



Re-imagining Payroll in a Digital-First World

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Introduction

The HR function is being buffeted by change, with powerful economic, demographic, political, and technological trends driving a fundamental shift in the way we do business. Most significantly:

- Global political upheaval is driving ongoing uncertainty in the regulatory landscape
- Millennials - with their strikingly different priorities from prior generations - are changing the face of the workforce, and
- Rapid advances in technology are enabling and catalyzing sweeping changes in how people live, work, and expect to interact with their employers

These changes are intensifying the need for enterprise HR to be agile in dealing with their most importance source of competitive advantage - their talent. And while processes such as recruitment and learning tend to feature prominently in HR transformation plans, payroll is an area that deserves attention.

Though transactional in nature, payroll touches every single employee, and thus can contribute to - or detract from - an employee's experience, productivity, and retention.

In fact, given the pace of change and the significant potential impact of payroll, enterprises must step forward and demand next-generation value from payroll services. And this is what they should demand: the payroll of the future should enhance employee experience, enable better decision-making through analytics, and increase efficiency.

As we reimagine payroll keeping employee experience and efficiency in mind, it is easy to envision several possibilities that can be achieved by using technology effectively:

- Consolidated payroll: Today, we have various pockets of payroll running almost independently. For instance, payroll for the contingent workforce and that for permanent tend to run separately. Why can't we use a single system for all employees?
- Touchless payroll: Payroll at the end of the day is largely a rules-based function. Why can't it be truly automated, end-to-end, with minimal human intervention?
- On-demand pay-cycles: Pay cycles typically happen periodically e.g. monthly, weekly, etc. Given improving speeds of processing in gross-to-net engines, why can't an employee be allowed to run a pay-cycle on-demand and draw a salary when required?
- Better enterprise decision-making: Analytics tools available today help in creating sophisticated models that can be used to predict metrics/events. Why can't enterpr

Next-generation digital technologies, in particular, will be key to achieving these outcomes. In this report, we examine some key next-generation digital technologies and discuss how they can help organizations not only improve payroll efficiency, but also gain advantage from payroll data. We also offer vital best practices for enterprises as they consider this transformation.

Into the future: Reimagining payroll

While organizations' use of globally distributed talent pools, both temporary and permanent, has become commonplace and nearly seamless, payroll functions have not kept pace with the times. Impediments to working across geographies have fallen, but they remain for payroll. Why is that? Why can't payroll leverage newer and next-generation technologies to improve efficiency and effectiveness?

Learn how Ramco can enable digital transformation of your Payroll operations

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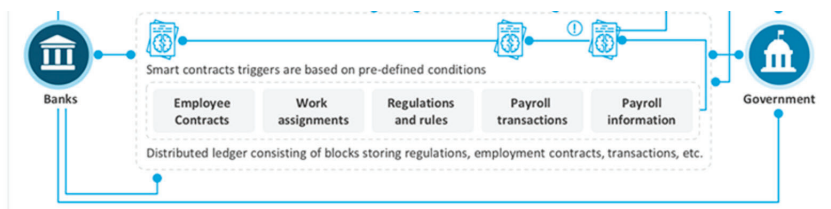


EXHIBIT 1

Payroll of the future – an illustrative model

Source: Everest Group (2018)





The answer is, they can, as in the future payroll model that leverages next-generation technology illustrated in Exhibit 1. The system is based on a decentralized distributed ledger (blockchain) into which enterprises (through platforms or bots) and/or employees (through self-service) feed one-time/periodic payroll data such as contracts, work assignments, regulations, etc. These inputs are stored in different blocks on the ledger. Smart contracts that reside on the blockchain act as gross-to-net engines, triggering mechanisms, etc

A regular (permanent workforce) payroll scenario would be relatively simple to envision in this model. However, a more complex Statement of Work (SoW) payroll situation, currently riddled with inefficiencies, truly helps illustrate the power of such a model. For instance, consider a case in which an SoW employee, Thom, should be paid only after his supervisor, Kris, approves his work product, followed by an approval from the next-level supervisor, Alisha. The pay run would work as follows:

