Planning for payroll of the future with SAP technology

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Introduction

Digital transformation is one of the top priorities for today's leaders and affects all aspects of a company's operations, including payroll. Increasingly, company leaders are changing their view of payroll as a data processing function full of risks to one of business enablement. An optimized payroll operation, including the components of service, delivery and technology, can facilitate the global expansion companies pursue for additional sources of revenue while at the same time reduce legislative and data privacy compliance risk and provide data and key indicators (KPIs) to improve processes across the entire HR function.

As companies are preparing for the payroll of the future, they are grappling with decisions around how to upgrade their technology for increased transparency and control as well as cost optimization, accuracy and employee enablement. The purpose of this white paper is to examine the most widely adopted global enterprise cloud payroll platform – SAP SuccessFactors Employee Central Payroll (ECP) – and the most significant innovation in payroll in the current generation – Payroll Control Center (PCC). We will analyze how the best-run organizations pursue the potential to achieve their business objectives with the payroll function.

EY recently conducted a global payroll survey with 287 respondents from 19 different countries.[1] The results indicated several trends in the payroll area:

1. Global expansion is driving companies to prioritize payroll in their pursuit to achieve scale and mitigate risk.

2. Companies are incrementally moving payroll back in-house to increase control and cost optimization.

3. While payroll providers are leveraging digital technology to deliver more global offerings, companies still see much room for improvement in enabling operational efficiencies.

4. While many innovative technologies, such as robotic process automation, artificial intelligence, Internet of things and blockchain exist to decrease manually intensive, repeatable and inefficient processes, HR is slow to adopt and incorporate these digital technologies

Key objectives for payroll operations

1. Increase payroll accuracy and decrease manual corrections

2. Enhance control over operations

3. Improve legislative compliance

4. Integrate data, processing and technologies seamlessly across HR and payroll

5. Increase ability to report globally

6. Reduce the payroll provider landscape

7. Provide consumer-grade experience for employees

8. Optimize payroll costs

[1]*How are companies preparing for the payroll of the future: EY 2017 Global Payroll Survey,* EYGM Limited, 2018.

Implementing Employee Central Payroll in the cloud

As companies pursue the objectives of increased operational control, simplicity and accuracy, SAP's ECP offering should be high on the list of offerings to consider. Enabling a company's payroll operations with ECP in the cloud addresses many of the challenges currently faced by companies.

Globalization and localization

ECP delivers local and statutory requirements for 43 countries as part of its standard-delivered software in the cloud. In addition, SAP employs 120 localization product managers in-country around the globe to proactively identify and incorporate legal changes into the delivered product, enabling legislative compliance for companies globally. Add to that a group of 200 globally dispersed software engineers working side by side to incorporate the more than 2,000 annual changes globally into the approach. Recently, SAP introduced numerous capabilities, reporting and security functions to address the new global legislation −General Data Protection Requirement (GDPR) − which went into effect in May 2018. No other payroll offering provides as many localized configurations or proactive compliance monitoring as SAP. Due to ECP's robust, global capabilities, companies can focus on areas around payroll accuracy and the need of other payroll vendors globally. As all payroll global master data is in one place, companies have easy access to global reporting. In addition, companies are able to standardize payroll processes globally and pursue the achievement of increased transparency across the HR and payroll function.

Large retailer payroll challenges

A large retailer was struggling with payroll accuracy and inefficient, manual processes in its on-premises payroll application. This company moved to ECP payroll to:

1) Reduce manual processing
2) Improve payroll accuracy
3) Improve compliance
4) Reduce application support costs
5) Improve integration of processes and data across HR, Payroll and Finance

Comprehensive, integrated functionality across the enterprise with extensibility

Through the extensive SAP suite, which includes its Leonardo platform for innovation, and SAP Analytics, in addition to SuccessFactors, HR innovations are being introduced regularly to provide capabilities like chatbot or digital assistant capability, artificial intelligence and machine learning. In addition, the open architecture of the SAP Cloud Platform enables companies to incorporate other technologies to extend functionality, reduce labor-intensive processes and create a unique company-branded user experience. The market is filled with niche players who excel at these new innovations, and SAP's platform allows these technologies to be integrated to the SAP payroll platform along with SAP's own Leonardo and partner-driven innovations. For example, SAP Global partners, like EY, are able to create extensions to the SAP-delivered functionality that can solve problems unique to each customer. These extensions are not like the customizations of the past that

prohibited upgrades. Since they are built using the SAP Cloud Platform, they fit seamlessly into the environment, enhancing employee engagement without inhibiting the update/upgrade process in the cloud.

