

Building A Centralised Global Compensation Solution

In the current corporate climate there is pressure on organisations to deliver continuous growth and maintain a level of competitiveness. This often drives the decision to carry out business internationally, and as more corporations operate globally, the ability to mobilise talent across international borders - quickly, easily and on demand - is essential.

As a result, Global Mobility as a business function is being increasingly recognised for its strategic importance. However, establishing and managing a successful employee mobility programme while remaining globally compliant with local taxation and payroll legislation is not without its challenges.

Regardless of the international assignee population size, one area which continues to be challenging is the management and delivery of compensation to assignees. This is largely due to the decentralised nature of global compensation structures which govern the management and delivery of assignee compensation data. With increased scrutiny from government authorities in recent years and the increase in penalties for non-compliance, companies are beginning to place the management and delivery of global compensation further up the mobility function priority list. In this article we will explore the need for a shift towards a more centralised operating model and the factors which can help achieve this.

What Do We Mean By A “Centralised Global Compensation Solution”?

Centralising the management of an employer’s assignee global compensation delivery model requires the development of a “blueprint” which allows a roll out to every payroll with one or more international assignees. At the core of this model there needs to be a mechanism to hold and manage expatriates’ global compensation. Typically, this would be a global database which acts as a hub for multiple data sources, managed centrally. A key output and deliverable from the database needs to be the production and delivery of a consistent pay instruction per country which is delivered directly to payroll to process. After processing, payroll output would be imported back into the database.

This centralised approach to data management is key to ensuring payroll tax and social security withholding obligations are met, high quality and timely data is available to support the completion of assignee tax returns, and insightful reporting can be produced to manage assignment costs and inform mobility strategy.

A centralised solution also requires clearly defined and consistent communication guidelines for Global Mobility and payrolls to follow, underpinned by robust and focused training. The training delivered to each payroll should be consistent, as should the monthly end-to-end process. It will, however, be necessary to take payroll calendars and local legislation into account when building a global solution.

Centralised Solution: Why Is There A Need?

When global compensation operations are decentralised, pay and compensation data is often stored in a dispersed fashion. Assignee compensation is generally processed by a number of involved parties, such as home and host locations, relocation providers and Accounts Payable, and the results are stored in separate systems.

This can potentially cause compliance issues at year end as the organisation’s tax provider risks under-reporting income on the assignees tax return.

Obtaining the required data can be challenging when multiple external providers are involved. Storing data in a single hub helps to mitigate the risk of incorrect reporting. Aside from the risk of penalties and interest, under-reporting compensation on a monthly basis can potentially lead to cash flow issues for organisations due to large settlements at year end.

There may be further compliance challenges with regards to shadow payroll if global compensation is not managed centrally. Shadowing requires the transfer of pay data processed for an assignee to another country where a reporting or withholding requirement exists. Unless the process is managed centrally and a structured mechanism is in place to provide clear guidance to payrolls, situations may arise where the correct data is not provided to the location that requires it.

A centralised solution also helps to enhance the assignee experience which is paramount for an employer managing crossborder

assignments. If assignees are paid incorrectly while on assignment this can reduce their confidence in Global Mobility and the payroll process. The operation of clearly-defined processes and procedures which are adopted and adhered to by all payrolls globally will help to reduce this risk.

When the treatment of global compensation is decentralised, Global Mobility has limited visibility of operations at a local level and the ability to identify which locations require attention or support. This often results in a negative impact for the assignee.

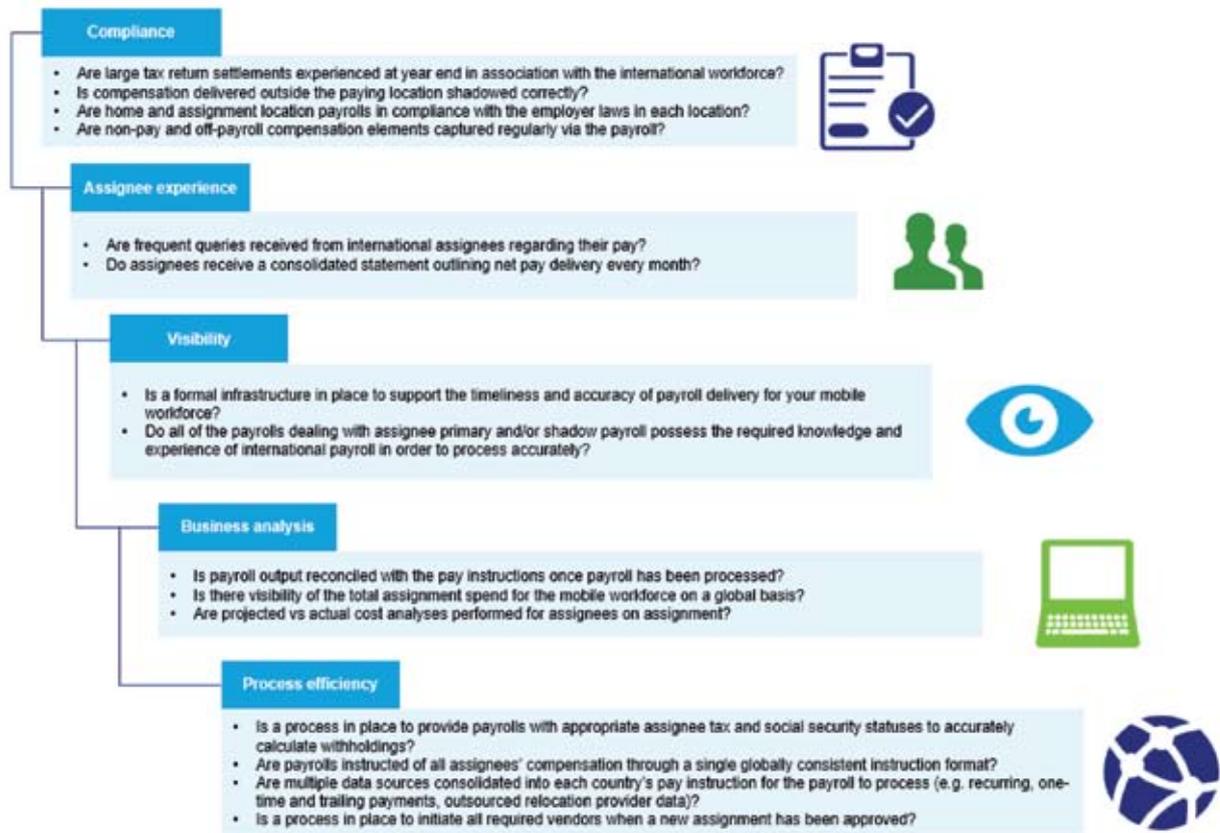
Knowledge and experience of international payroll also varies significantly from country to country, potentially making assignees travelling to or from certain locations at greater risk of receiving under or over-payments. For example, payrolls in locations with small international populations may lack the required knowledge to process an expatriate payroll free from error and in line with mobility policy. A centralised approach ensures that payroll data processed becomes readily accessible to Global Mobility so the necessary action can be taken to address any issues which may arise. Similarly, it enables Global Mobility to monitor adherence to assignment policies and enforce where necessary.

