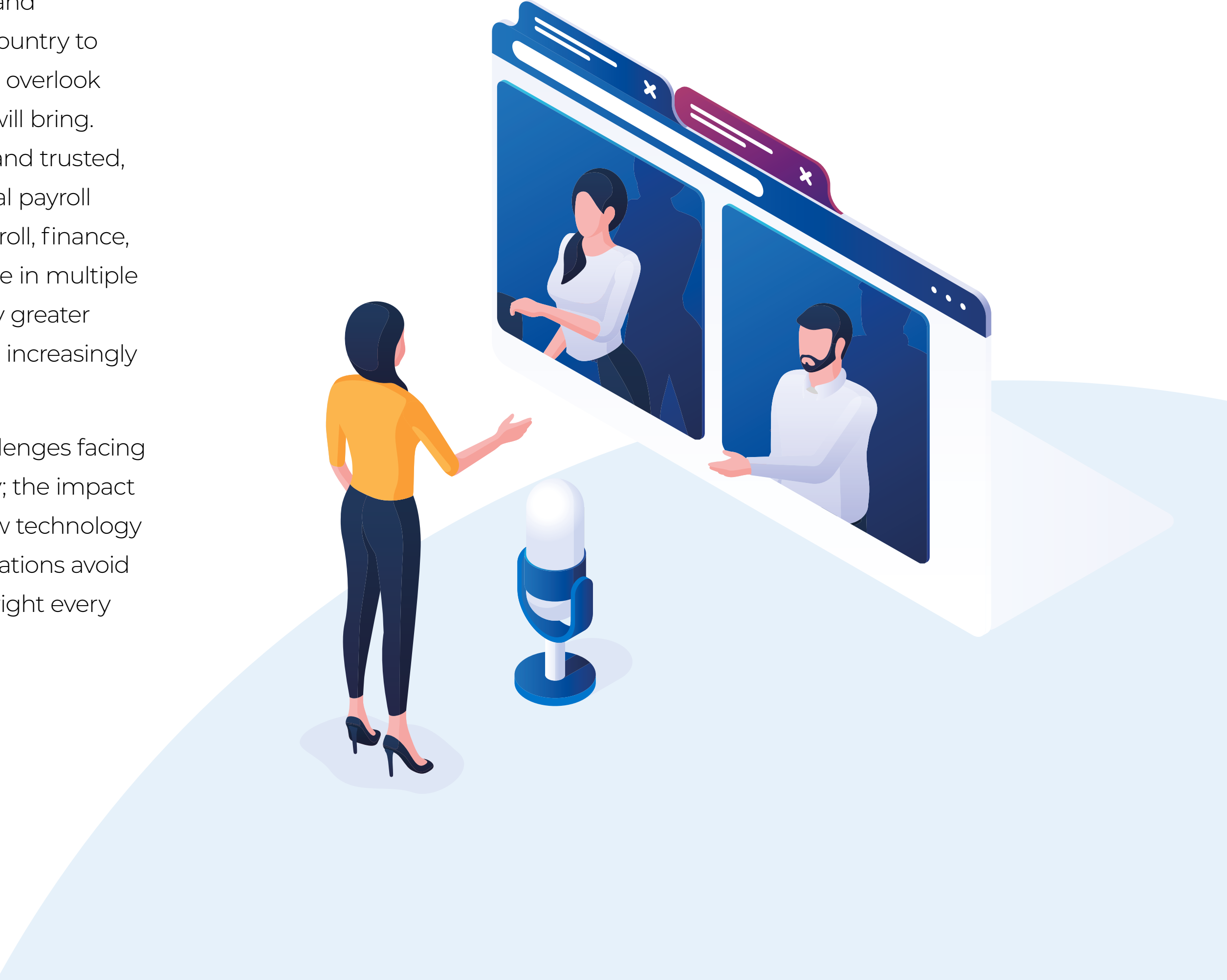
The rise of remote and hybrid work, changing workforce demographics, increasing data privacy regulations around the world—and numerous other factors—have significantly altered the employment landscape. Technology has been at the center of this shift, enabling employees to work from anywhere.

This transformation has benefited both employees and companies by opening up talent pools and opportunities that, in the past, had been restricted by location.

