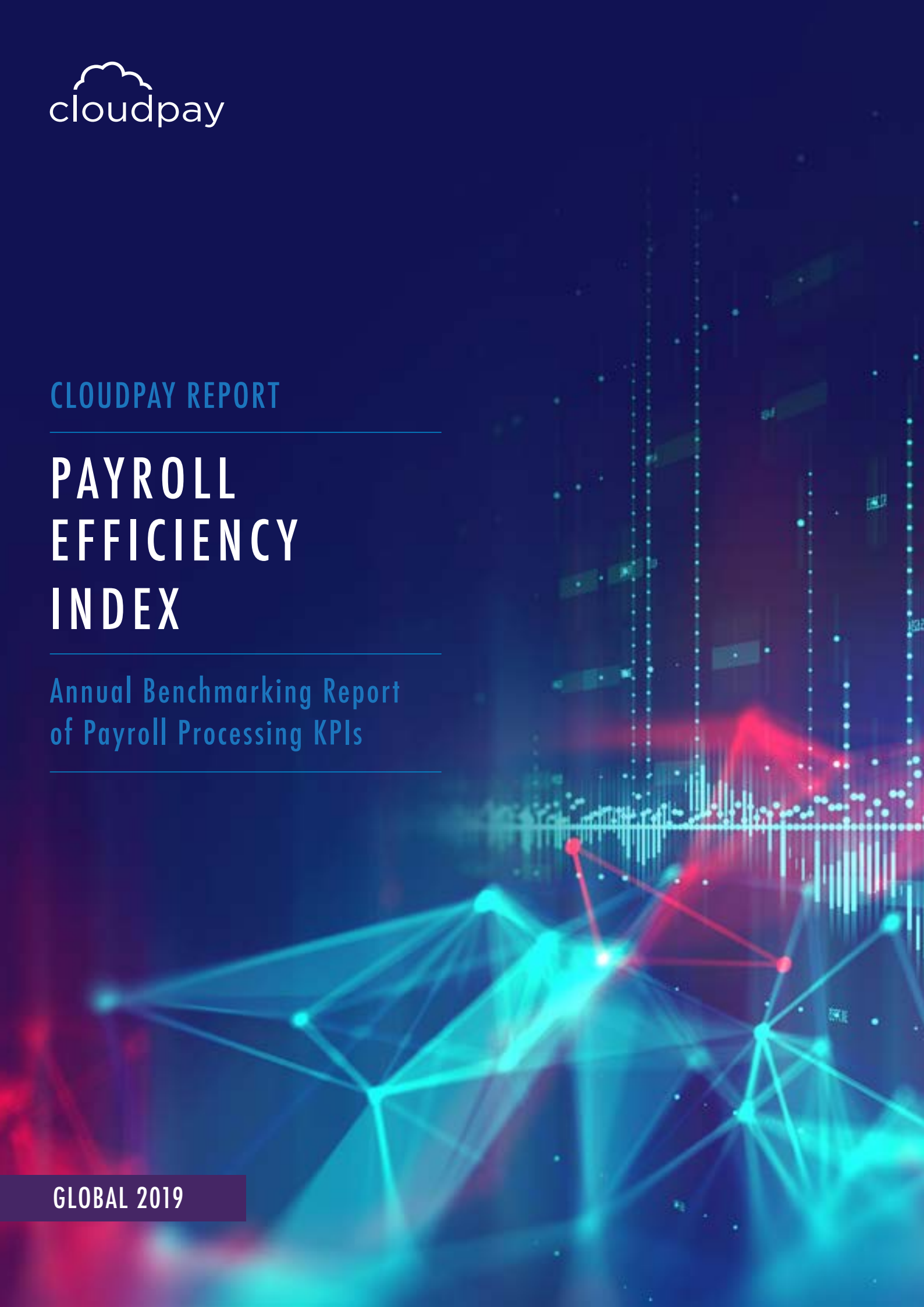
cloudpay

CLOUDPAY REPORT

PAYROLL EFFICIENCY INDEX

Annual Benchmarking Report of Payroll Processing KPIs



GLOBAL 2019

RESETTING THE STANDARD

For the majority of enterprise service providers, including those in the global payroll function, success is defined by the fulfillment of Service Level Agreements, or SLAs.

