



AMALGAM INSIGHTS

Analyst Insight
The Strategic CFO's View For
Global Payroll

Hyoun Park
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EXECUTIVE SUMMARY

Key Stakeholders: Chief Financial Officer, Chief Accounting Officers, Controllers, Chief Human Resources Officer, Accounting Directors and Managers, Finance Directors and Managers, Global Payroll Vice Presidents and Directors, Data Integration Directors and Managers, Software Architects

Why It Matters: The CFO (Chief Financial Officer) is often the second most important executive in an organization behind only the Chief Executive Officer. In this role, the CFO is increasingly tasked to provide strategic guidance across departments, business units, and geographies. However, global payroll, the largest operational expense in most organizations, is often both managed and tracked in inconsistent ways that make it difficult to provide consistent time frames, a single reference currency, and dependable integrations to support the reporting, analytics, and insights needed to drive financial and business strategy.

Key Takeaway: Global payroll provides both an opportunity to improve process governance for an immense business expense and the data and analytics that can help CFOs to improve their strategic guidance to their executive teams and Board. However, to take advantage of the benefits that global payroll solutions provide, CFOs must be active stakeholders in helping to select a solution that provides the data maturity, workflow governance, and application integrations needed to unlock the value of a global payroll effort.



INTRODUCTION

The Chief Financial Officer role has evolved in recent years from a position focused on simply crunching the numbers and supporting relevant reporting to a strategic role where the CFO is involved in strategy, operations, security, compliance, and practically all other aspects of the business. In managing all of these financial responsibilities, it is not uncommon for payroll to fall behind a variety of other topics, such as forecasting, compliance efforts, digital transformation and automation efforts, and the demand for improved business analytics. In comparison to these projects, it may appear that payroll projects are trivial in comparison.

However, global payroll should not be seen as an "either-or" project that occurs at the cost of other strategic initiatives, but a project that must be conducted to optimize workforce and skill portfolios, operations, performance management, business analytics, and even more seemingly qualitative aspects of business management such as culture, diversity, and inclusion. To better understand why this is the case, consider the role of payroll in the multinational enterprise as a combination of responsibilities, resources, stakeholders, outcomes, and data that all can potentially impact the role of the CFO office.

HOW PAYROLL AFFECTS THE STRATEGIC CFO

The CFO has traditionally been tasked with providing the reporting necessary for regulatory compliance, tracking financial health, and, and providing guidance for forecasting short-term shareholder value. This set of characteristics has been taught to generations of MBAs in business school as the key finance responsibilities that the CFO needs to track. However, as the role of the CFO has become more strategic over the past couple of decades, businesses increasingly demand CFOs to have experience beyond finance, including experience across analytics, IT, human resources, sales and marketing operations, procurement, or supply chain management. A 2019 KPMG study of 100 companies collectively managing over \$2 trillion in revenue showed that a third of their respondents came from backgrounds with operations, strategy, or other non-accounting and finance roles.¹

This increased demand for strategic guidance means that the CFO must now consider what is next for an organization to increase growth both incrementally and exponentially. It is no longer sufficient for CFOs to simply understand what is financially and operationally necessary to increase growth by 10% next year. CFOs must also have an understanding of the operational changes needed to support a company as it grows 3x, 10x, or 100x and to have the data necessary to envision these scenarios through both organic and inorganic growth.

To support this challenge, CFOs must identify potential bottlenecks and constraints for current growth based on the existing products and services in place. This includes looking at talent and skills portfolios, geographic expansion, capital needs, relevant tax challenges, and compliance issues. The data associated with these considerations are necessary for making deep future-facing considerations regarding talent management, executive succession management, learning and development, strategic capital expenditures, logistics, partnerships, and business

¹ Edin, Per and Serenbetz, Tucker. "Succeeding as CFO in a Digital World." KPMG. <https://assets.kpmg/content/dam/kpmg/br/pdf/2020/01/br-cfo-in-a-digital-world.pdf>. Accessed January 5, 2021



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expansion. Beyond this set of considerations for the core business, the CFO must also consider whether exponential growth may require expanding the total addressable market that exists through mergers and acquisitions activity, new products, or net-new skills and capabilities that are currently not in the organization. A core aspect of this challenge is in understanding the both the cost of talent and the potential challenges of managing payroll cost associated with expanding specific departments, offices, or skill portfolios.