However, along with this freedom comes complexity and the risk of non-compliance when it comes to payroll. In a climate where employees are demanding a better work-life experience, paying them correctly and on-time are table stakes. This puts greater pressure on payroll teams working at companies that are expanding globally. Operating in different countries and geographies has made hiring and paying employees more complex.

Regulations, compliance issues, tax laws, and employment customs vary greatly from country to country, and payroll teams can ill-afford to overlook the consequences that non-compliance will bring. Therefore, the right technology solutions and trusted, in-country expertise are essential for global payroll accuracy, compliance, and timeliness. Payroll, finance, and human resources leaders who operate in multiple countries can—with the right tools—enjoy greater visibility, standardization, and control in an increasingly complex business environment.

In this report, we’ll explore the payroll challenges facing companies that decide to expand globally; the impact these issues have on compliance; and how technology and in-country expertise can help organizations avoid costly compliance pitfalls and get payroll right every time.



INTRODUCTION

A changing landscape

When a company decides to expand beyond its home country, it opens the door to greater growth and, potentially, greater market share. Of course, a number of factors go into deciding which country or region is best to consider, including available talent, the competitive landscape, and the size of the organization. But no matter what the outcome of that decision, expanding into different countries presents a multitude of potential compliance pitfalls for HR, finance, and payroll teams.

Laws that govern payroll rules, taxes, and compliance vary substantially from country to country, and can change from year to year. A thorough understanding of a new market's local tax laws, regulations, and cultures is not a nice-to-have— it's a critical success factor. It's also the only way to avoid costly fines, penalties, and potential audits that will result from non-compliance.

Employee engagement and productivity can also be negatively impacted by a failure to understand local payroll regulations. When a company fails to pay employees on time, files payroll taxes incorrectly or late, or keeps incomplete or inaccurate payroll records, workers feel the pain. This can cause them to focus too

much of their time on making sure they're getting paid the right amount, and less on the job they were hired to do. Morale can dip, and with that drop often comes a diminishing sense of connection and engagement among workers.

As CloudPay's Vice President of Product Matthew Hillier explains, these challenges are amplified by the fact that there are tight turnaround times for payroll functions. "Payroll information doesn't only have to be accurate, it needs to be accurate from the start, because it can impact taxes and calculations—both in the present and later on down the road. What you don't want is to have payroll teams scrambling around two days before payday to make sure that deductions and taxes are accurate in order to pay their employees correctly."

"Tax and reporting deadlines are also part of the equation," Hillier continues. "These can vary— and often do—based on where employees are located. Brazil is an example of this. Income tax is due within the first five days of the following month, while social security tax is due on the 20th of the following month. That's different from the U.S. or certain countries throughout Europe."

“Payroll information doesn’t only have to be accurate, it needs to be accurate from the start, because it can impact taxes and calculations—both in the present and later on down the road.”

Matthew Hillier
Vice President of Product, CloudPay

WORKFORCE DYNAMICS AT PLAY

Most business leaders would agree that paying employees accurately and on time is among the most fundamental aspects of running a successful business. Doing so has become more complex over the past few years, as a result of the

Covid-19 pandemic and the disruptive workforce trends that manifested themselves in the years that followed.

One of the more substantial changes to come out of the pandemic was an acceleration of a decades-long movement to more remote, hybrid, and flexible work arrangements. Aside from the changes in work culture that have come about from this shift, there are practical ones for payroll, finance, and HR teams.

In the wake of the pandemic, a dramatic spike in job turnover—named the ‘Great Resignation’—occurred, placing strain on payroll processes and increasing instances of errors in calculations and filings.

To combat this trend, companies enacted a number of reactive measures, such as new benefits and salary adjustments, in a bid to keep employees satisfied and engaged. Still, payroll cycles were filled with high numbers of employees leaving their employers, switching roles within companies, or new employees joining the ranks. Keeping track of all these changes—removing people from payroll runs, updating salaries and benefits data, and adding staff to the payroll—is time-consuming and can often lead to errors and costly mistakes.



THE COMPLEXITIES OF GLOBAL COMPLIANCE

Staying on top of each country's payroll and employment laws is becoming more complex and time-consuming. Every country has its own set of rules that are changing regularly. If missed or breached, these regulations can result in penalties and fines, and have a devastating impact on a company. And while staying on top of ever-evolving payroll regulations in every country where a business has employees is table-stakes for any organization, doing so in-house is incredibly difficult, time-consuming, and costly.

