

WHITE PAPER

**Beyond the process.
Payroll as a driver of employee engagement.**



At first glance, the link between payroll and employee engagement isn't obvious - until someone is underpaid or not paid at all.

This white paper will discuss the role of payroll as a driver of employee engagement. By looking at payroll as a function, a technology and as a group of people, this white paper will discuss the direct and indirect influence that payroll has on employee engagement, morale and well-being.

At its most fundamental level, an employee's pay is their reward for effort. An organisation may see payroll as a regular process completed by a back-office department. Important, but transactional in nature. But to an employee, pay represents their bottom line. They depend on it to support themselves and their families, to make plans for the future and to experience what life has to offer outside of work. An employee's experience of pay has an enduring impact on how they feel about their employer and the trust they place in them.

The reported evidence of payroll errors in Australia does not bode well for employee engagement. A survey conducted by the Australian Payroll Association (APA) found that 1 in 3 Australian organisations admit to making employee payment mistakes every month. Incredibly, in around 45% of cases, it's the employee who finds and reports the error. In 2017, a Price Waterhouse Coopers [report](#) estimated that the value of payroll errors made by Australia's top employers exceeded \$4.4 million. And that does not take into account countless smaller organisations that may not have sufficient checks and balances in place.



An employee's engagement is affected not only by their pay but also by their perception of the fairness of their payment. The [Harvard Business Review](#) cites a US statistic that 2/3 of people who were being paid the market rate, felt that they were being underpaid. Of those, 60% intended to leave their employer. [Business Insider](#) cites an Australian survey by Robert Half that found 37% of respondents felt they were not being paid a fair salary and 35% of that group believed their employer underpaid them compared to market rates. Of the respondents, 98% indicated a willingness to leave an employer for greater pay.

There is little doubt that the level and structure of compensation as well as the accurate payment of wages and salaries are factors that influence employee engagement, retention and organisational wellbeing. But to focus on these alone would overlook the importance of other, less obvious contributions that payroll makes

that effects employee engagement. Beyond the physical process, the technology, the team and the payroll data itself, are significant influencers.

Technology

Serious consideration needs to be given to the technology that supports the payroll process. Employers must pay attention to the employee user experience, user-centred functionality, compliance, accuracy and how elements of the payroll and HR ecosystem are integrated.

User Experience

The user experience is simply how employees feel about engaging with the payroll system. Whether it's via a mobile device or desktop kiosk, a positive user experience invites uptake of your employee-facing payroll software and mobile apps. A negative experience will typically negate any benefit the technology is seeking to deliver. Things to consider when assessing your technology include:

How process is delivered: Employees value speed and immediacy. They want to engage with technology that is intuitive and quick to use. System delivered processes that are time consuming or make users navigate through multiple screens to achieve a single outcome, negatively impact employee engagement. Not only of the system, but the organisational function it represents.

Employees desire choice: Systems that are prescriptive or don't enable users to make selections that suit them, remove personalisation and a sense of user-led control. Examples might include a manager with the ability to extract data into personalised reports that can be added to a dashboard or menu or configurable home-pages in employee self-service systems.

Employees don't want to fail: A system that enables an employee to make errors without an option for corrective action will not foster engagement. For example, a self-service application that permits leave submission but not cancellation where a mistake is made or a change of plans is required.

Employees expect systems to know them: They don't want to have to recall details already held in a system to trigger a correct workflow or process. For example, where an employee changes status from part-time to full-time, a system might adjust the value of future leave requests and even workflow them back to the employee for re-consideration. Alternatively, it might prompt the employee with a new projected leave balance as a heads-up.

Employees expect flexibility and efficiency: Systems should provide groups of users with only the functions they require to transact on a payroll system. Hence, an employee would have the means to complete payroll transactions relevant to them. Similarly, their manager would have the means to approve transactions for which they are responsible. As employees change roles, so too would the available functions in their user interface.

User-centred functionality

Employees use payroll systems to expedite transactions. Self-service systems can automate paper-based processes, such as leave or timesheet submission and permit access to data via mobile devices. Employees expect a system to enable transactions when and where they wish to do so. Hence, an employee needing payslips for banking transactions can access them on demand.