Centralising the management of global compensation also benefits the organisation by providing complete data to deliver insight via data analytics. There is one “version of the truth” as opposed to multiple streams which result from decentralised operations, and so reviewing and comparing compensation across assignment policies, countries and regions allows management to identify trends and inform business decisions.

Data can also be used for “actual vs forecast” analysis, giving organisations the ability to compare cost projections prepared at the start of the assignment with the actual assignment costs.

The most compelling reason why companies are moving towards more centralised global compensation management is to reap the benefits of standardisation. A globally streamlined solution helps drive process efficiency and eliminates duplication of time and effort, consequently reducing costs. Decentralised management of global compensation often sees multiple business units performing the same function. Not only is this an inefficient use of resources but often the approach taken by each unit varies and so there is a lack of consistency in data processing.

Some questions to consider when assessing the need for a new or improved centralised global compensation solution:



HOW CAN A CENTRALISED SOLUTION BE ACHIEVED?

Investing Time In Stakeholder Management

There is no doubt that moving towards a more centralised approach to global compensation management requires investments in time and resources. Adopting greater centralisation requires buy-in at all levels in the organisation, from Global Mobility leaders to local payroll administrators. Experience in the marketplace has shown that local payrolls can struggle to adjust to change where there is a perception that it is being imposed on them, especially if no relationship already exists with the central party coordinating the change. A significant investment in time and effort therefore remains critical to achieve buy-in from the global network. To achieve a truly global solution, the mobility team must engage key stakeholders and foster a shared vision. It is vital that every active participant in the process understands why the changes are necessary, the benefits which can be expected across the organisation, and how each individual can support delivery of the changes. In order to do this Global Mobility must identify and partner with the right people with a structured and focused communication programme to ensure that everyone is working towards

the same objectives and end goal. Although an increasing number of corporations now outsource all or part of their global compensation management services, providers can face challenges implementing such changes should the initial groundwork not be laid internally as part of the transition to the new process and/or provider.

Investing In A Central Technology Platform

An appropriate infrastructure must be in place to enable a centralised global compensation programme and technology largely underpins this. When developing a central technology platform, all key stakeholders should be consulted and their requirements must be considered and, where possible, incorporated into the system design. It is also important to consider the impact of any pending projects such as potential change to payroll providers. Primarily the technology must have the ability to store and sort large volumes of data to produce a consistent pay instruction file for each payroll with international assignees. Upload functionality can provide value with large volumes of data as it helps to reduce time required for manual input and mitigate risk. The technology solution should also have the ability to import payroll output data and a reporting function. This will allow total assignee compensation to be extracted

for the tax return process and other business reporting and analytical purposes. The more sophisticated the technology, the greater the level of centralisation and therefore benefits that can be realised from economies of scale. A highly sophisticated system will have the capability to accommodate multiple countries, currencies, payment types, policies and pay cycles. In addition to a robust database, a workflow tool can also provide value to a centralised operation to enable secure data transfer between individuals involved in the process. This reduces the need for methods of communication to operate the agreed global compensation process, such as email or telephone calls which are more difficult to track and monitor. Workflow functionality provides a clear audit trail and is more secure for communication of confidential assignee compensation data.

Summary

Managing global compensation centrally allows organisations to realise a number of benefits which are shared by all parties involved in the global compensation programme: Global Mobility, local payroll, finance, tax, international assignees, payroll vendors and an organisation's tax provider.

Maintaining assignee compensation data centrally enables greater control and the opportunity to improve data quality. As a result, organisations are less likely to be

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declared “non-compliant”, with the potential for fewer financial settlements at year end. There is greater visibility to the global network of the processing of compensation, allowing organisations to operate controls and mechanisms to ensure that policies are

being adhered to and that assignees are being treated fairly and accurately. This has a positive effect on the assignee experience and reduces unnecessary errors.

Centralised operations give way to greater process efficiency and provide the business with the necessary tools to continuously improve the mobility programme.



NATHAN MALE

Partner, Deloitte LLP
T: 020 7007 8364
E: nmale@deloitte.co.uk



NATALIE DE BIASI

Consultant, Deloitte LLP
T: +44 20 7007 2383
E: ndebiasi@deloitte.co.uk

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