

GLOBAL PAYROLL SYSTEMS BUSINESS CASE FOR SHARED SERVICE MODEL

EXECUTIVE SUMMARY

The company is expanding internationally, not just in the number of crews and employees, but also in the numbers of countries in which we operate. As the company continues this global expansion, there is an increasing need to find efficient and effective methods to deliver core administrative functions to our operations.

Payroll is one of the most crucial administrative functions in any organization, and it is especially important to this company given our high human capital requirements. The payroll service poses another unique problem over other administrative functions because it can represent one of the largest outputs of cash for the organization annually. Because of these dynamics, it is critical that the process operates in a manner that is efficient and effective, while remaining controlled and compliant. This challenge has led a team of executive and senior management to review options and establish the need for a global payroll systems management function delivering the service through regional payroll service centers around the world. This function will also be a first step toward a more efficient global HR service delivery model.

ISSUES

Presently, local payrolls are funded through the local bank accounts using local funds. There are several advantages of using this system. First, operations can quickly start and close payroll operations because the company only needs to open a local operating account. Second, because we use a local account and local currency, there are fewer fees around international wiring and currency fluctuations. Finally, this process provides for simpler operations accounting and more direct P&L control by the country management.

Ease of the process notwithstanding, as a growing, publically traded entity, the company must be aware and address the concerns around payroll management and take a best practices approach. These concerns center around controls and compliance, and are discussed as follows:

1. *There are no outside financial controls over the current process.* Generally, the payroll runs are handled locally, through a third party software or local service. The funds are dispersed through a local bank to the employees and the payroll expense is tied to the local country general ledger. It is only at the corporate consolidation level that senior management is able to evaluate the human capital expenses, and that is without detail. In order to review individual-level costs and payments, an auditor must travel to the country in question and review the individual payroll period records.
2. *There are limited process controls over the current system.* More specifically, each country follows its own practices without any continuous process review or best practices. With the company's rapid expansion, it is unclear if current practices are the

most efficient and cost effective methods of delivering the payroll service to the organization.

3. Current practices lead to insufficient access to local employee data. Local nationals have been and may continue to receive equity, retention bonuses, and other compensation that must be monitored and administered from the corporate offices. Without access to accurate payroll data, the company may be violating SOX or SEC regulations. Additionally, the company is now offering TCN benefits to 80+ Australian and Brazilian expatriate employees. This benefit program is administered by the Corporate Headquarters International HR group, and any costs must be reconciled with the local payrolls. This is a time and labor intensive process without accurate and immediate access to local payroll data.
4. Questions persist about local and home country tax compliance. While our TCN employee agreement currently states that the employee is liable for any home country taxes, there are no assurances that the employees will actually pay the taxes that are owed. Also, it is unknown if certain countries will place the burden on the employer when the employee fails to fulfill his/her tax obligations. With each new country of operations, there is an increased concern regarding local and home country tax compliance.

BACKGROUND

As of Q4 2008, the company had over 3900 employees being paid through 21 payroll runs managed out of more than 15 countries.ⁱ

Location	Total
Colombia	761
US Crews	700
Brazil	540
US TCN	540
US Corporate	126
Bolivia	950
Egypt	73
Australia	66
Angola	48
Canada	47
Suriname	22
UK	17
Mozambique	15
Singapore	7
Bolivia	6
Trinidad	6
Tanzania	4
Peru	2
Bangladesh	1
Ecuador	1
Malaysia	1
Total	3933

Table 1: Q4 Employee count by payroll

In each country, there is a local payroll process including at least one staff member who has the primary or secondary duty to process the payroll. The payroll expenses, including processing

ⁱ It is unclear how many of the smaller payrolls (< 5 people) are managed locally or through a regional office.

costs, system costs, and the gross payments made to employees are consolidated at the local level and included in the country’s consolidated profit and loss statement.

Additionally, at least five countries pay expatriate (non-resident) staff through the local country payrolls, including the United States, which pays over 500 third country national (TCNs). Usually these are employees who have no reporting relationship with the country management where they are paid, but instead are residents who need a local payment for social benefits or home country taxes. For example, in addition to the locals, the Canadian payroll pays employees working in six other countries.