Motivation and Goals

Company decision-makers often ask, "What is the motivation to move to the cloud and the associated return on that investment?" This move to the cloud can help companies address/meet their goals in the following areas:

1) Payroll operation: Increased control, higher productivity and fewer errors are the primary desired benefits driving companies to adopt ECP. The functionality to generate regulatory reports; address regulatory changes; and integrate applications, data and processes, enables more productive work in less time. Fewer manual tasks increase accuracy and reduce the number of off-cycle corrections.

2) Vendor landscape: Companies can reduce the number of vendors, contracts, integrations and negotiations by leveraging SAP's global capabilities and localization.

3) Application support: Cloud technology eliminates the need for hardware maintenance and IT support of the infrastructure (SAP Basis). It also reduces the number of IT application support resources required.

4) Application updates: Companies can reduce the number of IT application support resources required to apply the updates required for payroll to remain compliant and operational. These tasks can include HR support packages (HRSPs) and tax updates (TUBs). These events are recurring and typically consume significant amounts of time from the application support team as well as payroll operations.

5) Application upgrade projects: Application upgrade projects are a thing of the past with ECP. Improvements to the functionality of ECP are provided on a scheduled basis. With a minor amount of regression testing, companies are always on the latest version of the software and never have to worry about carving out time and budget to upgrade the system.

6) Reduction of data security risk: When HR data is maintained in one platform and payroll in another, there is a data security risk in passing data from one application to another. With ECP, the embedded data connection between Employee Central and Employee Central Payroll protects sensitive data "behind the SAP firewall" from a global core HR/Payroll perspective.

Employee Central is required for a deployment of ECP. It provides a consistent and engaging experience for the processing of employee data and payroll. For the non-HR data required for payroll processing, SAP provides supplemental data collection processes that include a visually seamless user interface (UI) that continues the engaging employee experience of the SAP SuccessFactors HCM suite.

Implementing the Payroll Control Center

For companies looking to address the areas of efficiency, accuracy, and control of their payroll, the SAP SuccessFactors PCC should be given strong consideration. This disruptive innovation is effectively an end-to-end control center managing the entire payroll process from one user interface. This functionality is provided with ECP and takes payroll processing to a whole new level. Traditionally, payroll runs are constrained by time – many critical tasks cannot begin until all HR and time collection processes are finished and data made available to payroll. Once started, these payroll tasks have to be completed quickly to meet desired payroll delivery dates. Due to this limitation in time, payroll operations were primarily focused on error detection, troubleshooting and resolution to meet the dates required for pay distribution, tax, garnishment and vendor payments. Many of these tasks were manual and there was a reliance on key individuals for payroll to conclude on time. There was limited ability to proactively identify and address issues that would affect future payroll runs. PCC changes all of that.

PCC enables a full payroll run gross to net as well as post-payroll processing for finance. This functionality allows a comprehensive check of the entire payroll run, which enables payroll operations to be aware of missing, incorrect information earlier and allows more time to address. This functionality is provided via a dashboard that provides insight into where a company is with its various payroll runs, highlights the issues and updates as errors are corrected.

Global retailer payroll challenges

A large retailer struggled to close payroll accurately and on time:

1) Payroll errors occurred frequently across various steps in the pre-payroll process – deductions were inaccurate or not taken at all, master data was incorrect, time sheets were inaccurate or missing, and cost centers were not valid.

2) Manual effort in investigating and resolving issues proved too much to be accomplished in the payroll window, resulting in inaccurate pay for a portion of the employee population.

3) Off-cycle runs were required frequently to correct the errors in employee pay.
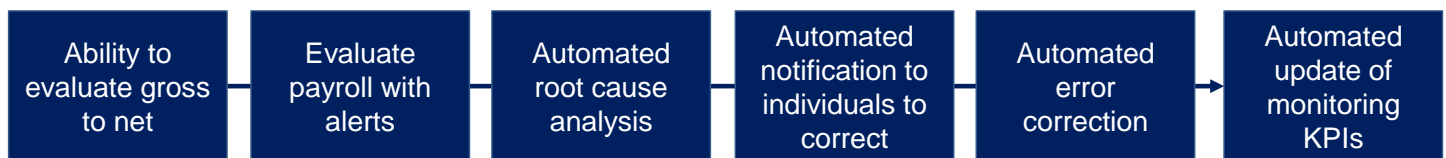
The 'bottom line' of this approach is that if the PCC indicates something should be addressed, then do so, otherwise your payroll can proceed. This end-to-end payroll evaluation can be done at 'any time' and allows for the identification of errors, their analysis and resolution well before the critical path of the productive run. Additionally, the machine is doing all the checking and auditing of payroll conditions continuously in the background, so company resources are free to focus on adding value with the payroll outputs.