The strategic CFO is also increasingly seen as an executive who can provide guidance on bridging the gaps between cultural and qualitative goals and the quantitative metrics used to define success. For instance, organizations seeking to improve diversity, equality, and inclusion efforts may invest in their recruitment, marketing, and operational efforts with the goal of building a workforce that better reflects the company's customer base or user base. However, the success of these efforts often require some visibility into the cost-basis for hiring, payroll analytics, and relevant employee counts across departments, geography, seniority, longevity, and performance to ensure that these efforts lead to intended results.

In addition, the strategic CFO must have the visibility to identify the potential for risk and disruption across the company and to define the return on investment across corporate spend categories. The ability to support global payroll on a consistent basis allows organizations to maintain consistency and continuity across compensation, benefits, and related compliance issues.

DOES GLOBAL PAYROLL RISE UP TO THE CFO'S RADAR?

Payroll often falls off the radar of the multi-national CFO for several reasons. First, payroll is not an exciting expense or one that typically fluctuates massively outside of other business changes such as mergers and acquisition activities or sudden business downturns. Second, payroll is often a hybrid responsibility rather than one belonging primarily to finance. It is quite common to see payroll responsibilities potentially shared between finance, human resources, accounting, and other departments or split off into its own hybrid department with dotted-line accountability across multiple departments. Third, the CFO for a multinational enterprise is typically located in a country where domestic payroll is relatively predictable and consistent, both in terms of how payroll is supported and the predictability and governance of the governmental entities providing guidance on payroll. This leads to the CFO typically not experiencing payroll issues that occur outside of the company's headquarters.

However, this oversight is a mistake, as global payroll typically constitutes the majority of an organization's operational expenses and 15-20% (or more) of revenues. The sheer size of this expense and the importance of its execution for business continuity makes global payroll an important set of processes to optimize, rationalize, and improve. Achieving consistency and predictability of payroll execution across time periods, currencies, country and region-specific benefits, governmental regulation, industry regulations, organized labor agreements are important from a governance perspective, as the CFO is often asked to manage governance and compliance risk associated with finance and accounting tasks. By doing so, businesses can accelerate reconciliation and audit activities and free this time for tasks that can improve the company, such as the analysis of talent, supply chain, sales, treasury management, and other core business areas.



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In this light, building a global payroll capability is important for the forward-facing CFO who is thinking about the value of data, analytics, and machine learning to improve operational execution, financial efficiency, and strategic guidance. Developing an environment where payments can be sent across borders while maintaining a single currency of record creates a foundation for consistent payroll execution and data. With a shared currency, the data associated with payroll managed at a global level can provide a consistent basis for understanding the cost basis of key labor capabilities, opportunities for geographic arbitrage, alignment of payroll to productivity across departments and geographies, and the opportunity to identify areas where additional investment, training, and attention may lead to outsized benefit. But to unlock the full benefit of payroll as a strategic enabler, payroll must be standardized across a global standard to support these strategic and business-building analytic initiatives.

Historically, global payroll has been managed either through in-house teams or through business process outsourcing firms that took over much of the manual filing and process work associated with managing payroll. Over the past decade, Amalgam Insights has noted the emergence of a new set of technology providers that bring together global expertise, cloud-based technologies, structured data environments, and banking relationships while providing companies with the flexibility to support global payroll either through a single business, country-specific subsidiaries, or other methods that are relevant to the organization's taxation, finance, and structural needs.

HOW THE CFO CAN SUPPORT GLOBAL PAYROLL EFFORTS

The CFO plays a vital role in supporting effective global payroll efforts both because of being the executive in charge of financial affairs as well as the general strategic importance of the CFO in the executive suite. Given the importance of a consistent and technologically mature global payroll effort in supporting the role of the strategic CFO, it is vital that CFOs advocate for the appropriate activities that lead to optimal global payroll projects.