While good for documenting results, SLAs reveal very little about the efficiency of global payroll operations and even less about how to improve processes.

A standard part of many service contracts, SLAs set targets for final results and the bar by which services will be measured. Typical SLAs in global payroll include the percentage of payrolls processed accurately and the percentage of payrolls delivered on time.

Most payroll service contracts define SLAs according to a provider's established, generic standards, rather than client-specific needs and goals. Meanwhile, plenty of providers refrain from committing to SLA specifics in written contracts at all or won't provide SLAs for certain locations or populations, for example, for headcounts below 100.

Still, SLAs persist as the standard measure of service and the accepted structure for performance reporting. This report focuses on how companies can move beyond SLAs to gain real intelligence about their payroll processes, with actionable insight into how to solve issues and improve productivity.

But before looking at a more effective system for evaluating global payroll efficiency and performance, it's important to determine where SLAs fall short, what analysis is needed, and where that information can be found.

CONTENTS

SLA SHORTCOMINGS

Taking the two core SLAs, timeliness and accuracy, as examples, let's look at the global data and what we can deduce from these measurements.

ACCURACY

Percentage of payrolls that are correct and complete per cycle

Why It Matters

Accuracy remains the fundamental goal in payroll, and consequently its pursuit guides most decision-making around the payroll process. Pinpoint accuracy should be table stakes for any competitive global organization, so measuring and understanding variations in how complete and correct payroll data is in every cycle should be an automatic consideration.

How It's Measured

(total employees processed - total inaccurate payments) / total employees processed

TIMELINESS

Percentage of payrolls that are processed and delivered on time

Why It Matters

The timeliness of your payroll has a wide-ranging impact, affecting everything from compliance with statutory obligations and management of processing costs to meeting employee expectations and enabling workers to satisfy their own needs.

How It's Measured

(total employees processed - total late payments) / total employees processed)

2018

Region	Accuracy
AMERICAS	100%
APAC	99.99%
EMEA	99.99%

2018

Region	Timeliness
AMERICAS	100%
APAC	100%
EMEA	99.99%

Results of anonymized CloudPay data from more than 2,500 global entities, from payrolls dated between January 1 and December 31, 2018

WHAT IT MEANS

On average, less than 0.01% of all payslips generated in 2018 contained an inaccuracy, with the Americas achieving 100% accuracy for the year. Additionally, the Americas and APAC regions delivered 100% timeliness, with an average of 0.01% of payrolls delayed in EMEA.

What does that mean? With very few exceptions, the sampled companies upheld their half of the employer-employee relationship by paying employees correctly and on time.

WHAT IT REALLY MEANS

Even excellent SLA numbers reveal very little about payroll performance.

What happened in that 0.01%? Are those inaccuracies or delays due to one-time late changes or recurring errors that can be fixed?

SLA results provide no answers or insight into how those numbers were achieved. Business leaders have no way of knowing how much effort was required from their team, how much re-work was done, or how many mistakes were passed into other systems.

For all the work involved and corrections made in each cycle, payroll teams deserve to know how to track and modify the process to avoid similar errors going forward. But looking at these numbers, how would they know if an issue even existed?

A Case for Analytics

Recently a customer came to CloudPay from a large international vendor, claiming they weren't interested in having access to analytics because they didn't see the value in it.

Access is automatic because our analytics functionality is built into the CloudPay platform. However, their statement tuned us into a more important issue: the perception that payroll analytics is an upsell feature rarely worth the cost.

Turns out the "analytics" data available in their previous system only provided results in reports, meaning outcome totals like how many payslips were processed, how many people were paid, how much tax was paid, and other flat numbers that don't help analyze the payroll function at all.