Global payroll compliance isn't simple. Keeping up with country-specific rules—which change from year to year—while maintaining the accuracy of recorded hours, tax calculations and government procedures takes time—time that payroll, finance, and HR leaders simply don't have. Furthermore, payroll regulations are tightly related to employment law. This connection is especially strong in Europe and Latin America, where the interdependencies across employment laws, social benefits, unions, and payroll is amplified.

The most effective and efficient way to address these challenges is with a global payroll solution provider: a company who offers the right technology plus experienced professionals with in-country expertise and up-to-date knowledge on rules and regulations in the ever-changing payroll landscape.



THE CHANGING WORKFORCE

Another global workforce trend is the arrival of the 'Gig Economy,' which brought a marked increase in independent contractors, freelancers, and interim staff into the workforce. For employers this means it's harder to stay current on employment status, classification, and benefits for different types of employees. There are also other areas where compliance gets markedly harder.

For instance, centralizing all payroll policies and procedures globally may sound like a method for tamping down potential problems, but this approach overlooks the fact that some of those processes work better in some countries than others. The opposite approach—decentralization—helps companies navigate those country-by-country differences, but reduces visibility into the regional payroll and finance functions because so many different systems and relationships have to be in place to make transparency possible.

In addition to the changing nature of the global workforce, there's been an expansion of data protection regulations around the world. This means an increased focus on risk management—with payroll compliance a top priority—as an essential strategy for business success.

Further, operating in different countries without the right tools or in-country expertise from a payroll partner increases the likelihood that payroll, finance and HR platforms will not be working in concert. Without that cohesion, the chances are greater that there will be payroll mistakes and errors in financial reporting, resulting in significant consequences for the business.

Getting payroll data right requires input from multiple teams, and alignment across systems. HR collects the required data for calculating payroll, including employee salaries, hours worked, and benefits. But data is also submitted by managers and individuals, to be fed into payroll. Data from finance teams covers the essential information for financial reporting, such as tax withholdings and contributions. The accuracy of this information is essential for compliance and financial reporting and requires that both HR and payroll systems are integrated seamlessly.

THE RIGHT TECHNOLOGY & THE RIGHT PARTNER

Working with a global payroll partner—who offers the right technology coupled with experienced in-country payroll experts—provides an end-to-end solution that goes beyond simple data aggregation. This approach provides the specific knowledge, standardization, and accuracy needed to succeed as a multinational organization.

“Too often, global payroll providers operate as aggregators, contracting with payroll processing companies in different countries and then pulling everything together into a single customer-facing dashboard,” explains Stuart Gaston, a Solutions Consultant Manager at CloudPay. He notes that “The problem with that model is that, while it looks like payroll data is in one place, it’s actually in as many countries as a company is operating.” “There’s no global standardization of the data, and it then becomes a very manual process to get that data into one format,” Gaston comments. “Visibility of data is poor and is limited to only what’s on the aggregator’s dashboard.”

A unified, cloud-based global payroll solution, in contrast, uses a single platform for all payroll processing and data management. It can act as a single access point for integrating various systems, and can work across boundaries around the world.

Payroll data, analytics, and even internal audits can be viewed in realtime, making compliance a much smoother undertaking and one with greater clarity and accuracy.