In considering a global payroll project, CFOs should first work with their global operations to identify payroll-related software, employees, external resources, banking relationships, governmental relationships, & other regional considerations that must be considered. In conducting this discovery exercise, it is not uncommon to find that a seemingly straightforward set of payroll policies are conducted in a wide variety of ways that often lack rigor, consistency, and repeatability.

Once payroll policies, processes, and tools have been identified, the organization can move forward to identify a solution that will automate payroll processing and payments while reducing the need for manual correction. In this process, the CFO office will need to play a role in helping to coordinate global resources, identify the necessary financial and business software tools that need to be integrated into this process, and to provide guidance on the level of governance and reporting that may be necessary to support higher level issues, such as strategic planning and guidance for publicly traded companies.

In addition to the raw reporting and integration capabilities needed to support existing business needs, the CFO may also play a part in identifying the need for additional analytics to support diversity and inclusion efforts, succession efforts, and other payroll-related analytics and modeling exercises that extend beyond the basic reporting of payroll as



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an operational expense. In considering how payroll delivery, cost per employee, potential currency or payment float, conditional compensation and bonuses, and other payroll metrics should be used to support more detailed business analysis, the CFO office should consider how payroll data is presented as an analytic output by a potential payroll solution.

And from a practical perspective, the CFO office should be aware that global payroll solutions typically have the ability to execute broadly across 100+ countries, but that projects typically start by prioritizing an initial cohort of 10-20 countries to conduct a Pareto-like exercise of supporting the small percentage of countries that typically make up a majority of spend. By prioritizing cohorts of countries in multiple waves while initially running parallel payrolls, organizations can ensure business continuity and governance while switching from legacy to modernized payroll practices.

RECOMMENDATIONS AND CONSIDERATIONS FOR THE CFO

As the CFO considers the need for global payroll solutions, Amalgam Insights provides three core recommendations to keep in mind for the CFO to utilize a consistent global payroll process to improve corporate strategy.

First, treat global payroll as an enabler for the CFO's multiple roles as a top strategic executive. As mentioned before, global payroll typically makes up a majority of an organization's operational expenses, can be managed in a variety of ways, and potentially provides both the data and a variety of analytic perspectives needed to advance from an operational CFO to a strategic CFO.

Second, develop a global payroll process that engenders trust and consistency while maintaining personalized and localized execution. It is important to take all localized payroll issues into account even while globalizing payroll. As payroll is understandably a personal issue for the vast majority of employees, organizations should ensure that country and region-specific compensation, tax, holiday, and other issues are consistently managed.

Third, use global payroll as a tool to support a global culture and equity among employees. Providing a consistent payroll process allows organizations to develop compensation practices that are more tightly related to a shared global culture and community. Global payroll practices can help all employees know that they are treated similarly and share working aspects while avoiding the inconsistencies of off-cycle pay corrections or expectations that a headquartered country is favored over others in some fundamental way from a payroll execution perspective. Although this sounds like a human resources topic, this issue can also affect the CFO as far as the reporting of diversity initiatives and global strategic execution need to be considered for ongoing reporting.

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ABOUT AMALGAM INSIGHTS

AMALGAM INSIGHTS

Is a leading research and advisory firm focused the financial, programmatic, and cognitive tools that multiply the value of enterprise technology including the following research practices: Technology Expense and Budget Management, Analytics and Data Management, Data Science and Machine Learning, Accounting and Finance Technologies, DevOps and Open Source Development, Talent Management, Learning & Development, and Extended Reality.

HYOUN PARK, FOUNDER AND CHIEF ANALYST

Hyoun is the Founder and CEO of Amalgam Insights. He focuses on Technology Consumption Management challenges of procurement and utilization based on 20+ years of vendor, enterprise IT, and industry analyst experience.



Prior to Amalgam Insights, Hyoun:

- Led IT analyst practices at the Aberdeen Group and Blue Hill Research with over 300 research documents across analytics, mobility, finance, and collaboration.
- Managed multi-million dollar technology budgets at Bose and Teradyne.
- Managed billing data operations for two resale telecom CLECs.
- Built prediction models for the first Fantasy Baseball website, mosey.com

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