Payroll accuracy, cost optimization, control over operations, consumer grade experience

The functionality contained within the PCC provides invaluable opportunities to streamline and simplify payroll runs while increasing accuracy. In addition to the ability to run payroll from start to finish prior to the productive run, a company can implement alerts pertaining to the errors commonly found in payroll, perform root cause analysis on the results of those alerts, and automatically notify individuals or teams required to correct errors. Key performance indicators are displayed throughout the payroll run to enable additional analysis. As an example, KPIs can be displayed to compare current payroll to previous periods. To provide the overall comparison, these KPIs can compare the details of these payroll runs to prior periods, including retro-calculations, deductions, net pay, gross pay, bonus pay, tax-deferred eligible earnings and taxes. KPIs can be leveraged to highlight the items critical to payroll accuracy and compliance that don't necessarily result in an error. Instead, these inaccuracies are detected because they fall outside the standard policies, parameters or thresholds. These KPIs become very meaningful decision-making tools when used in conjunction with error alerts.

These Payroll Control Center steps are outlined below:

Ability to evaluate gross to net	Evaluate payroll with alerts	Automated root cause analysis	Automated notification to individuals to correct	Automated error correction	Automated update of monitoring KPIs

Payroll Control Center process steps
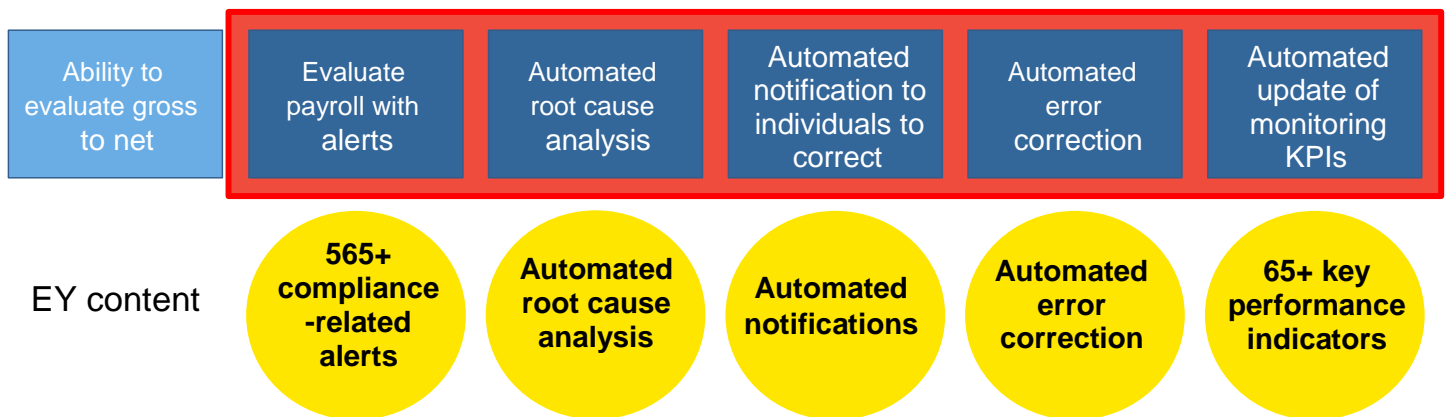
The above process helps companies evaluate:

1) Payroll accuracy; not only by the alerts, but also by the ability to run the PCC all the way through the process at any time in the payroll period. Not only do you now see what issues exist, but companies have more time to address issues prior to the final payroll run. The resulting desired outcome: more accurate payroll

2) With the desired benefit of a more accurate payroll run the first time, fewer manual corrections and compliance issues are the desired outcomes. The resulting desired outcome: lower processing costs and reduced risk

3) The dashboard can be viewed by management, administrators or analysts, making it much easier to track progress for a company's various payroll cycles. Stakeholders have visibility to the status of root cause analysis, issue identification and issue resolution through the dashboard. The resulting desired outcome: increased transparency and clarity of progress within the end-to-end payroll process

4) The dashboard is intuitive, displays relevant, real-time information and KPIs. It provides a consumer-grade experience to payroll employees. The notifications that are sent to stakeholders in HR, finance, and time administration are intuitive as are the results of the automated error correction process. The resulting desired outcome: consumer-grade experience

5) IT services are also typically required to assist in the investigation and resolution of complex payroll issues, such as unwanted retro activity, claims and reversals. The PCC reduces or eliminates the associated IT costs with these activities by providing the functional payroll processor with a very consumable and understandable depiction of the specifics of the source of any issues/alerts without requiring IT services to investigate the payroll results to determine the origin of the symptom.

