

Building A Business Case For Global Expansion

In a recent Lighthouse Research study backed by Papaya Global, we explored some of the key aspects of global human resources practices, such as compliance, payroll, and scalability. The April 2017 pulse survey reached more than 125 employers that are either currently using or planning to hire workers outside the headquarters country. The research uncovered some actionable findings that can help HR, talent, and business leaders at firms with international operations to improve performance and mitigate risk.

Key Findings:

- Seven in ten employers are not fully confident in their knowledge of foreign compliance and employment requirements, creating risk and potential hurdles to success
- The direction of expansion is driven primarily by the need to have a footprint in key target markets, opening the door for HR to drive business impact
- 40% of employers are spending more than four hours per month, per employee, to onboard, pay, and communicate with global workers. This has the potential to hamper efficiency and performance.

Compliance Risk Mitigation Strategies Are Required

Compliance has always been a hot topic for HR leaders. As the organisational function is saddled with making sure the company stays out of legal trouble, there is incredible pressure to stay on top of issues and maintain operations without impacting business performance. Yet, the research shows us that for many companies, issues with compliance are not a matter of “if,” they are a matter of “when.”

In the study, just 33% of global employers said they are aware of no gaps in general knowledge of foreign HR/labour compliance requirements, the foundation required to operate in international markets. That leaves nearly seven in ten employers that have knowledge gaps, whether small or large, that contribute to greater risk. One of those risks is basic payroll. According to one report from PwC [1], one of the biggest obstacles to ensuring compliance with

payroll requirements is determining taxes on a country-by-country basis. That same study pointed out that payroll errors cost the average company on the FTSE 100 Index between \$12M and \$38M per year.

In addition, the biggest headaches come from local employment laws, which can be difficult to navigate for those unfamiliar with local customs and requirements.

Figure 1: Global Operational Challenges

Local employment laws	48%
Lack of reporting or insight into operations	32%
Cultural differences	13%
Language barriers	7%

Source: 2017 Lighthouse Research Global HR Practices Pulse Survey (n=128)

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compliance requirements, local employment laws are still a challenge for nearly half of international employers. This includes employee terminations as well. Termination is a legal hotspot for employers that can often bring painful consequences, and just three in ten employers have high confidence in their termination process as a legally compliant practice.

The clear answer here is a need for a risk mitigation and management strategy. HR and business leaders need to work together to identify where risks and gaps occur and how they might be best resolved. For instance, if the termination process presents significant risk, then hiring a local PEO to manage employees may offer a significant reduction in associated risk. PEOs, or professional employer organisations, allow global employers to outsource the transactional processes around hiring and managing workers while still retaining day-to-day control over their activities.

One way to begin this analysis is with a premortem. Described in a Harvard Business Review [2] article on project management, a premortem is a valuable tool for identifying performance gaps.

A premortem is the hypothetical opposite of a postmortem. A postmortem in a medical setting allows health professionals and the family to learn what caused a patient's death. Everyone benefits except, of course, the patient. A premortem in a business setting comes at the beginning of a project rather than the end, so that the project can be improved rather than autopsied. Unlike a typical critiquing session, in which project team members are asked what might go wrong, the premortem operates on the assumption that the “patient” has died, and so asks what did go wrong. The team members' task is to generate plausible reasons for the project's failure.

Completing a premortem gives the HR team an opportunity to find any opportunities for improvement so weaknesses can be shored up before they cause issues with the business.

For many organisational leaders, compliance simply isn't an exciting topic. However, when something does go wrong, it's comforting to know that a blend of internal knowledge and external expertise is there as a cushion to prevent unforeseen problems and issues from crippling key business processes and outcomes.

Customers Are A Key Growth Driver

HR leaders must understand and support the needs of the business. While this seems like common sense, the concept has only recently taken root in human resources competency models, such as that released by the Society for Human Resources Management [3]. One of the key elements of a great HR leader is business acumen. In order to grow and expand the business on an international level, HR leaders must understand the organisation's goals, products or services, and its customers, because customers are the biggest driver of where firms expand.

Figure 2: The Primary Purpose of a Global Workforce

We're growing quickly and need more talent to scale	17%
We're trying to diversify and expand our talent base	17%
We're not able to find affordable, qualified local talent	17%
We need a global footprint to be closer to our target market	50%

Source: 2017 Lighthouse Research Global HR Practices Pulse Survey (n=128)

Overwhelmingly, the biggest reason people use global workers is to create a global footprint closer to target markets. While each of the other reasons is relatively important, they fail to reach the level of connecting with and serving customers as a priority. Additionally, while talent has inherent value for the business, it is seen as having the most impact when it enables presence in key global markets.

