

Case study: Payroll Processing

Objective of Payroll Processing

To increase the effectiveness and motivation of employees through timely and correct processing of monthly payroll, provide expert advice on tax related issues and help HR function to focus on its core areas.

Company Profile

A leading foreign joint venture automotive company, 350 employees, turnover INR 700 million.

Challenge

Our client was on an explosive growth path. In its first year of operations, the number of employees zoomed from 0 to 200. The compensation structure of the company included monthly variable pay along with some tax-friendly reimbursements. The HR department found it difficult to cope with routine employee queries which, most of time, were of a similar nature. Employees were not informed about their estimated tax liability. When taxes were deducted at source it resulted in employee discontent. Further, there was no system in place to track previous employer's salary information in the case of employees who joined during the financial year from another company. This resulted in incorrect tax deduction from salaries. Salaries were being disbursed well after the due date. The challenge was to provide orderly and efficient payroll processing – and to restore employees respect and trust in the HR and F&A department.

Solution

Before BC came on board, the CFO had decided that the solution to this problem was to standardize the payroll process. When we were consulted, we took a different view. Out of our experience, we requested the CFO to carry out a due diligence exercise by spending just 2 days without any monetary obligation. He was a little skeptical, but agreed to this critical exercise. He was generously rewarded for his patience. When we presented the findings of the due diligence exercise, he could see that just standardization would not effectively make an impact on the root cause of the problem. What was actually needed was trained people who would execute the process with full responsibility, and treat employees as an internal client.

We mapped the complete payroll process with speed, and through a flow chart analysis, we observed gaps in the process and plugged them. Our next measure was to hold educational seminars with employees in batches of 50 people. During our interaction with employees, we uncovered several key issues. The majority of them were due to lack of communication from the HR and F&A departments.

We circulated investment declaration sheets among employees to estimate their tax liability for the remaining part of the year. We calculated the tax liability with 100% accuracy and mailed each employee personally for their review and confirmation. There was a perceptible shift in the mood of the employees on being taken care of, which naturally, was reflected in their engagement levels at work.

Next, we fixed dates of disbursement of Fixed Salary and Variable Salary. Earlier, while management intended to release the fixed salary on 1st of each month, in actuality salaries were distributed by the 6th or 7th of the month for the simple reason that attendance and leaves records were being inefficiently compiled. We addressed this issue by converting the cycle of recording of attendance and leave information from 1st -30th to 25th -25th of each month. Now, HR is able to furnish this important information by the 28th of the month and we are able to unfailingly release Fixed Salary on 1st of each month.

Current Status

- Salary slips are unfailingly on time, by email
- Employee queries are attended to mostly within 12 hours, outer limit, 24 hours
- Trust is restored in HR, F&A and in the company, overall
- Employees, a company's major asset, are taken care of - and that leads to a happier, more productive environment

Given our performance in this function, after 6 months we were also outsourced the Statutory Compliance function.