The EY difference

While the basic PCC functionality is available to all companies and implementers, its robustness and effectiveness are dependent upon the configuration and system set up by your implementer. The SAP rapid deployment offering provides 25–30 alerts without automated root cause analysis, notifications or error correction. EY, in contrast, has developed an accelerator, the Payroll Control Center powered by EY, that incorporates learnings from two decades of payroll implementations, and input and testing from four major global corporations. This EY accelerator contains a number of ready-to-deploy alert, root cause analysis, remedy and KPI packages that can be deployed to address client challenges with their payroll operations.

The graphic below illustrates the difference between the out-of-the-box PCC and the PCC powered by EY. The components of the PCC are displayed with a red box around those that need to be configured. The functionality of the PCC is built from left to right. Alerts have to be configured before automated troubleshooting is set up and linked specifically to those alerts. Likewise, the automated troubleshooting must be configured prior to the notifications and automated error correction is set up and linked to resolve the cause of the error. EY's PCC content facilitates a closed loop — from automated error identification to automated correction by the responsible party. In addition, EY provides key performance indicators, which provide another level of payroll monitoring.

Ability to evaluate gross to net	Evaluate payroll with alerts	Automated root cause analysis	Automated notification to individuals to correct	Automated error correction	Automated update of monitoring KPIs

EY content

565+ compliance-related alerts	Automated root cause analysis	Automated notifications	Automated error correction	65+ key performance indicators

Payroll Control Center powered by EY

EY and SAP co-innovation structure

▸ The EY and SAP co-innovation structure in place today around payroll and the payroll control center has its origin back to the initial creation of the SAP 3.0 payroll product of 1995.

▸ At that time, a major American airline company partnered with SAP for the development of the initial SAP payroll product.

▸ Upon the release of the 3.0 product, a group from the airline company created a consulting group (which later became a part of EY) that went on to successfully deploy SAP's payroll offering for the next two decades.

▸ When SAP bought SuccessFactors, the co-innovation continued with this consulting group (now EY) to develop functionality to streamline and automate the end-to-end payroll process to enable proactive error detection and resolution.

▸ This was the Payroll Control Center – SAP was responsible for the software, and EY was responsible for developing the content. The ultimate outcome of this innovation has been the availability of a two decades-proven payroll approach for domestic and international companies.

The effectiveness of the SAP Payroll Control Center is dependent upon the alerts that are configured in the application. The EY-provided 565+ alerts, root cause analysis, and remedy objects address the following:

Master data
validations for the US and Canada that not only identify absence of required information, but also reconcile the information with configuration to ensure correctness

Gross-to-net validations
to detect out-of-tolerance conditions based on any time period of averaging or comparison for earnings, tax, deductions, net pay, etc.

Up-front validations of the end-to-end process,
including integration with SAP finance and controlling, third-party remittance and tax reporting. This is achieved via custom validations and audits for non-SAP

Industry-specific validations
that can easily be added to the baseline set of 500+ integrated end-to-end validations to ensure an error-free end-to-end process once all identified errors are remedied

Addressing Payroll costs with the EY-configured PCC

In many respects, the configured payroll control center provides the same potential benefits you would expect from robotic process automation (RPA). RPA is designed to provide automation, accuracy and efficiencies for rules-based, repetitive processes that require multiple steps and multiple responsible parties. The configured PCC, with its predefined alerts, root cause analysis, notifications and error correction, automates the payroll process based upon defined rules and manages the integration of applications and responsible parties. With EY's "closed loop content" and the use of the "event handler," the process of alert identification, analysis and remedy can be a completely automated closed loop process.