But real analytics data is full of value and intrinsic to a true payroll solution. That information is the key to improving performance, minimizing costs, standardizing processes, strengthening security, and accomplishing every goal you have for your global payroll organization.

The data in payroll analytics tells companies precisely how they're doing and how they can do better. All they have to do is use it.

MEASURING WHAT MATTERS

By definition, service level agreements are expected delivery standards.

Payroll providers are contracted for their ability to reliably deliver specified payroll data on set dates in given locations and with a certain degree of accuracy. Yet it is possible – and even common – for payroll teams to have exceptionally high SLAs for essentials like timeliness and accuracy, and still be deeply dissatisfied with their payroll providers.

Because the standard measure of performance doesn't report the full picture.

When we dug deeper into the issues facing payroll teams, we heard a wide range of complaints around the time, effort, and cost of getting it right, touching on everything from spreadsheet errors and communication timelines to language barriers and even the quality of support interactions. Clearly SLAs tell only part of the story. We needed a method for measuring the full experience.

Payroll and processing data is rich, complex, and plentiful, but could it quantify such a varied set of complaints in a way that could help organizations proactively manage their payrolls and vendors? And beyond identifying the kind of data and metrics needed lay the challenge of figuring out how to consistently collect it. Despite promising marketing claims, most payroll vendors don't gather the in-process data needed to give visibility into workflows, or track data statistics before and after calculations to help pinpoint process errors and inefficiencies.

We needed to identify which metrics to measure and determine how to get the data. And we figured out that the only way to do that correctly, was to do it ourselves.

Nearly 36% of organizations rate their payroll provider's ability to deliver accurate global reporting as fair or poor.

Only 57% believe their provider delivers value for its cost.

Just 54% of organizations say it is easy to conduct business with their payroll vendor.

Source: EY 2017 Global Payroll Survey

A NEW MODEL

The platform had to be deliberately different from the start. As much as it was about processing payroll, it had to be about understanding, measuring, and improving that process, and delivering unique insights to organizations that would empower their payroll teams and enlighten their leadership.

We built a unified data model that established standardized workflows and formats across all users and allowed us to automatically collect all the in-process data we needed to establish new efficiency metrics for global payroll. The data would be specific for customer reporting but anonymized for gross measurements. For the first time, global payroll professionals could assess key performance indicators across the globe – and how their process compared.

PERFORMANCE BENCHMARKS

The efficiency-focused KPIs presented in this benchmarking report enable organizations to approach their global payroll functions with the same attention given to other aspects of enterprise operations, namely, with goals for process optimization, workflow integration, resource management, and cost reduction.

While SLAs report final outcomes, these KPIs provide insight into the process that creates those outcomes, revealing bottlenecks, breakdowns, and opportunities for improvement that would otherwise be missed.

Visibility into data processing workflows is what makes that insight possible, and CloudPay's unified global platform and end-to-end database is uniquely able to measure and monitor these efficiency metrics across a variety of diverse global entities. However, it's not enough for business leaders to acquire this data about their payroll operations: they must be able to evaluate their performance in relation to what can be achieved.

Benchmarking performance metrics against those of similar organizations is key to fully understanding the efficiency and effectiveness of payroll processes at a regional and global level.

Sample Data

This introductory global edition of the Payroll Efficiency Index evaluates anonymized data from more than 2,500 multinational entities across the Americas, APAC, and EMEA regions, from payrolls dated between January 1 and December 31, 2018.

5 KEY EFFICIENCY METRICS FOR PAYROLL

The following core performance metrics provide a comprehensive view into the global payroll process:

- FIRST-TIME APPROVALS
- DATA INPUT ISSUES
- ISSUES PER 1,000 PAYSLIPS
- CALENDAR LENGTH
- SUPPLEMENTAL IMPACT

*Highest and lowest for all metrics excludes countries in which statistical significance of data was not reached. See page 15 for additional rankings.