Figure 3: The Value of a Global Workforce

They enable us to be present in critical global markets	63%
They help us meet customer demands	50%
They enable us to deliver even greater value to our customers	46%
They are a cost-effective way to support labour needs	29%

Source: 2017 Lighthouse Research Global HR Practices Pulse Survey (n=128)

The lesson here is that HR needs to have as much customer insight and connectivity as possible. Historically HR has been distanced from customers and their needs. In fact,

it's common to perceive HR as serving only internal customers. However, research has shown that human resources practices can not only impact common measures like satisfaction and retention, but also more concrete business metrics like revenue [4] and customer satisfaction [5]. Our new research reinforces this fact, pointing to a global talent presence as a critical link to customers.

Greater Efficiency Enables Scalability

Scalability is a key focal point for firms looking to expand globally. Without the proper infrastructure, scaling to meet customer needs is virtually impossible. In other words, imagine trying to manage a workforce twice as large with the existing processes, suppliers, and resources: this would restrict growth and success for virtually any company.

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Efficiency is one of the best ways to lay a foundation for scaling the business. Nearly half of companies in the study said that efficiency was a challenging aspect of leveraging a global workforce, saying that they have people spending time on onboarding, managing, and paying global workers when they could be doing other high-value tasks. The data bears this out: 40% of companies are spending more than four hours a month, per employee, to manage, communicate, and onboard global workers. This is unsustainable.

Consider this example of a company with 500 employees. If the firm has 10% of its staff working outside the home country as

global employees, it would require at least 200 hours to manage those workers each month (50 workers multiplied by a minimum of four hours each). That's the equivalent of one full-time staff member solely dedicated to managing those 50 employees.

In addition, there's low confidence for many companies in their current payroll solution. More than 70% of employers say there are gaps or confidence issues in their existing global payroll solution. It goes without saying, but paying workers is not optional. A payroll solution that can't grow with your business is a liability to the business. This may be due in part to the percentage of firms attempting to manage the complexities of the global workforce by solely relying on in-house resources.

Figure 4: Resourcing and Outsourcing Practices

We're managing everything in-house	54%
We have 1-3 service providers helping us	38%
We have 4 or more service providers helping us	8%

Source: 2017 Lighthouse Research Global HR Practices Pulse Survey (n=128)

While some large firms may have the necessary resources and expertise to manage this process internally, the complex requirements of payroll, compliance, employee relations, and other relevant factors make this an incredible risk for smaller firms.

When a small business has these errors processing their own payroll, the time to correct the issue takes away from running their company. - Carl Peterson, Vice President, the American Institute of CPAs [6].

While companies need external help to make the leap, the truth is that attempting to grow and bring on service providers, partners, and other firms can breed its own challenges. More than half of survey respondents said that transparency is a challenge in managing their global workforce because they do not have good insights into vendor and partner performance. Additionally, a lack of reporting and insight into local operations was identified as a key issue for one-third of companies in the study, falling only behind local employment laws as a challenge of international business operations.

Opportunities Abound In Global Markets

Despite the complexities, there has never been a better time to explore global expansion. In years past, it would have been incredibly challenging for smaller employers

and those without country-specific expertise to grow outside their own borders. Increasing globalisation, talent shortages in key locations, and an increase in technology solutions all contribute to the opportunity for employers to seek out new markets to compete in.

With new suppliers, legislation, and talent coming into the market every day, this can contribute to a more complex landscape. Thankfully, new technology solutions are enabling businesses to effectively manage the tangled web of compliance needs and vendor partners. Companies like Papaya Global are enabling employers to focus on running the business, prioritising high-value tasks through the use of technology to scale and manage a network of talent across the globe.

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Key Takeaways

- Companies should create a risk mitigation strategy to help ensure that any compliance-related competency or knowledge gaps are covered, relying on external subject matter experts when possible to ensure quality. Additionally, finding good PEO partners can offload risk while allowing the employer to maintain connectivity with and direction of the workers themselves
- HR and talent leaders must become more familiar with the customer landscape. Understanding how staff can best serve customers will help to align HR practices with business objectives. This practice connects key activities like recruiting, training, and employee relations to the underlying business needs, creating value and results
- Employers must examine the new technology solutions in the market to ascertain the value they can bring to this global growth. Finding the right technology partner can make or break an employer's long-term success in the global marketplace, and it's too complex to navigate alone.

Although global workers account for only 40% of the typical company's workforce, the unique complexities of these workers require expert guidance, defined workflows, and standardised practices. Companies need to make sure they are in touch with the needs of their global workforce and have experts to manage this with a mix of global perspective and local compliance considerations.

Companies need to make sure they are in touch with the needs of their global workforce.

References:

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- [3] www.shrm.org/certification/Documents/SHRM-BoCK-FINAL.pdf
- [4] www.haygroup.com/downloads/ca/hay_group_employee_engagement_are_you_missing_something.pdf
- [5] www.aon.com/attachments/human-capital-consulting/2015-Trends-in-Global-Employee-Engagement-Report.pdf
- [6] www.americanexpress.com/us/small-business/openforum/articles/payroll-mistakes-small-business-owners-make-can-cost/

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