Remotely located employees can complete timesheets using an app on a mobile device and a terminated employee can be provided with immediate access to a separation certificate or a link to request one.

The ease by which a transaction can be completed will determine the value of the system in the eyes of a user. Organisational psychologists consider payroll systems to be a 'hygiene factor'. Employees will not pay it much attention when it works well, but when things go wrong, it can become a strongly demotivating influence within employee groups.

Payroll systems must aim to stay under the employee radar, not because they are unimportant, but because they anticipate and meet the transactional requirements of employees in a simple and efficient manner.

Compliance and accuracy

To recap, employees place a great deal of value on their pay. Where pay is calculated incorrectly the subsequent reduction in trust leads to disengagement and potential staff turnover. So it is vital that employers ensure their payroll technology is legislatively compliant. At the time of writing, this includes functionality such as single touch payroll as well as annualised salary calculation and reporting must be offered as standard, configurable functionality.

But beyond the high-profile requirements, a payroll system must be able to apply the correct taxation treatment; calculate leave entitlements; calculate superannuation contributions; produce a termination quote for any employee with any employment status in any state or territory, at any time. And it needs to get it right. With the high incidence of payroll errors that are uncovered via surveys, or worse, negative publicity in the media, payroll systems must be able to calculate and derive the right outputs regardless of employee. They must be able to store and interpret payment rules for awards and other employment instruments. They must have built-checks and balances to ensure errors are identified and corrected as early as possible. The greater the degree of accuracy a system can deliver, the greater the trust it will engender. And trust engenders engagement.

Integration

One of the most common sources of error in payroll is data that is keyed or re-keyed into a payroll system. Organisations can pay on hours worked, electronic time capture or rely on paper-based timesheets to capture hours worked and rates claimed. Or they may derive Masterfile data from another stand-alone onboarding or recruitment system. Wherever data that is captured by one system or process, must be re-captured by a payroll system, there is room for error either by mis-keying or misinterpretation. Where data does not flow seamlessly between systems, error rates will spike.

Integration aims to link all data-capture devices in the payroll ecosystem so that data is keyed once before being shared with the applications that need to consume it. Integration ensures the likelihood of human error is significantly reduced as well as the time taken to process the various payroll inputs. Time saved can then be invested in further checking and approval processes.

Payroll staff

The payroll department itself can impact employee morale, engagement and wellbeing. At its most basic level, organisations charge payroll teams with getting pay right and delivering it on time, often facing challenges and roadblocks that are out of their control. But other factors influence how accurately and quickly a pay process is delivered. Knowledge levels and skills, the tools at the team's disposal, its capacity for resilience and problem solving and individual levels of engagement, all influence the delivery of pay - and the wider employee groups' perception of the payroll function.

A payroll team is a specialist group. In a highly regulated industry, the payroll team must be conversant with applicable legislation (taxation, superannuation, etc.) and the details of any award or employment instrument under which they pay an employee. Maintenance of knowledge in a dynamic industry helps to avoid error. Despite this, the APA benchmarking survey found that payroll professionals receive an average of only 2.6 days' training per annum.

There are many opportunities for payroll professionals to obtain specialist education and accredited qualifications. As well as consulting around best-practice payroll. The better trained a payroll team is, the better the quality of its work. The payroll team are also system specialists. They know what the system can do and how it does it. Being able to facilitate seamless payroll transactions for employees ensures the payroll function remains a positive hygiene factor.

Organisations can mine the expertise of payroll professionals when making strategic decisions. Discussions about benefits, such as "pay on demand" for gig workers or the introduction of purchased leave, should not proceed without the input of a payroll professional. They will understand compliance and legislative implications or even whether the current system can accommodate the great idea. Such knowledge ensures the company can deliver on the perceived benefit before it decides to proceed.

But things can still go wrong. When errors occur, payroll is the end-point for the complaint and the department charged with its resolution. Often, the error may be due to the action – or inaction – of someone outside of the team but it is the payroll function that loses face. Modern payroll team members need to be both resilient and adept at problem solving. The link between errors and employee engagement lies in something as fundamental as service perceptions.