01

FIRST-TIME APPROVALS

Percentage of gross-to-net calculations approved upon initial review

Why It Matters

Monitoring the rate of first-time approvals provides insight into the efficacy and accuracy of your data input process and gross-to-net calculations. A high rate of first-time approvals signals an efficient process with quality data and calculations. And while a lower rate of first-time approvals can be frustrating, it's important to see the value in identifying that figure and monitoring it as you make changes.

For Example

A US-based company that processes approximately 10,000 payslips per month across six countries in the Americas and EMEA wanted to understand why the payroll cycle for two countries averaged three full days longer than the others. A low rate of first-time approvals in those countries helped uncover an issue with the accuracy of the data coming into the payroll system. The company devised a way to standardize input data across locations to help ensure those payroll teams received better quality information.

What It Means

Determining the rate of first-time approvals is a key step in identifying opportunities to improve payroll performance overall. If the first-time approval rate is low, a payroll team knows to focus their efforts on improving the quality of payroll data, the accuracy of the input process, or the approval workflow. On the other hand, if payrolls are regularly approved after just one review, the team knows to invest time in improving other areas of the function.

Think About It

Our data shows that the average rate of first-time approvals for payrolls with headcounts of more than 200 is nearly half that of those with headcounts of 50 or less (42.7% versus 80.7%), suggesting that volume of employee and payment data plays a big role in process efficiency.

How It's Measured

(total payroll runs processed – total runs processed with a customer rejection) / total payroll runs processed

Region	Average
AMERICAS	81.89%
APAC	71.27%
EMEA	72.20%

Highest Rates

Panama	96.5%
China	93.7%
Canada	93.5%
Colombia	92.6%
Argentina	91.4%

Lowest Rates

United States	44.9%
Australia	46.0%
France	48.4%
United Kingdom	55.5%
Singapore	58.9%

02

DATA INPUT ISSUES

Percentage of errors caused by input of incorrect or incomplete employee payroll data

Why It Matters

Similar to first-time approval rates, knowing the percentage of issues caused by data input errors can help identify areas for improvement. A high rate of data input issues can signal poor data collection methods or faulty transfer of that data – or help focus attention even further upstream of the payroll system.

For Example

A technology company based in Spain and with approximately 1,000 employees in more than 20 countries was experiencing vastly inconsistent payroll error rates across countries. A closer look at the KPIs revealed a similar variance in the percentage of data input issues, causing them to examine how the payroll data was being collected and entered into the system in the underperforming countries. Ultimately, the company decided to integrate their payroll and HCM systems to ensure complete, consistent data was available to the payroll team going forward.

What It Means

Payroll processing workflows include numerous opportunities for error, but typical end-cycle reports can't distinguish between data transfer issues, calculation errors, or manual mistakes at various stages of the process. With the average percentage of issues caused by errant customer data hovering just over 70%, it appears that most global organizations could benefit from improved efforts there. This insight enables payroll teams to better understand the impact of data accuracy from the outset and endeavor to improve it.

Think About It

Data input remains one of the most manual parts of the payroll process and one of the most consistent sources of errors, suggesting that organizations of all sizes and across regions would do well to consider standardizing data collection methods and integrating related systems.

How It's Measured

total issues with customer data root cause / total number of issues

Region	Average
AMERICAS	75.4%
APAC	70.2%
EMEA	71.2%

Highest Percentages

China	96.1%
Panama	93.9%
Taiwan	90.2%
Chile	89.3%
Germany	89.1%

Lowest Percentages

Norway	26.7%
Pakistan	33.3%
New Zealand	34.7%
Russian Federation	37.0%
Sweden	38.9%

03

ISSUES PER 1,000 PAYSLIPS

Number of issues identified in data input, data output, and new data for every 1,000 payslips processed

Why It Matters

Looking at the number of payslips affected by data errors every cycle quantifies the consequences of an inefficient payroll system for employees. This figure helps multinational organizations understand the overall impact of their payroll process on the final deliverable for their employee base: the paycheck.