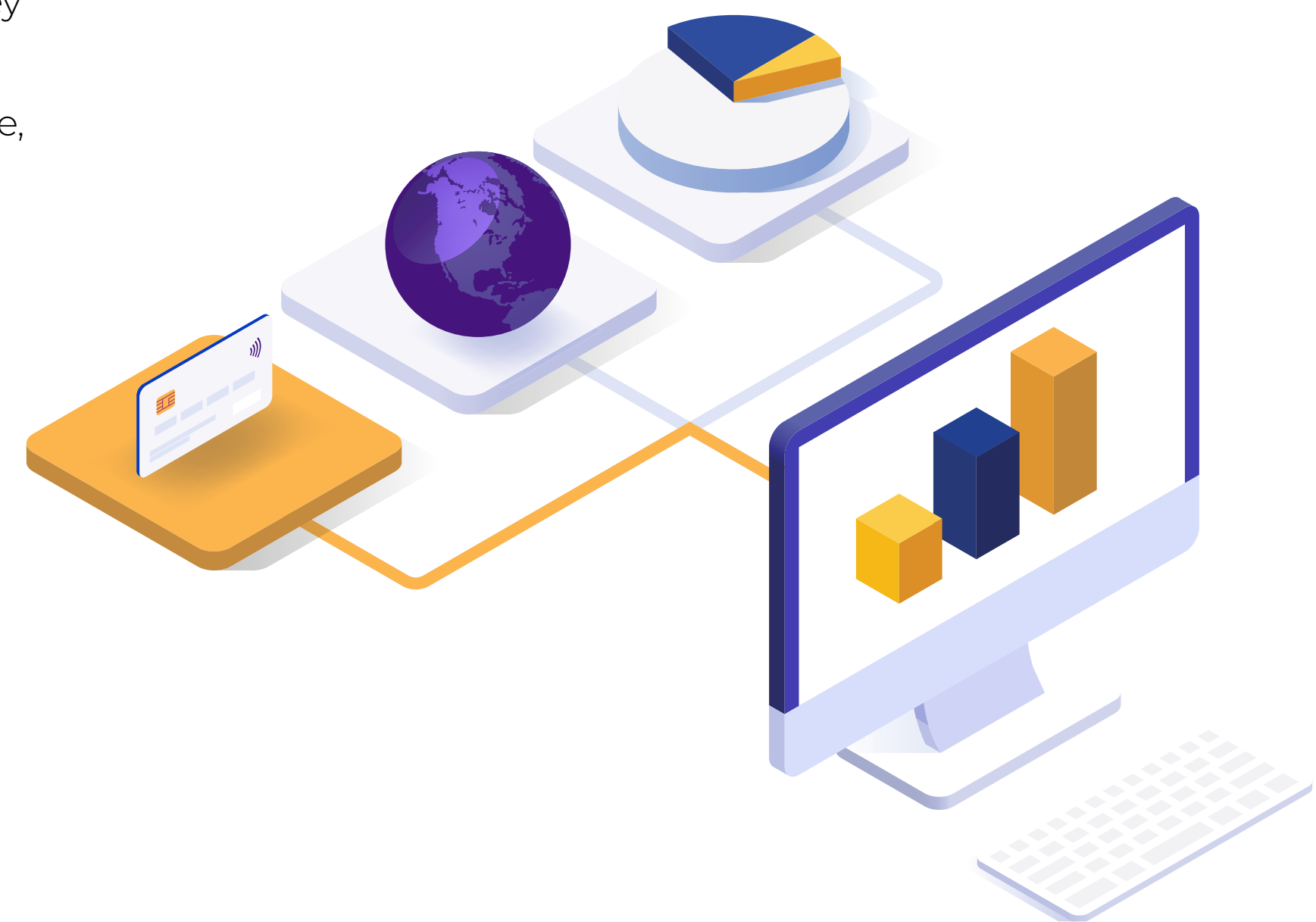
REAPING THE BENEFITS OF STANDARDIZATION

One of the key attributes of robust payroll compliance is having automated processes. Whenever there are manual processes for inputting payroll data, there is a greater chance of errors and compliance issues. This leads to corrections, re-filings, and reprocessing of information—all of which can greatly slow down the pay cycle, create issues with on-time paychecks, and interject compliance risks.

When payroll data formats and workflows are standardized across the entire payroll function, accuracy and cycle times improve. “If a company is getting multiple reports, in different formats from different countries, it’s nearly impossible to get everything right, and red flags are harder to spot,” says Gaston.

“The ability to view and follow data in a consistent format through the process helps with compliance, which is becoming a critical regulatory requirement,” he adds.

Having standardized global processes also enables a company to streamline risk assessment, by using a single compliance program to monitor payroll activity across the organization. What’s more, standardized processes can help a company adjust and react more quickly to regulatory changes—no matter where they occur. It also enables payroll, finance, and HR teams to become aware of compliance risks as they emerge, rather than after the fact.



ACCURACY THROUGH AUTOMATION

There's no denying the importance of accurate and timely payroll data. "But if issues occur with that data, the ability of a company to respond—to correct bad information or fill in missing data quickly—is just as important," says CloudPay's Vice President of Product Matthew Hillier.

