Getting Payroll Right May Be Every Company's Most Important Job

An estimated 152 million U.S. workers and their families depend on payroll professionals to get it right every payday.[1] It's a critical job for all kinds of reasons. Here are just three:

» Nearly six in 10 of those U.S. workers and their families are living paycheck to paycheck.[2]

» 82 million new hires would leave their jobs if their first paycheck was wrong.[3]

» The IRS levied $4.96 billion in civil tax penalties against U.S. businesses for payroll errors and violations in 2014.[4]

Yet only 13% of payroll professionals believe that the paychecks they issue for hourly workers perfectly represent the hours worked and the pay due.[5]

Getting paid is what defines work — so you'd better get it right

Being paid is literally what defines work. As Mollie Lombardi, co-founder and CEO of Aptitude Research, wrote, "If you can't get [payroll] right, really nothing else matters. And you have to get it right for compliance reasons, as well as for your employees. Nobody likes surprises, particularly when it comes to their money."[6]

At the same time, payroll has become an increasingly complex process. Federal, state, and local payroll tax laws are frequently changing and becoming more complex. The information needed to process payroll comes from more sources than just the employee's timecard. Along with that complexity has come greater risk of getting things wrong.

Payroll is no longer just about payroll; it's about managing employee data — the handling, the control, and the security of data.

Yet it's still often done by hand

Despite the increased complexity of payroll and compliance, many companies are still using manual methods to get the job done. An estimated one in three employees who are required to input their hours each pay period use a timecard or timesheet (rather than a software application or even a time clock).[7]

Consider the implications of that number. It means the time being reported by about 30 percent of all employees who input their own hours is far likelier to be wrong compared with hours tracked with an automated system. The time entered by those workers is also more likely to lead to errors in payroll calculations and data entry, and to be misrepresented (either intentionally or accidentally).

Even a little improvement can make a big difference

When it comes to payroll, perfection is hoped for but rarely achieved. This is especially true with large companies. Even organizations that perform in the top tier of their industries don't get payroll 100 percent correct. In fact, top-performing companies have an average payroll error rate of 0.7 percent per pay period — only five points less than the peer average of 1.2 percent. But that relatively small difference makes a significant difference on the bottom line. The span of five points amounts to a cost of $22,695 in annual payroll for every 100 employees, based on the average national weekly earnings rate of $907.82.[13]

The far-reaching impact of payroll errors

» Employees who are less than certain that payroll withholding and the net amount of their paycheck are correct each payday — **11%**[8]

» Employees who would find it difficult to meet current financial obligations if their next paycheck was delayed for a week — **67%**[9]

» The most common payroll inquiries are about employee payslips — **25%**[10]

» U.S. workers who will start a new job search after experiencing only two problems with their paychecks — **49%**[11]

Payroll errors can undermine the entire employee experience

Improving the employee experience — ultimately to increase employee engagement — has become a major focus of many businesses. It's one key reason organizations are making significant investments in benefit plans, rewards and recognition programs, physical workspaces, scheduling, and other work-life areas. Yet many payroll professionals are still burdened with manual processes and outdated technology. For example, an estimated 29 percent of payroll professionals spend the equivalent of at least one FTE a week on manual, duplicated data entry.[14]

It's ironic, because just one payroll error has the potential to encourage top talent to seek new employment, undoing a company's tireless work to build an engaged workforce. Two payroll errors will drive nearly half of all employees to start looking for a new job elsewhere.

49% of U.S. workers will start a new job search after experiencing only two problems with their paychecks.[15]

Automation is the No. 1 solution for payroll challenges

Replacing legacy payroll tools and manual methods with a unified human capital management cloud platform can create a rock-solid foundation for all other initiatives aimed at improving the employee experience. An automated, cloud-based system can help companies improve payroll accuracy, process payroll more quickly, and ultimately leverage tremendous knowledge to take on a more strategic role in building engagement and mitigating risk within the organization.

The right system for time and payroll automation can reduce errors and costs caused by payroll leaks, increase efficiencies in payroll processing, and practically eliminate manual processes. It can also reduce errors and heighten compliance with labor and pay regulations, union regulations, and pay rules.

Three of the most critical advantages gained with the right automated system are:

1. Complete automation, eliminating timekeeping errors, manual data transfer, and manual calculations.

2. Automatically flagging exceptions that violate policies and alerting managers so they can take remedial action.

3. Automating delivery of correctly calculated hours to your payroll system, so each employee check is cut right the first time.

We automate payroll and compliance so companies can empower managers to manage by exception — reviewing and approving employee time daily so pay accurately reflects time. This allows payroll professionals to run as many reports as needed — payroll register, labor distribution, general ledger, and more — before they finalize and submit payroll, which helps further ensure accurate results.

The same functionality gives payroll leaders the ability to proactively identify issues and collaborate among units and managers thanks to email alerts and a robust workflow that flags issues before they become trends. In the end, managers and supervisors save time on payroll problems and details so they can focus more on revenue-generating activities such as customer service or production quality.

[1] Based on findings from part two of the "Engaging Employees Through Payroll" survey series by The Workforce Institute at Kronos Incorporated, conducted by The Future Workplace, Feb. 23-28, 2017, among 1,013 employed U.S. adults, age 18 and older.

[2] Ibid.

[3] Ibid.

[4] U.S. Internal Revenue Service, Internal Revenue Service Data Book 2014, at 44, found at https://www.irs.gov/pub/irs-soi/14databk.pdf.

[5] American Payroll Association, Reviewing Paycheck Challenges Up Close (October 2016), infographic based on Trendline Survey.

[6] Mollie Lombardi, Aptitude Research Partners, Aptitude Index Report — Payroll Solutions, 2017, (June 2017), at 9.

[7] American Payroll Association, 2015 Getting Paid in America (2015), from a selected summary of responses found at http://www.nationalpayrollweek.com/documents/NPW2015SurveyResults.pdf.

[8] Ibid.

[9] Ibid.

[10] Mercer LLC, Virginia McMorrow, Mercer Payroll Benchmarking Survey 2015, Payroll Operations Country Survey United States (2016), at 39.

[11] Based on findings from "The $100,000 Bill" survey by The Workforce Institute at Kronos Incorporated, conducted by The Future Workplace, July 10-14, 2017, among 812 U.S. HR and payroll leaders.

[12] The Aberdeen Group, Workforce Management for the SMB: Big Results for Small and Medium Business (2014), at 4.

[13] U.S. Bureau of Labor Statistics, Economic News Release (Sept. 1, 2017), Table B-3, found at https://www.bls.gov/news.release/empsit.t19.htm.

[14] Based on findings from "The $100,000 Bill" survey by The Workforce Institute at Kronos Incorporated, conducted by The Future Workplace, July 10-14, 2017, among 812 U.S. HR and payroll leaders.

[15] Ibid.