	USA	Canada	Australia	Brazil	Colombia	Other
Employees	1366	56	84	567	767	228
Countries	18	7	4	3	2	10

Table 2: Third country payees by local country payroll

BUSINESS OBJECTIVES

The VP – Human Resources, the EVP – International Operations, the General Counsel, and the Director of Global HR, (“Project Team”) have assessed the current processes and reviewed solutions. The key requirements around the project were to ensure that the solution was cost effective, compliant, and provided flexibility for the organization as it changes in size. The secondary goals were to provide a business process that could leverage existing systems, use regional staff, and be managed remotely to free up operations management to focus on core business objectives instead of managing support functions.

COMPARATIVE ANALYSIS

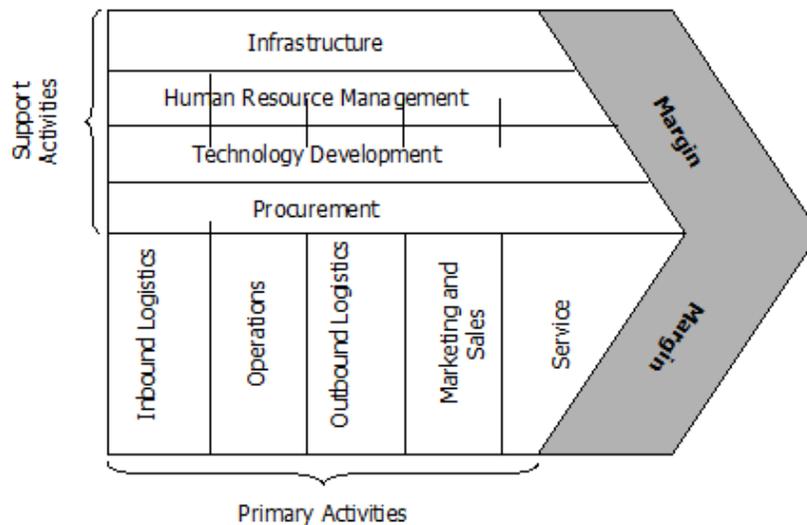
There are three major payroll service options to consider. The first is to continue with the present system. The positive would be that there would be no change management or process adjustments involved. However, this is undesirable for a number of reasons, most notable because it is inefficient and lacks controls. With the anticipated continuous international growth over the next 18 months, any existing risks in the present system will be increased with the company’s broader and more frequent exposure to different countries of operation.

A second option that has been considered is to move to an outsourced payroll provider. This has been attempted in the US with varying degrees of success. The major concerns around outsourcing the function are cost and effectiveness of the delivery. Smaller firms can usually benefit from third party services because the incremental costs are small compared to in-house staff. However, with 4000+ employees, operating (and continuously relocating) in many states and countries, in-house staff is a necessity to manage the process regardless of what entity is handling the processing. This negates any cost savings, and may increase costs as the third parties push this complex administration burden back to company staff.

The third is the development of a Global Payroll Systems team in the US to manage strategically placed payroll “shared service” centers around the world. This is the preferred option for the Project Team because it creates controls and compliance without interfering with the service delivery or the efficiencies in the existing systems.

BUSINESS PLAN

With today's technological advances and improvement in communications, many global companies are consolidating non-revenue generating, administrative (see below: "Support Activities") tasks into "Shared Service Centers." These service centers are designed to increase efficiencies, better manage and access information, and allow business units to focus on core operations. While core functions at major offices, the service centers, which can be located off-site, are run as independent businesses, with responsibilities and measurements similar to an autonomous commercial operation. Because of this operational accountability, the performance of a service center can be superior to in-house management of administrative functions.



Porter 1985

Figure 1: Porter's value chain outlining business support activities (Source: themanager.org)

As Oracle becomes configured and integrated, this service center approach can easily and effectively be applied to the company's payroll function. The core concept behind this service center approach would be conducted in two phases. The first phase would be to establish the leadership and quality management principals for the service. This "Payroll Systems Manager" would be able to develop corporate level standards and best practices for the business process, work with operations on designing the optimal regional breakouts, and reviewing and procuring the best options for payroll systems to use in each region (See Appendix A: *Job Description*).

The second phase would be the establishment of regionalized centers with local payroll staff. These centers would provide the payroll service for multiple countries in each region instead of each location relying on local staff. The Payroll Systems Manager would monitor transactions, support them in their daily business processes, and control release of funds. This role would also ensure that all centers were aligned with operational objectives for payroll compliance and tax matters associated with start-up and shutdown of operations in the region.