That's why automated data validation is so important. A robust payroll platform provides embedded tools that are constantly monitoring payroll data to ensure that the information provided is current, complete and accurate. For example, when a company hires a new employee, there are numerous data elements that need to be recorded in the HR system in order to pay that worker accurately, on time, and with the proper taxes deducted.

Robotic data validation is like a safety net. It flags—in real-time—when crucial data is missing or a piece of information is incorrect, so everything that flows into payroll is accurate. It helps companies manage compliance requirements when they expand their employee base across the world, and improves record-keeping.

"Companies don't want to manually look for potential issues or check reports and systems," Hillier explains. "Robotic data validation enables finance, HR, and payroll teams to make sure they're on top of potential issues, and that problems are cleared out in a relatively timely manner," he adds. "Doing so essentially gives payroll teams time back in their day, because they're not scrambling around two days before payday to make sure they're ready to pay their employees."

That kind of accuracy extends, of course, to assurances that payroll taxes are being paid properly and that companies are compliant with local tax legislation and laws. "Companies build up a bit of a rhythm as their teams get used to filling in data, making sure that it's correct, and having the right pieces of information," Hillier adds. "Over time it builds up the organizational muscle around making sure that payroll data is in sync with their payroll cycle, and that they've got the processes internally to be able to organize that."

Beyond that, automation also helps companies spend less time focusing on the predictable aspects of payroll and more on the areas where problems could occur, says Hillier. "There are always pockets of payroll in complex places like France, Germany, or China, where there's a lot more legislation and complexity," he adds.

Scalable, automated data validation allows HR and finance teams to focus on more complex issues, or areas where they can add more value.

Consistency in the global payroll function is tightly linked to quality in the global employee experience. Compliance is at the core of this.

When HR, payroll, and finance teams are freed from concerns about non-compliance and the risk of fines and penalties, everyone can focus on the job they were hired to do, and employees can spend less time worrying about getting paid correctly and on time.

Companies that expand their workforce globally need to take into account that global payroll processing can be a complex undertaking. The sheer variety of employment laws, tax regulations, and local rules that exist, country to country, make keeping abreast of changes incredibly difficult, costly, and time-consuming.

The rise of remote and hybrid work, changing workforce demographics, increasing data privacy regulations around the world—and numerous other factors—have only made the picture more complicated. Any company operating in more than one country needs to have a focus on payroll compliance and risk management.

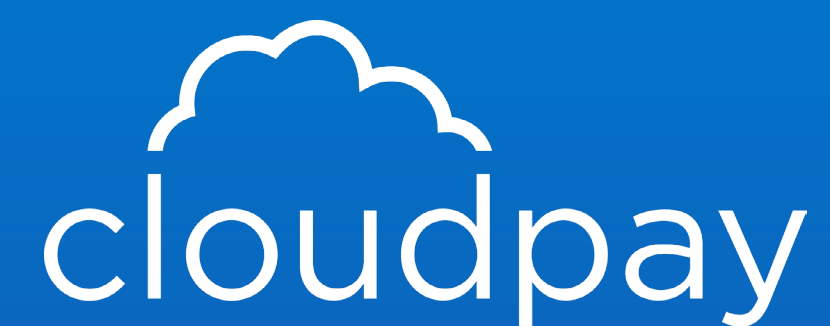
A global payroll partner who can provide the right technology offerings, as well as in-country expertise, is therefore essential. As compliance regulations get more complicated, companies need consistency, accuracy, and standardization.

To maximize the potential of your global workforce, choose a partner who is already established in these locales and brings a deep understanding of local employment laws and regulations. They'll help you save time and money while avoiding the pitfalls of non-compliance.



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CloudPay is an organization united by a single purpose – to modernize the pay experience for businesses and people, raising the importance of pay processes beyond an operational function to become a true business advantage. With a proud heritage of over 25 years, we are trusted to manage the pay processes of 250 global organizations, processing over 2.5 million payslips a year in over 130 countries, handling over \$24 billion of payments in 168 currencies.

Our integrated portfolio of payroll, funding, payments and pay on-demand solutions are delivered through a single cloud-based platform that can be deployed anywhere in the world. By unifying payroll, global payments and HCM functions and leveraging the latest technology, we can transform pay processes, making them fast and friction-free.

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