For Example

A Singapore-based manufacturing company with around 3,000 employees across the APAC region was receiving an increasing number of complaints about incorrect payslips. A look back at monthly numbers of issues per 1,000 payslips confirmed a slight but steady rise since two new locations became operational six months earlier. Using real-time analysis, the payroll team identified a delay between data entry and payroll lock. Upon exploration, this revealed a need for additional training for key employees in the new locations.

What It Means

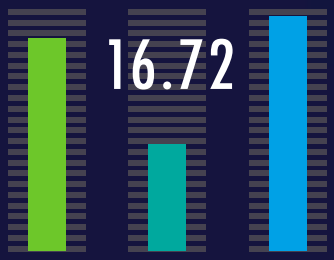
Issues per 1,000 payslips provides a more useful snapshot of the accuracy of a payroll process, before any issues threaten the SLA. The figures vary widely across companies, suggesting that this KPI is a good individual indicator of process efficiency. While percentages can be powerful, knowing the real number of payslips affected by processing issues each cycle can help quantify the effects of existing problems and evaluate the efficacy of process improvement projects.

Think About It

While some issues compound as headcount increases, the number of issues per 1,000 payslips is more than five times greater, on average, for payrolls with less than 50 employees than those with more than 200. One explanation may be that higher volumes often leverage more sophisticated systems integrations, reducing the amount of manual work involved and, thereby, the number of issues overall.

How It's Measured

total data issue count / total payslips processed * 1000



Region	Average
AMERICAS	19.63
APAC	9.69
EMEA	21.69

Highest Issue Counts

Sweden	94.2
Turkey	74.1
Israel	69.6
France	52.0
Switzerland	50.6

Lowest Issue Counts

Pakistan	1.1
Mexico	4.0
Philippines	4.1
Bolivia	4.3
Costa Rica	5.7

04

CALENDAR LENGTH

Number of days required to complete payroll processing from lock to approval

Why It Matters

Payroll cycle length is a powerful metric for capturing overall process efficiency, making it a critical metric to understand, monitor, and regularly benchmark. The number of days it takes to complete the payroll cycle depends on multiple factors, from data accuracy to system integration to subject matter expertise. Each variable is key to understanding and improving payroll performance.

For Example

A US-based organization with more than 20,000 employees worldwide recently integrated their global payroll and HCM systems, and wanted to better understand why payroll took longer to process in some countries. Using the calendar length KPI to track improvements, stakeholders took steps to adopt automated data validation to reduce opportunities for delays and errors. Soon they were left with shorter cycles and clear explanations for why one payroll took longer than another. For example, they found clear correlations between the complexity of a payroll's statutory filings and processing length.

What It Means

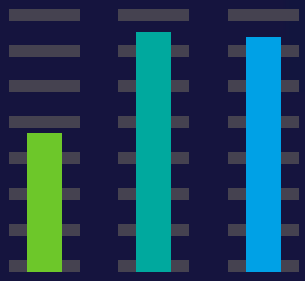
If payroll leaders think of calendar length as a direct measure of process efficiency, they can observe improvements to that process as time savings. Some changes can bring dramatic results, such as using robotics for payroll data validation before and after gross-to-net calculations, which can cut days from the payroll cycle. Other improvements may be more subtle but no less impactful, such as a systems integration that results in automatic data transfer with no manual intervention.

Think About It

Our formula for calendar length accounts for variations in pay frequency, enabling companies to benchmark any payroll and focus on the crux of the payroll process. This means factors other than pay frequency contribute to the disparities shown in the Americas, APAC and EMEA.

How It's Measured

average days between data input cut-off and client approval



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Region	Average
AMERICAS	3.65
APAC	6.36
EMEA	6.35

Longest Calendar Windows

Israel	9.84
Sweden	9.30
Switzerland	9.25
Czech Republic	8.93
France	8.58

Shortest Calendar Windows

Brazil	2.36
Argentina	2.57
Canada	3.15
United States	3.17
Bolivia	4.52

05

SUPPLEMENTAL IMPACT

Percentage of payroll runs completed as supplemental runs

Why It Matters

Payroll is one of the largest cost centers for multinational organizations, with companies allocating between 40% and 60% of total revenue to payroll. The cost and impact of supplemental runs due to payroll inefficiencies and data reprocessing can add up quickly, and understanding the volume of payroll runs affected is the first step toward minimizing negative impacts.