Clients have communicated the desired goal of efficiency gains from their use of the PCC process view and associated automation perspective using robust PCC content and alerts. The efficiencies introduced by the PCC powered by EY affect all areas of the payroll process – gross-to-net pay distribution, benefits/garnishments, tax support, third-party remittance and tax reporting. The automation coupled with proactive notifications aims to meet client goals related to hours spent, errors encountered, and number of off-cycle processes required to support after-the-fact corrections.
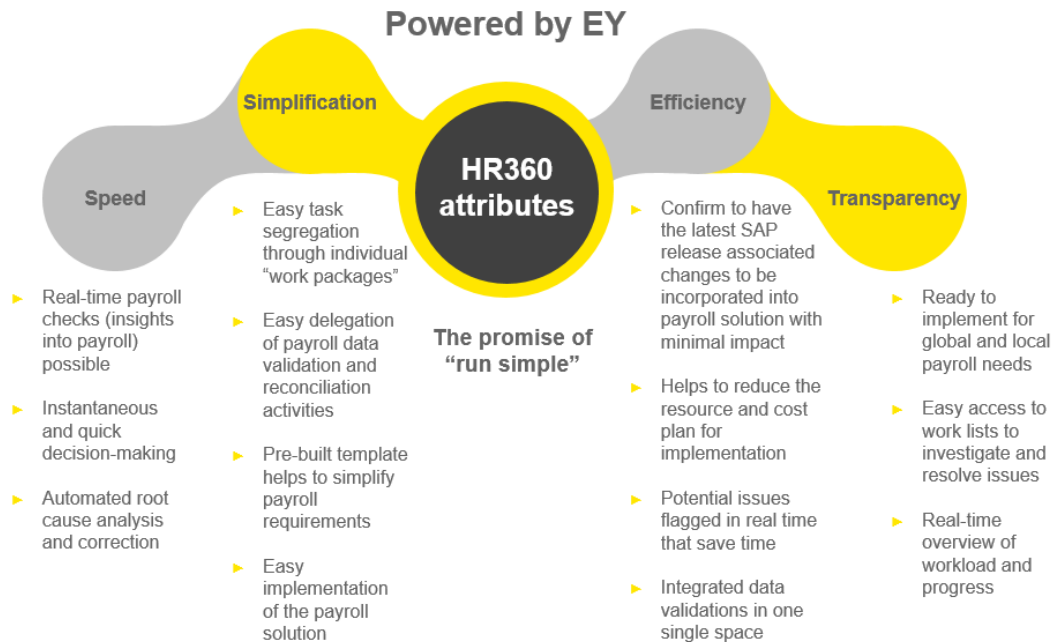
Payroll Control Center, powered by EY

As illustrative examples, a detailed analysis of a super major oil company, an upstream energy company and a Chemical company resulted in five-year efficiency gain/return on investment amounts of ~$1.8m, $1m, and $1.5m, respectively.

As an additional illustrative example, a major pharmaceutical company announced that its initial use of 15 PCC alerts resulted in an estimated 130 man-day savings per year.

The EY approach to payroll digital transformation

To provide the potential benefits of Employee Cloud Payroll and the Payroll Control Center, EY has developed a specific deployment method, called HR360 payroll. This HR360 approach and tools enable an accelerated migration to the cloud based upon a predefined set of activities and leading practices embedded in ready-to-deploy processes, data and configuration. It enables a company to continue the processes that are optimized today coupled with improvements enabled by SAP's cloud technology tools. In our experience, the EY HR360 payroll approach can decrease deployment costs by 50%.

Powered by EY

HR360 attributes

The promise of "run simple"

Speed
- ► Real-time payroll checks (insights into payroll) possible
- ► Instantaneous and quick decision-making
- ► Automated root cause analysis and correction

Simplification
- ► Easy task segregation through individual "work packages"
- ► Easy delegation of payroll data validation and reconciliation activities
- ► Pre-built template helps to simplify payroll requirements
- ► Easy implementation of the payroll solution

Efficiency
- ► Confirm to have the latest SAP release associated changes to be incorporated into payroll solution with minimal impact
- ► Helps to reduce the resource and cost plan for implementation
- ► Potential issues flagged in real time that save time
- ► Integrated data validations in one single space

Transparency
- ► Ready to implement for global and local payroll needs
- ► Easy access to work lists to investigate and resolve issues
- ► Real-time overview of workload and progress

EY HR360 Payroll Approach

Conclusion

In summary, the pathway to the payroll of the future is both strategic and operational. The optimized payroll function needs to be an engine of growth for companies expanding globally or across business lines. In addition, the optimized payroll function needs to be efficient and compliant, while reducing risk. Employee Central Payroll and the Payroll Control Center powered by EY are foundational components of these strategic and operational objectives. These disruptive payroll technologies help enable companies with their digital transformation efforts while supporting their global growth goals. This approach allows for the potential of significant savings, including lower administration costs, reduced run/support expenses and optimized Employee Central Payroll deployment costs. In addition, Employee Central Payroll is the only cloud payroll offering in the market with a foundation of proven success across two decades and more than 9,000 domestic and international clients in 99+ countries. The move to the cloud for payroll technology enables a meaningful foundation upon which the ecosystem can rely on for its future payroll vision into 2025 and beyond.

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