Payroll is a service provider and every consumer of a service wants to trust in that provider. Errors erode trust so payroll practitioners need to be well-skilled in managing issues as they arise. They need to have well-practiced policies and processes around resolution that include root cause analysis, rapid mitigation and clear and frequent communication. The modern payroll professional needs to have a unique mixture of numeracy and interpersonal skills, or be able to develop them. Without a capacity to restore trust in the team and its technology, payroll becomes a negative hygiene factor and employee engagement suffers.

The nature of the payroll professional's role can influence engagement. Some organisations may offer a combination of weekly, fortnightly and monthly pays. Or commit to off-cycle payments of items such as commission or overtime. They may work with manual processes, unsupportive line managers, old technology or ineffective integrations. The deadline driven nature of payroll, coupled with a requirement to gather, check and process all inputs for a process, can combine to create a very busy and stressful workplace that is sometimes impossible to step away from. Such factors have a negative impact on the personal engagement of payroll team members, the results of which are potentially disastrous.

Payroll data



Beyond the process and the people who complete it, payroll is a rich source of data. Depending on the sophistication of the payroll system and the data elements it can capture, payroll may well provide both leading and lagging insights into levels of employee engagement.

Systems that are capable of generating survey data can become leading indicators. The creation and dissemination of pulse surveys to get a snapshot of the 'mood' of the organisation is one example of how such capability might be employed. Pulse surveys might simply be the mechanism for management to realise hot

spots or nascent themes in employee engagement. As a leading indicator, the data can be used to initiate more formal investigations of identified trends.

Dashboards, reporting and ad hoc data extraction provide lagging indicators as to engagement items. Exit surveys, termination reasons, salary comparisons across roles, locations and genders provide valuable information about issues affecting staff well-being and morale. Personal leave patterns by department can help identify problem areas that may warrant further investigation, or managers who need assistance in leading their teams. As system advocates, payroll can lead the way in championing its capacity to deliver actionable insights directly into the hands of line and senior management. Indeed, the very act of acting on such insights is a visible signal to employees that they matter.

How management can get involved.

The beginning of this white paper referenced a survey conducted by the APA. It found that 1 in 3 Australian organisations admit to making employee payment mistakes every month. The report added that the companies admitting to these regular errors also admitted to not informing the C-suite executives.

Without visibility, errors can go unchecked and processes unchallenged. Hence, the involvement of the senior management team in the payroll function is essential. Here are a few ideas to help ensure payroll becomes a measurable management performance item.

- Focus first on the basics. Audit salaries across the organisation and compare them to recognised industry salary benchmarks. Ensure your salaries reflect market rates and make it known, either via remuneration review communications or separately. Make sure that there are no unjustified differences between salaries paid by location or gender.
- Ensure that remuneration correctly reflects the conditions set out in all your employment instruments. If there are errors, correct them and back-pay – promptly – where necessary. If there is doubt, seek advice.
- Identify the required inputs to payroll. They might be approved attendance data, Masterfile data from third-party systems, leave and termination data. Then ensure the cut-off dates for pay processing are well known and enforced. Tardy manager approval is a primary stressor for payroll teams, as are managers that approve transactions without checking them first. Make attention to such matters a KPI.
- Assess your payroll technology. Is it compliant? Is it integrated? Is it well-liked and understood by the employee group? What functionality is missing or would add value to the payroll process?
- Assess your payroll team. Are their knowledge and skill levels where they need to be? Do they have processes and capacity to mitigate errors and communicate resolutions? Are they supported in ways to manage the inherent stressors of the role? Do they report feeling engaged as employees?
- Consider the data captured by payroll. Does it permit leading or lagging insights? Are you extracting sufficient data to generate a feel for employee engagement? How is the data shared and what process is in place to act on it and monitor further?

Organisations undertaking engagement programs must consider payroll as a fundamental influence on employee engagement. While benefits and other initiatives can lead to positive engagement outcomes, due attention must be paid to payroll. Analysis of pay structures, delivery mechanisms, payroll functionality and the payroll team itself, will ensure payroll is a hygiene factor, not a source of discontent.