For Example

An energy company based in China with 2,500 employees across four countries saw that their supplemental impact hovered around 10% higher than the KPI average for similarly sized organizations. After seeing the financial savings that could be realized by bringing that KPI closer to the industry benchmark, stakeholders engaged in a comprehensive process analysis to improve the accuracy and efficiency of their payroll. The company identified multiple integration opportunities that would allow for more "complete" payroll runs and ensure greater data quality and consistency across functions.

What It Means

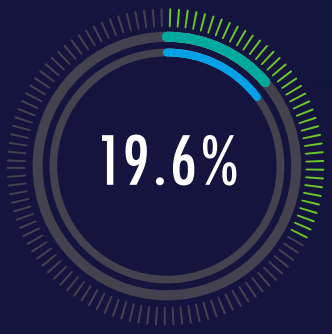
Assessing the supplemental impact on overall payroll helps quantify the financial implications of changes and corrections after payroll has been processed. Some level of supplemental runs may be acceptable within an organization, but that doesn't mean they can't be avoided. As data quality and management improves, and as calendar windows decrease, the supplemental impact on a payroll should become easier to both predict and reduce.

Think About It

While the many causes behind supplemental payroll runs can mean this KPI takes longer than others to fully understand, it also means that most companies have multiple opportunities for reducing their supplemental impact.

How It's Measured

total number of supplementary payroll runs processed / total number of payroll runs processed



Region	Average
AMERICAS	39.4%
APAC	9.5%
EMEA	9.8%

Highest Percentages

Brazil	80.5%
Argentina	60.6%
Bolivia	57.1%
Russian Federation	43.3%
Chile	41.3%

Lowest Percentages

New Zealand	0.9%
China	1.5%
Germany	2.1%
Taiwan	2.5%
Vietnam	3.3%

MADE TO MEASURE

Improving the process for greater insight

Process-focused KPIs don't wait for final results. They enable companies to examine specific steps and calculations within and during the payroll process in real time to better understand what is working well and what can be improved. The value of that visibility, however, is only as good as the data behind it, which means any optimization effort must begin there.

Information that is created, processed, and stored across disparate systems can be difficult to aggregate into one, complete, consistent data set for analysis. But with data integrity as the goal, the same process improvements that aim to ease processing and boost productivity will also deliver superior data. Although the details vary across specific systems and workflows, the general path to improved payroll processing follows the same three steps:

1. Standardize

Implementing standardized processes, workflows, data management protocols, and payroll systems across an organization's global footprint will help ensure complete, consistent information. When the same process data is collected in all systems and locations, its analysis becomes reliable and relevant everywhere as well.

2. Integrate

Integrating global payroll with interdependent functions like human resources enables the connected systems to work from a single source of information and eliminates insecure data management via email attachments, file uploads, and manual entry. Today's integration technology allows for asyncronous and bidirectional data syncing, ensuring the most up-to-date data is accessible as its needed.

3. Automate

Process automation simplifies repetitive, labor-intensive tasks to minimize the difficulty involved in managing large volumes of data. Using robotics for data validation, for example, replaces the time-consuming, imprecise task of manually checking spreadsheets with automated validation of 100% of payroll data in moments, reducing both the number of data errors and the time required to find them.