- The employee, Thom, adds a block containing the relevant work product to the blockchain, triggering an Artificial Intelligence (AI)-enabled verification/validation bot
- After the bot completes basic verification, it notifies Kris for signoff
- Kris' signoff is added to the blockchain as another block, in turn triggering a smart contract prompting Alisha to review the work and approve it
- In the process, other smart contracts are triggered, as and when required, to gather data on employment contracts and regulations, helping provide checks and balances and determining the exact gross-to-net calculations for payment
- This chain of smart contracts results in a payment of tokens to the bank
- The bank then converts the tokens into the required fiat currency and pays the appropriate amount to Thom's account. The bank also registers the transaction as a block on the same blockchain

This end-to-end process provides complete transparency, fewer errors, easy reconciliation, and near-touchless payroll. At various points in the chain, analytics engines feed off the data provided by intelligent bots, accessing the blockchain and, in turn, the bots learn from advanced analytics to predict and handle exceptions. Through the use of underlying data, predictive models forecast seasonal work volumes, compensation trends, etc.

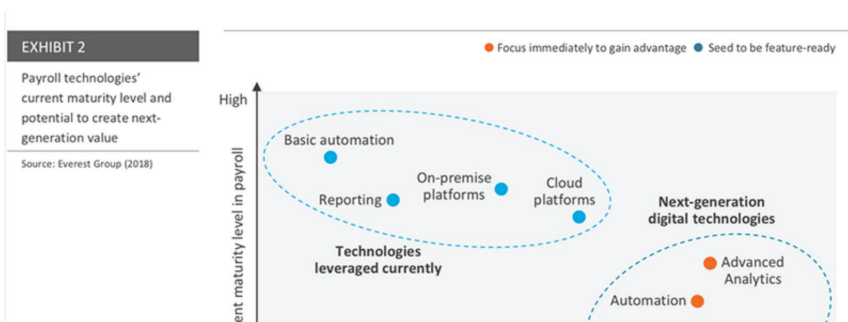
Although this is only one potential future payroll scenario, disruptive technologies will clearly play a pivotal role in enabling organizations to build more efficient, silo-less, and effective payrolls, resulting in two major strategic advantages:

- Better employee experience and efficiency and, consequently, competitive advantage in the talent market. Just imagine the impact of on-demand pay for a cash-strapped employee. These improvements would certainly help organizations attract and retain talent, eventually contributing to both top and bottom lines
- Enhanced decision-making based on analytics. For example, the ability to predict seasonal work volumes and related compensation trends would help organizations to plan and manage cash flows more effectively

Forward-looking organizations willing to experiment with next-generation technologies to grow and transform their payroll systems will undoubtedly benefit.

Digital: the driver of disruptive change

To achieve significant value from payroll, enterprises must leverage next-generation, disruptive technologies such as advanced analytics, automation, AI, and blockchain. Though digital technologies (with the exception of cloud) are currently comparatively less mature than traditional payroll technologies (see Exhibit 2), their potential to create next-generation value is exponentially higher. As adoption of these technologies accelerates in the next few years, enterprises that take a wait-and-see approach are likely to be left behind.





Advanced Analytics

Analytics enables powerful insights that can be used in a variety of ways, including improving employee satisfaction, enabling payroll process improvement, and controlling attrition, all of which ultimately contribute to improved business outcomes. While descriptive analytics relies on basic data analysis to present insights on current scenarios, advanced analytics – predictive and prescriptive analytics – use more sophisticated modelling techniques to essentially peer into the future, offering insights that can help organizations to plan and prepare.

A significant proportion of enterprises today are sitting on figurative gold mines of employee data, often with no concrete plans to use it. Advanced analytics can help enterprises derive value from this data, driving better decision-making and improving operations and outcomes.

Organizations that identified this opportunity early on invested in breaking down data silos, often creating data warehouses to enable the effective leverage of analytics. Several organizations are already using payroll data to do things like forecast and reduce employee compensation costs or predict overtime pay and absence. More advanced organizations are going one step further and building sophisticated models, using HR data (including payroll) from across the organization to predict and solution problem areas such as retention, performance, and recruitment.

Automation

Organizations are increasingly deploying Robotic Desktop Automation (RDA) and Robotic Process Automation (RPA) to manage rules-based portions of payroll that are not already automated through other platforms. Automation is currently being used for inter-system data entry and transfers, expense claims and reconciliation, employee lifecycle event changes, etc., and areas of application are expected to increase over time.