REGIONAL BREAKOUT

Based on the company's Q4 headcount, a regional breakout might look like this:

Region	Location	Total	Region	Location	Total
I	US Crews	700	IV	Egypt	73
I	US TCN	540	IV	Angola	48
I	US Corporate	126	IV	UK	17
I	Canada	56	IV	Mozambique	15
			IV	Tanzania	4
			IV	Bangladesh	1
II	Colombia	767	IV	Cameroon	0
II	Suriname	22	IV	Dubai	0
II	Trinidad	6	IV	UAE - Uqanda Crew	0
II	Peru	2			
II	Ecuador	1	V	Australia	66
II	Nicaragua	0	V	Singapore	7
			V	Malaysia	1
III	Brazil	567	V	India	0
III	Bolivia	950	V	Indonesia	0
			V	New Zealand	0

Table 3: Possible regional breakout with associated Q4 headcount

These countries have been grouped based on regional operations reporting structure and transaction volume. In terms of payroll service time, there are two factors that dictate the staff demands, number of payroll runs and numbers of payees.

Region	No. of Locations	Payees	% of total countries	% of total payees	Ave. pays per payroll
I	4	1422	14.29%	35.83%	356
II	6	798	21.43%	20.11%	133
III	2	1517	7.14%	38.22%	759
IV	9	158	32.14%	3.98%	18
V	6	74	21.43%	1.86%	12

Table 4: Payees vs. Countries by region

In regions with smaller numbers of payees, we grouped more countries to support and thus those have the higher percentage of payrolls. In the regions with more payees, the idea is to keep the number of different payrolls lower.

BENEFITS

Payroll Service Centers can create short and long term benefits including increased quality, decreased costs, better compliance, and improved infrastructure.

From a quality management perspective, using centers with dedicated, trained personnel should quickly improve the service. Instead of utilizing a local resource that may have many other support tasks, each country will receive the service from a regional center of expertise with a payroll professional who understands local practices but also receives guidance on quality standards and practices from the corporate headquarters. A service center will also provide more accurate decision-making based on accurate information from a subject matter expert. Finally, the company can more quickly realize the benefits from process reengineering, as improvements to the process can quickly be implemented by the global payroll team.

There is also a benefit derived from decreased service costs. The elimination of redundant local structures in each country will result in an immediate return on investment. Also, there are certain economies of scale which can be better realized by a consolidation of data and a smaller, more focused team on the process. Finally, the Payroll Systems Manager will be able to evaluate and determine the most cost-effective systems available for the payroll process, including which payroll software works best for the company and when the company should look at bringing the processing in-house versus outsourcing to a regional vendor.

Centralized payroll review should also allow for better SOX, tax, and SEC compliance. The corporate oversight and approval for any payroll funding is a best practice from a Sarbanes-Oxley standpoint. By having a central access point for all local country payrolls, the Payroll Systems Manager will be able to monitor equity and benefits payments made to local country staff to ensure proper taxes are charged and proper SEC reporting is maintained.

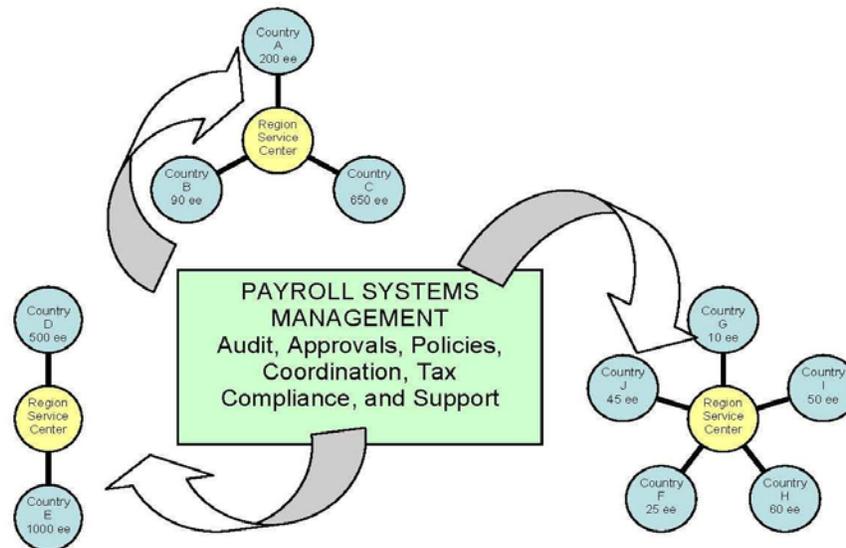


Figure 2: Global Payroll System model

The shared services center approach can have real long-term benefits to the company as well. By leveraging existing systems and regional locations, the company will be creating and a culture and infrastructure that will support global shared service centers. Global System set up will provide opportunity for other functions that need shared service centers to be implemented easier including: procurement, accounts payable, information technology support, benefits administration.