THE NUMBERS

Metrics by Headcount

Headcount	First-Time Approval	Data Input Issues	Issues per 1,000 Payslips	Calendar Length	Supplemental Impact
1 - 50	80.7%	66.4%	50.6	5.23	25.9%
51 - 200	55.7%	71.6%	20.2	6.67	12.3%
200+	42.7%	78.3%	9.0	7.19	5.3%

Metrics by Region

Region	First-Time Approval	Data Input Issues	Issues per 1,000 Payslips	Calendar Length	Supplemental Impact
AMER	81.89%	75.4%	19.63	3.7	39.4%
APAC	71.27%	70.2%	9.69	6.4	9.5%
EMEA	72.20%	71.2%	21.69	6.3	9.8%

First-Time Approval

Percentage of gross-to-net calculations approved upon initial review

Highest Rates*	
Panama	96.5%
China	93.7%
Canada	93.5%
Colombia	92.6%
Argentina	91.4%
Brazil	91.0%
Russian Federation	90.4%
Finland	88.0%
Czech Republic	87.1%
Mexico	87.0%

Lowest Rates	
United States	44.9%
Australia	46.0%
France	48.4%
United Kingdom	55.5%
Singapore	58.9%
Germany	59.0%
Turkey	59.4%
Israel	60.5%
Ireland	61.1%
Hong Kong	62.3%

Data Input Issues

Percentage of errors caused by input of incorrect or incomplete employee payroll data

Highest Percentages	
China	96.1%
Panama	93.9%
Taiwan	90.2%
Chile	89.3%
Germany	89.1%
United Kingdom	88.0%
Finland	85.0%
Poland	84.4%
Hong Kong	82.6%
Italy	82.6%

Lowest Percentages	
Norway	26.7%
Pakistan	33.3%
New Zealand	34.7%
Russian Federation	37.0%
Sweden	38.9%
Turkey	41.2%
Israel	43.3%
Australia	44.5%
Colombia	45.2%
Romania	45.2%

Issues per 1,000 Payslips

Number of issues in data input, data output, and new data for every 1,000 payslips processed

Highest Issue Counts	
Sweden	94.2
Turkey	74.1
Israel	69.6
France	52.0
Switzerland	50.6
Hungary	43.5
Finland	41.5
Netherlands	39.9
Indonesia	38.7
Norway	35.8

Lowest Issue Counts	
Pakistan	1.1
Mexico	4.0
Philippines	4.1
Bolivia	4.3
Costa Rica	5.7
Poland	5.9
India	6.4
Thailand	6.6
China	6.8
Brazil	7.7

Calendar Length

Number of days required to complete payroll processing from lock to approval

Longest Calendar Windows	
Israel	9.84
Sweden	9.30
Switzerland	9.25
Czech Republic	8.93
France	8.58
Norway	7.99
New Zealand	7.87
Vietnam	7.80
Netherlands	7.74
Thailand	7.73

Shortest Calendar Windows	
Brazil	2.36
Argentina	2.57
Canada	3.15
United States	3.17
Bolivia	4.52
Spain	4.56
Singapore	4.63
Cyprus	4.66
United Kingdom	4.69
Chile	4.78

Supplemental Impact

Percentage of payroll runs completed as supplemental runs

Highest Percentages	
Brazil	80.5%
Argentina	60.6%
Bolivia	57.1%
Russian Federation	43.3%
Chile	41.3%
Spain	39.8%
Poland	36.5%
Mexico	34.4%
Romania	33.0%
Turkey	32.8%

Lowest Percentages	
New Zealand	0.9%
China	1.5%
Germany	2.1%
Taiwan	2.5%
Vietnam	3.3%
Ireland	3.8%
Czech Republic	4.3%
Pakistan	4.8%
Indonesia	5.3%
South Africa	5.3%

*Highest and lowest for all metrics excludes countries in which statistical significance was not reached.

ABOUT CLOUDPAY

CloudPay provides managed global payroll and treasury services to multinational organizations through a proprietary SaaS solution and global services team that processes payroll across 130+ countries. CloudPay's innovative technology is backed by deep industry expertise earned over twenty-plus years delivering services to more than 2,500 multinational entities.

ABOUT THE PEI

Based on anonymized data from more than 2,500 global entities across CloudPay's global payroll platform, the Payroll Efficiency Index (PEI) provides a revolutionary new way of understanding payroll production around the world and enables multinational organizations to benchmark and improve their own payroll processes.

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