Artificial Intelligence

Though most current applications of AI-based automation are in the pilot phase, AI has immense potential to help realize the ideal of touchless payroll due to its ability

to automate even some judgment-intensive tasks. Currently, organizations are investing in payroll chatbots powered by Natural Language Processing (NLP) and assisted machine learning. Applications such as intelligent exception handling in payroll can also add value. As training data becomes more ubiquitous and inexpensive, many of the more niche applications for AI will become commonplace. An early start will give enterprises a leg

up since these applications tend to be self-learning and improve over time.

Blockchain

While the adoption of blockchain in payroll is still conceptual, it has the potential to disrupt the entire construct. At its core, a blockchain is a decentralized ledger that establishes trust through cryptographic techniques. Blockchain in payroll would help remove many of the third parties required to create trust, such as in international payments, for instance.

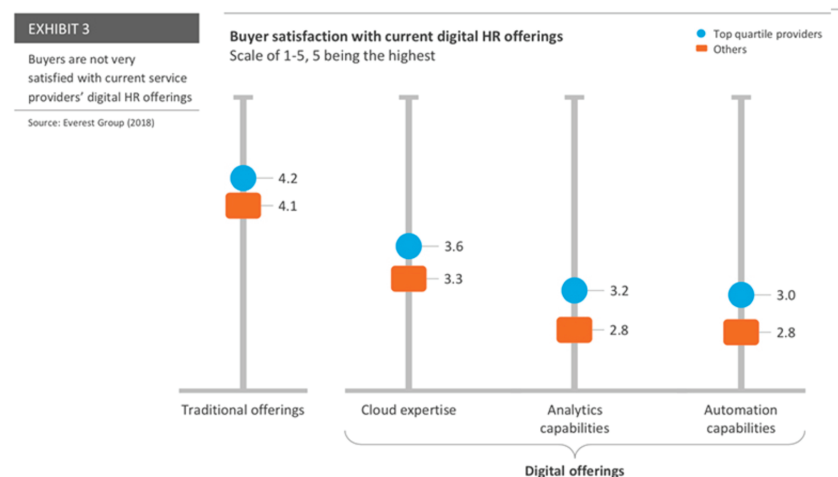
The immutable and transparent nature of information stored on blockchain also facilitates easier reconciliation. Smart contracts add elements of automation to this framework, making it very attractive for a process such as payroll. Currently, we are fairly distant from technology maturity and acceptability; however, forward-looking organizations need to test the boundaries of blockchain application in payroll through regular experimentation as rewards of such an approach far outweigh the risks.

All of these technologies are likely to mature rapidly in the near- to-mid-term. Enterprises would benefit from continually identifying potential areas of application within payroll. While each technology alone can unlock value, the whole (application of multiple next-gen technologies in payroll) in this case is far greater than the sum of its parts.

Best practices for enterprises

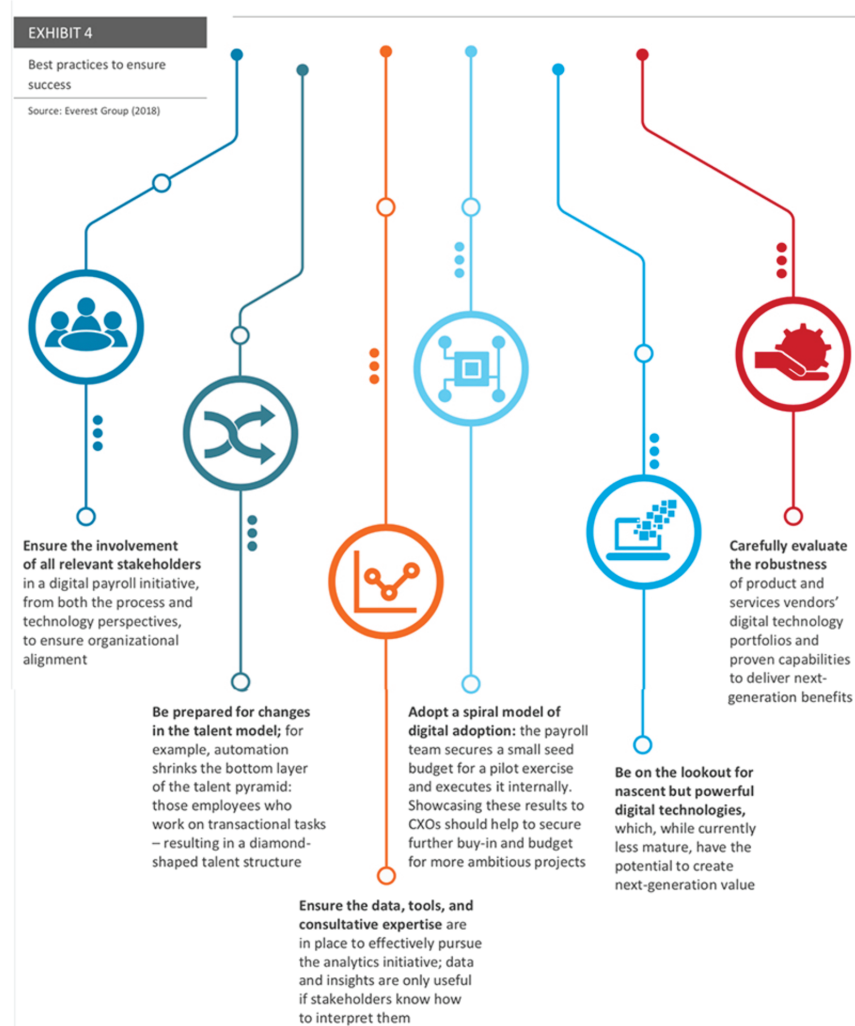
Enterprises should not only understand digital technologies but also adopt a few best practices as they go about deploying them. Satisfaction with digital HR offerings is often sub par predominantly due to lack of clarity around these technologies, missing contractual elements