CONCLUSION

The Project Team has identified, interviewed and is set to close on a candidate to fill this role (Appendix B: *Resume of Candidate* – **REDACTED for WEB**). The candidate has over 17 years of payroll and tax compliance with multinational oil & gas services companies, most recently with xxxxxxxxxxxxxx, a company with a similar size and employee population as ours. It is also

notable that at xxxxxxxxxxxx he/she manages in-house payroll processing for over 1500 US employees, expats, and TCNs.

From a cost perspective, it is difficult to qualify the synergies and exact manpower cost savings that would be realized by creating service centers. However, eliminating \$7,500 in personnel costs from the 15 countries combined with freeing the time of the corporate HR Manager to assist with more international HR issues would easily justify the management headcount in Houston.ⁱⁱ

Ave Admin cost per country (burdened)	\$	25,100
% of time on Payroll related activities to be eliminated		30%
Cost Per Country	\$	7,530
Number of Countries		15
International Admin Costs Savings	\$	112,950
US/Corp HR Manager (burdened)	\$	143,750
% of time on Payroll		15%
Corp HR Savings	\$	21,563
Total EE Cost Synergies	\$	134,513
US Payroll Manager Budget	\$	120,000
Savings	\$	14,513

Also, the US spends over \$200,000 per year on ADP for payroll processing for only three of the company's 21 payrolls. The Manager – Payroll Systems would be charged with a phase out the company's dependence on ADP, and would look to utilize a more cost effective system. This should create additional value to offset any additional costs associated with the position.

Concurrent with the ADP shutdown, the manager will analyze our operational needs and begin establishment of the service center function during the first half of 2009, which will provide standardization, control, and compliance in the area of global payroll, by:

- establishing global policies that are applied uniformly
- defining process flows and controls that are efficient and compliant
- providing service to regional and local operational units
- identifying and correcting compliance issues

ⁱⁱ There is already a payroll support staff working in the US, so only the Manager - Payroll Systems would be required.

APPENDIX A

Manager, Global Payroll Services

Summary

The incumbent will manage end-to-end requirements for global payroll processing center, including optimization of business processes, providing reporting and communications as needed with stakeholders, managers, vendors, and executives, and managing local and remote resources to ensure the accurate and timely processing of the payroll while maintaining a high level of customer service satisfaction.

Responsibilities

- Manage global payroll processing centers to ensure staff:
 - Generates appropriate wire transfer documents and bank transactions in accurate and timely manner;
 - Communicates monthly with all payroll providers to update salary, bonuses, equity/LTI, or benefit changes for existing employees to ensure accurate payments are calculated; and
 - Provides monthly and quarterly payments to tax and social contribution agencies in a timely manner.
- Liaison with Human Resources, Tax, Accounting, IT, and Legal departments to secure payroll providers/systems/vendors to provide services to operations in new countries prior to commencement of operations.
- Establish policies and procedures for the Global Payroll function
- Review, reconcile and audits local payrolls and payroll accounts including, all changes, adjustments, and exception reports
- Oversee payroll and tax impact of benefits and retirement plans
- Provide monthly headcount report for international employees
- Principal contact for annual regulatory filings in key jurisdictions
- Review, audit, and pay monthly payroll processing invoices
- Support SOX compliance processes and respond to ad hoc requests as needed

Qualifications

- Bachelors in Accounting or equivalent work experience
- CPP certification
- 10+ years of payroll and accounting experience, including 5 years in international payroll in a global environment (expatriate, TCN)
- 5+ years management experience
- Highly productive with minimal guidance or supervision
- Strong analytical, oral and written communication skills
- Able to effectively work on a variety of simultaneous assignments within a team environment
- Demonstrated competence in performing under pressure with attention to detail while maintaining a high level of confidentiality