predominantly due to lack of clarity around these technologies, missing contractual elements, and vendor capabilities (Exhibit 3).



In addition to ensuring appropriate vendor selection and contracting, enterprises need to undertake the practices illustrated in Exhibit 4 in order to ensure a smooth journey through digital transformation in payroll.

Sample: Satisfaction ratings collected from approximately 25 buyers of Multi Process HR Outsourcing (MPHRO) services



Case study

The enterprise

Columbia Asia is owned by more than 150 private equity companies, fund management organizations, and individual investors. With over 7,500 employees, Columbia Asia currently operates across four countries: India, Malaysia, Indonesia and Vietnam.

The challenge

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Payroll systems were disparate, with each country of operation having its own payroll system, providing no opportunity to gain enterprise-wide insights. Payroll also was outsourced to different vendors across countries resulting in a disjointed experience for employees. Moreover, manual feeds from various processes to payroll made payroll processing not only cumbersome but also prone to errors.

The solution and associated benefits

Columbia Asia brought in Ramco's integrated HCM platform, which covers global payroll, core HR, time & attendance, recruitment, talent management, and planning, to help resolve the aforementioned challenges. Ramco's solution incorporates several next-generation technology components, introducing a host of benefits:

- **Cloud:** The fully integrated HR and payroll platform, hosted on the cloud, allows Columbia Asia to harmonize its HR processes across multiple countries enabling a seamless experience for its employees. In addition to harmonization, the platform offers mobile-enabled self-service apps, which give employees more control over their data/actions at the same time that it increases efficiency by reducing employee dependency on the HR. The cloud platform automated and smoothed payroll processing and enables access to a consolidated source of standardized data, which paved the way for generating data-driven insights.
- **Analytics:** Through system-embedded analytics, the enterprise has gained significant visibility not only into its operations, but also its talent, giving it the ability to make informed decisions on its workforce using standard built-in reports and dashboards.
- **Automation & AI:** Columbia Asia is using an automation tool, Mail IT, which is offered as part of the solution. The NLP-enabled tool helps employees complete payroll-related tasks through email, bypassing the need to log in to enterprise systems. For instance, an employee who wants to apply for leave or generate a pay slip need not log in to a portal and work through multiple screens. He/she needs only to provide essential pieces of information in an email and the tool picks them up to process the request.

As a result of the implementation, Columbia Asia not only transitioned from a traditional payroll operation to a digital payroll solution, but also significantly improved its employee experience, in addition to achieving a host of efficiency benefits through better automation.

Conclusion

Enterprises that respond rapidly and effectively to apply technology improvements to their payroll functions will secure a considerable advantage over slower movers. A three-pronged payroll transformation strategy will set the enterprise on the right path - establish ambitious goals to achieve next-generation value, identify next-generation digital technologies that directly contribute to achieving that value, and adopt best practices in the digital transformation journey. Enterprises that adopt such a deliberate and considered approach will thrive in the bold new world of digital payroll.